fsb
Experts in Business

**28 January 2022**

Via Email to: HMTVATandExcisePolicy@hmtreasury.gov.uk

# FSB Response to the consultation on the new alcohol duty system

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the consultation on the new alcohol duty system. FSB is a non-profit making, grassroots and non-party political business organisation that represents 160,000 members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, micro businesses and the self-employed.

## Consultation Questions

**Overview of new rates structure**

1. What are your views on the proposed new structures of alcohol duty?

FSB welcomes the simplification of the alcohol duty system. As mentioned in the consultation document, the current form of duty relies on 15 separate rates spread across the different types of alcohol and the duties operate in different ways – a highly complex and opaque system that businesses need to comply with.

Any action to reduce the complexities in tax small businesses face while operating will be beneficial. Small businesses do not have the scale to employ dedicated tax teams and as such, tax compliance often relies on business owners taking time and resources out of their productive business activities.

FSB found in our *Escaping the Maze* report[1] that tax was considered the second greatest regulatory burden by small businesses. The more complex the tax structure, the greater the regulatory and compliance burden. We also found that small businesses spend an average of 52 hours per year on tax compliance – time that could be better spent on productive activities.[2]

[1] FSB, Escaping the Maze, June 2021, https://www.fsb.org.uk/resource-report/escaping-the-maze.html
[2] FSB, A Duty to Reform, October 2021, https://www.fsb.org.uk/resource-report/a-duty-to-reform.html

From a transparency aspect, the new duty structure is also better. We argue in our tax report, *A Duty to Reform*, that taxes ought to be transparent insofar as taxpayers should be able to understand how much they're actually paying.[3] The current structure of differences in rates and by type of alcohol produces an opaque duty system that did not satisfy this tax canon – at a given level of ABV, the effective duty rate between wine, spirits, beer and cider is very difficult to estimate. The transition to a singular tax form and standardised brackets is a big step in simplification and increasing transparency for businesses and consumers.

2. Do you think the proposed duty rates are appropriate?

We recognize that besides raising revenue, alcohol duties can be used to influence consumption to achieve public health objectives. We make no comment about the appropriate level of duties that may be set for public health objectives. With regard to the appropriate levels of proposed duty generally are given in our answers below.

3. Are there any other changes that you think should be included in the new structures?

**Draught products rates**

4. Do you support the principle of the proposed rates for draught products?

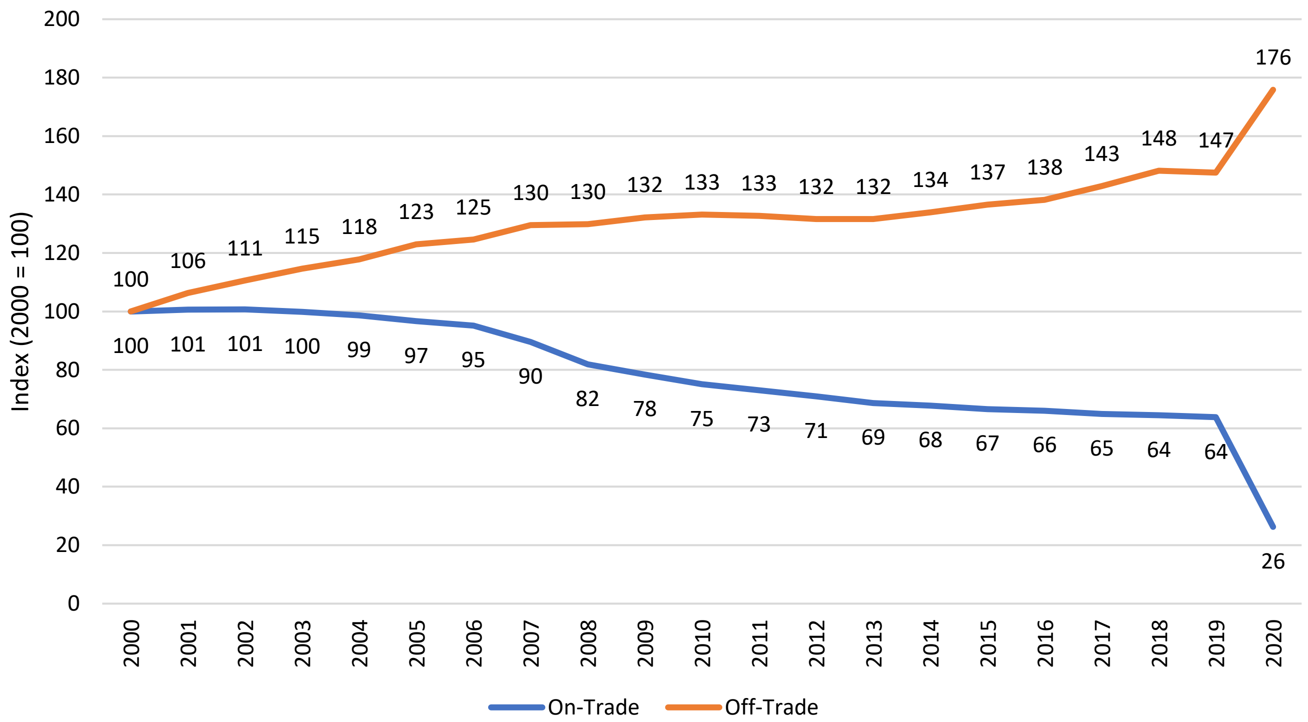
Yes, as referenced in the consultation document, the on-trade has seen relative prices increase by 286% compared to only 70% for the off-trade since 1980, meaning the on-trade has become significantly more expensive.

In addition to the affordability issue, there has been a growing chasm between the volumes of alcohol consumed via the on-trade and the off-trade. Price is likely a contributor to this. This is highlighted in Figure 1 below; since 2000 the volume of pure alcohol sold in England and Wales via the on-trade had fallen to 64% of its initial level by 2019, while through the off-trade, volumes had grown by 47%. The impact of lockdown exacerbated this significantly, where on-trade sales fell to only 26% of their 2000 level and off-trade sales boomed to 76% above.

[3] FSB, A Duty to Reform, October 2021, https://www.fsb.org.uk/resource-report/a-duty-to-reform.html

**Figure 1**: Indexed volume of pure alcohol sold in England and Wales via the on and off-trade, 2000 to 2020

**Source**: Public Health Scotland[4]




According to *The Drinks Business*[5], between December 2019 and March 2021, approximately 12,000 bars, pubs and restaurants closed across Britain – a rate of 30 per day. The hospitality sector is vital, accounting for 10 per cent of UK employment, six per cent of businesses and five per cent of GDP.[6] It is a vital sector for the UK, generating £130 billion in economic activity and paying £39 billion in tax per year prior to the pandemic.[7] The sector was growing at a faster rate than the wider economy, and employment had increased 24 per cent in the decade to 2019.

The COVID-19 pandemic has impacted UK businesses across all sectors, but none more so than hospitality. They were some of the first to shut, have had stricter rules imposed on them than some other sectors, and are still facing challenges nearly two years on. When the pandemic hit, 77 per cent of small hospitality firms were unable to adapt their business,

---

[4] Public Health Scotland, MESAS monitoring report 2021, June 2021, https://www.publichealthscotland.scot/publications/mesas-monitoring-report-2021/

[5] The Drinks Business, 30 pubs and restaurants closing every day in the UK with worse to come, March 2021, https://www.thedrinksbusiness.com/2021/03/30-pubs-and-restaurants-closing-every-day-in-uk-with-worse-to-come/

[6] UK Hospitality, Industry Focus, accessed 07 January 2022, available at https://www.ukhospitality.org.uk/

[7] UK Hospitality, Menu for Change, available at https://www.ukhospitality.org.uk/page/UKHmenuforchange

and a year in, 85 per cent were either closed or trading in name only. At the end of 2020, some 77 per cent were carrying some form of debt.[8]

The proposal of differentiated rates for the off-trade and on-trade through draught products is appealing as it, in theory, should lower the cost of a draught beverage and hence encourage consumers into premises. We agree that these differentiated rates do not add significant complexity to the duty regime and does not undermine the overarching aim of reducing the complexity of the entire alcohol duty system. FSB is in support of the principle of proposed rates for draught products.

5. Do you consider that the proposed rates are appropriate?

Although the FSB is in support of the principle of proposed rates for draught products, we do not think the actual proposed rates go far enough. As stated in the *Autumn Budget and Spending Review 2021,*[9] the 5% cut to duty for these products will only amount to taking three pence off the price of a pint. The ONS estimates that the average UK price of a pint of draught lager is 370 pence; £3.70.[10] What that effective three pence reduction in price then translates to is an actual price reduction of just 0.8%, on average. A CityAM report[11] on the cost of pints in London estimates that the average pint costs £5.33 – the three pence saving from the duty cut then translates into an effective price reduction of only 0.6% in the capital.

The current proposed reduction in draught duty is so small that it is unlikely to produce any additional incentive for consumers to choose the on-trade over the off-trade should the price reduction even be passed on, especially in light of the relative price increases over time. The three pence cut does little to address the major price differentials.

Moreover, the UK is entering a period of relatively high inflation. In December 2021 inflation reached 5.4, 3.4 percentage points above the inflationary target.[12] The OBR forecasts inflation only to return to the 2% target by the second half of 2024.[13] These inflationary pressures will effectively nullify any of the small gains made by the 5% cut to duty for draught products.

For any meaningful impact to further incentivise commerce at the on-trade over the off-trade, more significant reliefs will need to be provided to draught products. This policy

[8] FSB, A Menu For Recovery, June 2021 https://www.fsb.org.uk/resource-report/menu-for-recovery.html
[9] HM Treasury, Autumn Budget and Spending Review 2021, October 2021, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1029973/Budget_AB2021_Print.pdf p.83
[10] ONS, RPI: Ave price – Draught larger, per pint, https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/czms/mm23
[11] CityA.M., Londoners pay £2.26 more per pint than Scottish counterparts, https://www.cityam.com/londoners-pay-2-26-more-per-pint-than-scottish-counterparts/
[12] ONS, Consumer price inflation, UK: December 2021, January 2022, https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2021
[13] Office for Budget Responsibility, Economic and Fiscal Outlook, October 2021, file:///C:/Users/daryn.park/Downloads/CCS1021486854-001_OBR-EFO-October-2021_CS_Web-Accessible_v2.pdf

could also be accelerated to help aid the recovery of the hospitality sector from the effects of lockdowns as a result of Covid-19.

6. Do you agree with the qualifying criteria for the draughts rates?

No, the current qualification of *"in large containers of at least 40 litres"* largely excludes craft brewers and independent pubs, bars, and restaurants.

The current qualifying structure of draught rates only serves to benefit the largest producers and buyers who have the scale to produce and buy containers in those sizes and above. Most microbreweries and craft brewers typically produce and sell their products in 20L or 30L containers or imperial pins (4.5 gallons, 20.4L), leaving them largely excluded by this relief. Similarly, independent venues that may not have the same footfall as large pub and bar chains often buy in smaller quantities, again leaving them excluded from the reduced rates.

Part of the reasons for craft brewers selling in lower sized containers is due to the product's lifespan. Many craft ales have a relatively short shelf-life once open and hence cannot be sold in such large containers. This is to avoid waste and should therefore not be effectively excluded from the reliefs on this basis.

FSB is very supportive of a draught duty rates scheme, but it needs to be inclusive of the entire industry, not just the largest producers as will be the case under the current structure. The container size should be lowered to 20L containers. This will broaden the brewers and venues available to make use of the reduce rate while still satisfying the condition of avoiding diversion to the off-trade.

Given the intention is to bolster the on-trade businesses, capping the relief at 8.5% ABV means mid-strength beverages will be excluded. Many specialist craft beers reach above 8.5% ABV which ought to be included within the relief. We understand the Government's desire to cap the relief so as to prevent harmful drinking, but the current proposal of 8.5% ABV goes well beyond this.

7. Would any safeguards be needed to prevent fraud or diversion?

We view the risk of fraud in this area as very low. Adding additional safeguards may overcomplicate the relief undermining its effectiveness and outweigh the potential benefits.

**Small producer relief**

8. Do you support the principle of an expanded small producer relief?

Yes. The relief is aimed at supporting small producers irrespective of what alcoholic beverage they produce within the qualifying factors. Given the government's shift in focus from types of alcohol to alcohol strength, it's good to see this consideration brought down to the relief level too.

Small producers provide significant employment and economic returns to the UK economy and have struggled significantly in the wake of the pandemic. The closure of the hospitality sector had a huge and immediate impact on small businesses in the supply chain, including breweries and producers of other alcohol. This led to many small producers having wasted stock, resulting in a loss, as well as having to furlough staff or even make redundancies. The last-minute nature of some of the closure announcements meant a repetition of these losses in November 2020, and particularly over the usually lucrative festive period. While some were able to pivot to selling directly to consumers or to retail, this was not the case for many of the smaller producers.

Small producers also provide variety and local beverages to the market that need to be supported – a heterogeneous market, economically, tends to perform better than a concentrated one both in terms of outputs and consumer welfare.

One of the major issues small businesses have with tax reliefs is awareness. We found in our tax report, *A Duty to Reform,*[14] that small businesses are systemically under-aware of the available tax reliefs. The Small Business Rates Relief had the greatest awareness, but even this only had a 64% acknowledgment rate. If the small producer relief is implemented, there needs to be a significant awareness campaign such that small businesses are informed of their entitlement and what it entails.

On a basic fairness principle, small businesses pay their liabilities, they should receive all the reliefs available to them. Small businesses are resource strapped and often do not have the expertise or capacity to research what's available and what they may or may not be eligible for.

9. Do you agree that this should be based on total production, measured in hectolitres of pure alcohol?

Yes, alcohol content is what is important in the production of alcoholic beverages. The volume of different alcoholic products can vastly distort production measures. Keeping the relief measured in terms of hectolitres of pure alcohol standardises across alcohol types and keeps the relief fair between different producers.

Doing this also prevents any skewed incentives to change product sizes or product types to attain the relief. If the relief relied on total volume of product for the relief, there could be an incentive to downsize products to maximise the relief.

[14] FSB, A Duty to Reform, October 2021, https://www.fsb.org.uk/resource-report/a-duty-to-reform.html

10. What would the appropriate start point be for a taper in hectolitres of pure alcohol?

11. What is the largest size a producer should be to qualify for the small producer relief, in hectolitres of pure alcohol?

12. To inform this, do you have any information on the cost differences between large and small producers in the different categories?

13. Would any safeguards be needed for any categories? For example, would businesses be required to grow themselves a minimum percentage of the input ingredients to qualify for these new reliefs?

The relief should be as simple as possible while maintaining its qualifying characteristics. As it stands, small businesses view the current tax system as highly complex and confusing – the Government should seek to maintain simplicity as an overarching goal with all taxes and by extension, reliefs.

Small businesses are systemically under aware of the available reliefs and do not have the expertise or resources to spend investigating eligibility as many larger organisations with dedicated tax teams might. The more complex the relief, through elements like additional safeguards, the more exclusionary the relief becomes, irrespective of what the safeguards are.

On a fairness principle too, FSB firmly believes that the small producer's relief should be available to all small business that fit the qualifying criteria. Safeguards, like the example in the question, add needless complexity and will exclude many genuine small producers that would otherwise, and should otherwise, qualify. Small businesses in the industry will have varying business models, including safeguards such as a minimum percentage of inputs grown themselves then will shift the relief to favour one business model over another for little to no economic reasoning.

14. Are you content for the small producer relief to otherwise follow the design of the Small Brewers Relief (SBR) scheme, e.g. on technical details?

**Approvals**

15. What are your views on the proposed administration system for alcohol approvals?

Simplifying the approvals process will go a long way to alleviate the burden of compliance many small businesses face. Small businesses do not have the dedicated tax and regulation teams that many larger organisations have. Time spent researching and implementing complex regulatory processes is time spent away from productive business activities – the more this can be reduced, the better these small businesses will fare.

It was found in our report, *Escaping the Maze*,[15] that 22% of small businesses reported changing business costs due to regulations and 34% said that tax regulation was the most burdensome. Additionally, our tax report, *A Duty to Reform*,[16] found that small businesses spend on average 52 hours per year on tax compliance with an associated average cost of £4,100 – that is the cost to comply rather than the liability itself. Any reforms that can streamline and simplify the regulatory processes that small businesses need to comply with is very welcome.

16. Will the changes reduce the complexities in the current system and support your business's ability to diversify, grow and adapt?

FSB views the aimed reduction in complexity as a significant step towards improving the frictions small businesses face while diversifying and growing. The majority of small businesses want to grow – our Small Business Index 2021 Q4 report shows that 54% of small business surveyed aspire to growth over the next 12 months.[17]

The more time a small business owner can spend on productive activities rather than on compliance and regulatory burdens, the better chance they have of sustained growth, especially coming out of the Covid pandemic. The Government should seek to minimise regulatory burden and unnecessarily complex processes where possible – the example of simplifying the approval process to allow for multiple types of alcohol produced at multiple sites is precisely the types of improvement needed.

17. Do you see any issues with the changes proposed and, if so, how could they be improved?

The current limit of a 5km distance for additional storage premises without paying duty is somewhat restrictive. Where 5km may be appropriate for many producers across the country, it creates a costly limit for city producers, where many small producers will reside. We would urge the Government to review this limit and increase it to account for the significant additional storage costs for small businesses operating within city limits, even if only on a case-by-case basis.

---

[15] FSB, Escaping the Maze, June 2021, https://www.fsb.org.uk/resource-report/escaping-the-maze.html
[16] FSB, A Duty to Reform, October 2021, https://www.fsb.org.uk/resource-report/a-duty-to-reform.html
[17] FSB, FSB Voice of Small Business Index, Quarter 4, 2021, January 2022, https://www.fsb.org.uk/resource-report/sbi-q4-2021.html

## Returns and payment

18. What are your views on the revised arrangements for declaration and payment of alcohol duty?

Much like the proposed administration changes, we are in favour of the simplification of the declaration and payment of alcohol duties. Small businesses are already burdened by tax compliance and lack the dedicated teams that larger businesses have. The simplification will result in less time and resources being spent on tax compliance and administration and more time to use productively in the business itself.

It makes sense to align all alcohol under a single point of payment and declaration given the matter in question is pure alcohol and less so the product form it takes. This overall simplification of alcohol taxation benefits small businesses in two key ways; first it will reduce the resource strain for compliance and second it improves the transparency of the duty system as a whole, improving trust within the tax sphere for small businesses.

19. Will the changes reduce administrative burden?

Yes. As mentioned in the consultation paper, a business that produces two types of alcoholic beverage across multiple sites will now only have a single return to make rather than the multiple returns currently needed for both alcohol types and multiple premises. Simplification of the tax system in this way is hugely beneficial to small businesses that rely on their own time and resources to complete liabilities. Any areas of administrative burden that require multiple submissions for effectively the same thing should be streamlined.

20. Do you see any issues with the changes proposed and, if so, how could these be improved?

## Digitisation

21. What are your views on the intention to digitise the approvals and accounting system for alcohol producers?

Digitising is a key step towards creating a modern tax framework, and alongside Making Tax Digital, it makes sense to begin moving aspects like alcohol taxation online. However, much like Making Tax Digital needs to be, the process needs to be accessible, cost effective and improve efficiency.

Our tax report, *A Duty to Reform*[18], found that small businesses did not hold overly positive views of Making Tax Digital. The platform was not seen to ease cashflows, improve efficiency or reduce complexity in the tax system.

Should applications for approval, paying duty, submitting duty returns and so on become digital, it is imperative that it is done in a way that does improve upon the current system such that it is more efficient, less administratively burdensome, and less complex. These elements should be a cornerstone of the digitalisation process.

Likewise, if the digitalisation of the process requires additional software, it will incur a significant cost to small businesses on top of all other rising costs. If there is indeed a software requirement, costs should be as minimal as possible, with ideally a free alternative for the smallest of businesses to use.

It is also very important that the digital avenue does not become the only route in which to engage with the alcohol taxation processes. Many rural businesses struggle with their broadband connectivity, and it may not always be possible for them to utilise digital infrastructure in the same way urban businesses can. Likewise, digitally excluded small businesses should not be excluded from conducting business due to a shift to online platforms.

22. Do you have any suggestions on how further digitisation could support your business?

Digitisation has a large positive potential for small businesses, if implemented in an appropriate way. Making Tax Digital is currently viewed as a costly endeavour by small businesses with insignificant gains in terms of productivity, cashflow management and reducing complexity.

Should other processes begin to be digitalised, it needs to be done in such a way that does provide a net benefit to small businesses. Digitalisation should improve efficiency, reduce administrative hours, and improve the overall ease of compliance.

23. Do you see any issues with the proposals and, if so, how these could be improved?

We trust that you will find our comments helpful and that they will be taken into consideration.

Yours sincerely,

[18] FSB, A Duty to Reform, October 2021, https://www.fsb.org.uk/resource-report/a-duty-to-reform.html

Tony Baron, Tax and Finance Chair

Federation of Small Businesses