ALCOHOL TAXATION IN THE UK

Why alcoholic drinks are not, and should not, be taxed solely on equivalent alcohol content. October 2010
When it comes to tax, is all alcohol really the same?

There are some who argue that when it comes to tax, ‘alcohol is alcohol’.

They say that all drinks should be taxed on the same basis – per unit of alcohol. This argument is known as ‘equivalence’.

It is argued that this is the fairest system - consumers of high-strength drinks pay proportionally more than those for low-strength drinks and this is regardless of drink type.

Seems logical?

It’s not...
...and if applied today, would knock nearly £3.00 off the price of a bottle of vodka.

‘Equivalence’ takes no account of differing production costs and therefore what people actually pay for different drinks.
It does not take into account the differences in composition and characteristics of different drinks, nor wider economic, health and social dimensions.

“Production costs per litre of pure alcohol are higher for making wine and beer than distilled spirits. That is one of the reasons for the usually higher tax on spirits.”

World Health Organisation, Global Status Report: Alcohol Policy

Most other countries recognise this.

Around the world, virtually all countries recognise there are essential differences between high-strength spirit drinks, like vodka, and lower strength drinks like beer. That’s why they tax spirits at a significantly higher rate.

All alcohol has inherent risks when it comes to excessive consumption – and well-recognised health benefits too. Yet it is widely recognised that the risks of over-consumption are greater for higher strength products.
This is why in most countries, the ratio of spirits taxes to beer taxes is much higher than it is in Britain.

In France, it is five times higher, and in Germany, six times more. The average in the European Union is just over three times more. Even in vodka producing Poland, the ratio is far higher than it is in Britain.

![Ratio of excise duty on spirits and beer around the world](chart1)

In Britain, this ratio has been falling for the last 30 years.

In contrast with other countries, in Britain, the ratio of spirits to beer taxation has been falling for a number of years. In 1979, when beer sales peaked, taxation on spirits was 3.3 times higher than it was on beer. However, by 2009, it was only 1.4 times higher. The ratio has more than halved.

![Ratio of excise duty on spirits and beer in the UK](chart2)

*Source: HM Revenue & Customs, BBPA*
In terms of equivalent alcohol content, spirits in the UK are already cheaper than beer.

If ‘equivalence’ was applied today, it would knock nearly £3.00 off the price of a bottle of vodka.

‘Equivalence’ would result in a further 20 per cent reduction in the price of vodka, with the price of a typical bottle dropping by nearly £3.00. With ‘alcopops’ becoming much cheaper too, this doesn’t seem like a very sensible or desirable result.
As the ratio between spirits tax and beer tax has fallen, spirits have become more and more popular.

This should come as no surprise. There have been large increases in the tax on beer since 1997, while spirits taxes were frozen for a decade. Over this time, the amount of beer we drink has fallen by 24 per cent, while the quantity of spirits we drink has risen sharply.

### Change in consumption of beer and spirits since 1997

![Change in consumption of beer and spirits since 1997](source: HM Revenue & Customs, BBPA)

### On a ‘big night out’, spirits are now the drink of choice for 18 to 24 year olds.

Beer and spirits are almost equally popular among young pubgoers overall – but on ‘up tempo’ occasions, such as a typical Friday or Saturday night out, spirits are almost twice as popular as beer.

### Consumption of alcoholic drinks by occasion: 18-24 year olds

![Consumption of alcoholic drinks by occasion: 18-24 year olds](source: Alcovision)
When it comes to enjoying a quiet drink, beer is what we choose. Across all ages beer remains the drink of choice in pubs and the wider on-trade, particularly when meeting friends, having a sociable get together or a quiet drink. In the on-trade, spirits are more likely to be consumed when going out clubbing or on a ‘big night out’.

Consumption of beer and spirits on different types of occasion

There are other reasons why they are taxed differently… Beer is more expensive to produce than other drinks.

Beer is a bulkier product, with higher costs when it comes to transport and production. This makes the total cost of producing and retailing alcohol in the form of beer considerably more expensive.

Cost of producing a unit of alcohol as beer and spirits

Source: PricewaterhouseCoopers
Beer supports pubs, whereas spirits are sold largely through supermarkets.

The share of beer sold in pubs, hotels and restaurants is well over double that for spirits. The fortunes of the brewing industry and Britain’s 52,000 pubs are very closely intertwined.

**Beer and spirit sales**

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<th>Beer</th>
<th>Spirits</th>
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<tr>
<td>On Trade</td>
<td>46.9%</td>
<td>78.5%</td>
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<tr>
<td>Off Trade</td>
<td>53.1%</td>
<td>21.5%</td>
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*Source: BBPA*

**Beer creates more jobs.**

New research from Oxford Economics shows that fairer taxes on beer would create 30,000 new UK jobs. Almost 90 per cent of the beer sold in the UK is produced here. The majority is sold through the labour-intensive and high value added pub and club sector. This is why beer generates considerably more UK jobs than other drinks.

**Employment from beer and spirits in production and on and off trade**

*Source: Oxford Economics*
Beer sales generate almost 50 per cent more in tax revenues than spirits. As well as generating jobs, beer brings in more in tax. Beer sales raise over £7 billion in tax revenue for the Treasury, including £5.5 billion in duty and VAT. This compares with £3.7 billion contributed by spirits from duty and VAT.

**Government revenues from excise duty and VAT, 2009-10**

When it comes to beer, the case for fairer taxes is clear.

Beer is a lower-strength drink made from natural ingredients and contains a number of important vitamins and minerals. On average, water and nutrients account for 96 per cent of volume and alcohol 4 per cent.

Whilst tax is a blunt instrument in tackling alcohol misuse, it can nudge people in a better direction. It certainly shouldn’t penalise British-made, lower strength products like beer.

The effect of ‘equivalence’ would be to do exactly that: it would result in a reduction of almost three pounds in the price of a typical bottle of vodka and further UK job losses.

There is a rebalancing needed - but it is one that supports lower-strength drinks and community assets like much-loved local pubs.

…”The decade long freeze on the duty on spirits [1998 to 2008] was unusual but in line with a long trend that has seen a very significant decline in spirits duty as a percentage of average earnings. This has transformed drinking habits: spirits were once an expensive occasional tipple; now they are a cheap way for teenagers to get drunk”

*Heath Select Committee, 2009-10*
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