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Report Name: Changes to UK Alcohol Tax Rates May Challenge US Exports of Some Alcoholic Beverages

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Report Highlights:

Changes to UK alcohol tax rates were implemented on August 1, 2023. The UK government calls this an alcohol duty, but it is an excise tax charged at the point of production or importation of drinks of alcoholic strength exceeding 1.2 percent alcohol by volume (ABV) – the percentage of pure alcohol per liter of product. The new system aims to simplify alcoholic beverage taxes to make them more consistent across different alcohol types. This supports UK public health goals by encouraging consumers to reduce their alcohol consumption and producers to reduce the ABV of their beverages by taxing alcohol based on its strength. As a result, beverages with higher ABV have higher taxes while beverages with lower ABV have lower taxes. The alcohol taxes apply equally to all alcoholic beverages sold in the UK, regardless of country of origin. In the long term, changes to consumer purchasing habits could result in an increased shift in the volume of sales to alternative alcoholic beverage categories.

Background

The United Kingdom's (UK) exit from the European Union (EU) gave the British government the freedom to develop and implement a new alcohol tax system. Although the system is called a duty system, it charges domestic taxes on alcoholic beverages at the point of production, or for imported alcoholic beverages, at the time of import as an excise duty, hereinafter referred to as a tax. ([HMRC](#)) The UK Prime Minister, Rishi Sunak, put forth a plan to overhaul the existing system in 2021 while still Chancellor. Since the Autumn Budget 2020, alcohol has seen a nominal freeze in tax, equating to a real-terms reduction due to inflation. The taxes were frozen to limit the impact of the pandemic upon the hospitality sector. The restructure of the system was originally scheduled for February 2023 but was postponed by the current Chancellor, Jeremy Hunt, due to the country's cost of living crisis.

The changes to UK alcohol tax were implemented on August 1, 2023. The new system modifies alcohol tax rates by simplifying their taxation, making them more economically rational, and reducing the administrative burden on both businesses and HM Revenue & Customs (HMRC). It also accords with the UK government's broader public health objective of reducing the population's alcohol consumption and encouraging producers to reduce the alcohol content in their beverages. Furthermore, this change reflects wider trends towards consuming less alcohol, choosing no or low alcohol drinks at social occasions, and bringing fewer alcoholic drinks into the home.

Explaining the Changes

The UK government has changed the calculation of tax rates in a completely revised tax structure for alcohol products, including all alcoholic products produced in, or imported into, the UK (including Northern Ireland) (for more details see: [House of Commons](#)). Alongside these changes, two reliefs have been introduced for small producers and products sold on draught.

The new system seeks to encourage consumers to reduce their alcohol consumption by taxing alcohol based on its strength, measured as alcohol by volume (ABV). For imported alcoholic beverages, this is charged as an excise tax. More details are searchable on the [UK Integrated Online Tariff website](#). Value-added tax (VAT) is charged on top of the alcohol tax-inclusive price of the beverage. This replaces the previous system which was levied based on the categories of wine, beer, spirits, and ciders.

With the change, taxes are lowered on drinks with ABV below 3.5 percent while taxes on drinks with ABV above 8.5 percent now have taxes of £28.50 (US\$35.67) for each liter of pure alcohol in the product. Assuming the tax reductions and increases are passed on to consumers, products with lower alcohol content but which previously were taxed at higher rates due to their type of alcohol will now face lower taxes. However, the reverse is also true. Spirits and wines with high ABV will face the highest rise in tax rates. The tax on a typical alcoholic beverage sees the following changes (with the current 20 percent VAT rate and assuming a 100 percent pass through wherever alcohol is purchased):

- 4 percent ABV pint of draught beer will be 0 pence higher.
- 4 percent ABV 500ml bottle of non-draught beer will be 5 pence higher.
- 5 percent ABV pint of draught cider will be 2 pence higher.
- 5 percent ABV 500ml bottle of non-draught cider will be 5 pence higher.
- 40 percent ABV 25ml serving of whisky will be 3 pence higher.
- 5.4 percent ABV 250ml can of spirits-based ready-to-drink (RTD) will be 6 pence lower.
- 11 percent ABV 250ml glass of still wine will be 5 pence higher.

Source: [HMRC](#)

The change is being introduced in two stages for wines. All wines with an ABV between 11.5 percent and 14.5 percent are being treated as if they had an ABV of 12.5 percent for calculating alcohol tax (for more details see: [House of Commons](#)). A second adjustment will come into force on February 1, 2025, and will apply the full range of tax levels depending on the alcohol content in a beverage, allowing the wine industry a transitional period to implement these new rules. The full details of the alcohol tax rates are elaborated in the table below.

Table of Rates of tax (per liter of pure alcohol) from 1 August 2023

Type of Alcohol	Alcohol by volume (ABV)	Amount of tax in £ (pounds) for each liter of pure alcohol in the product
Beer	0 to 1.2%	0.00
	1.3% to 3.4%	9.27
	3.5% to 8.4%	21.01
	8.5% to 22%	28.50
	Stronger than 22%	31.64
Cider (but not sparkling cider)	0 to 1.2%	0.00
	1.3% to 3.4%	9.27
	3.5% to 8.4%	9.67
	8.5% to 22%	28.50
	Stronger than 22%	31.64
Sparkling cider	0 to 1.2%	0.00
	1.3% to 3.4%	9.27
	3.5% to 5.5%	9.67
	5.6% to 8.4%	24.77
	8.5% to 22%	28.50
	Stronger than 22%	31.64
Spirits or spirit-based products	0 to 1.2%	0.00
	1.3% to 3.4%	9.27
	3.5% to 8.4%	24.77
	8.5% to 22%	28.50
	Stronger than 22%	31.64
Wine (including sparkling wine)	0 to 1.2%	0.00
	1.3% to 3.4%	9.27
	3.5% to 8.4%	24.77
	8.5% to 22%	28.50
	Stronger than 22%	31.64
Other fermented products like fruit ciders	0 to 1.2%	0.00
	1.3% to 3.4%	9.27
	3.5% to 8.4%	24.77
	8.5% to 22%	28.50
	Stronger than 22%	31.64

Source: [HMRC](#)

The [House of Commons Library Research Briefing](#) on this topic provides the following example of how the taxes are applied in practice:

“Beth is a small drinks producer. [...] The alcoholic strength of each finished product is 7% ABV. She makes 10 hectolitres (1,000 litres) of each product. The amount of pure alcohol for each type of product is therefore: 7% of 1,000 litres = 70 litres

Still cider at 7% ABV is liable to a rate of £9.67 per litre of pure alcohol. The duty is calculated as follows: $70 \times £9.67 = £676.90$ ”

Source: [House of Commons](#)

The Draught Relief value has been increased from 5 percent to 9.2 percent for qualifying beer and cider products and from 20 percent to 23 percent for qualifying wine, other fermented products, and spirits. The objective of this aspect of the policy is to support the UK hospitality industry and recognize “the vital role pubs play in our communities as well as in acknowledgement that pubs are *supervised* settings less associated with alcohol harm”. ([HMRC](#)) The Draught Relief, also known as the “Brexite Pubs Guarantee”, means that the tax paid on each drink poured from draught, such as pints of beer and cider, will be up to 11 pence cheaper than drinks in supermarkets and the government has pledged that the tax pubs and bars pay on these drinks will always be less than retailers. ([HM Treasury](#))

For a full comparison, the previous alcohol tax rates up to 31 July, 2023 are available in the [National Archives](#).

Potential Impacts on U.S. Exports

It remains too early to tell whether the alcohol tax system change will have a significant impact on the volume of U.S. alcohol/beverage exports to the UK. The U.S. industry response to the change has varied depending on the product. U.S. industry representatives noted some American craft beers will be affected by the increase in taxes over 8.5 percent ABV. Additionally, for most wines, consumers will have to pay higher prices without an improvement in quality. The UK’s Wine and Spirits Trade Association (WSTA) is leading a domestic campaign in the UK to express concerns about industry-wide impacts. ([WSTA](#))

The alcohol taxes apply equally to all alcoholic beverages sold in the UK, regardless of country of origin. Despite this, one potential impact could be upon consumer preferences and purchasing behavior. The tax rate change could sway consumer preferences to purchase alcohols with lower prices, leading them to buy fewer beverages with high ABV and more beverages with low ABV. Equally, given that many American alcohols are already sold at premium prices, increasing their costs could have an impact upon sales. Moreover, the “Brexite Pubs Guarantee” draught relief aims to incentivize consumers to purchase draught beer, as opposed to cans or bottles in retailer, which could challenge sales of American beers in pubs and bars as they are not available on draught. In the long term, changes to consumer purchasing habits could impact volume of sales and in turn reduce the volume of imports of products if they are not moving off the shelves, although it is still too early to predict.

Attachments:

No Attachments.