Background to changes

- A group of breweries known as the Small Brewers Duty Reform Coalition lobbied government to review SBR, their premise being that:

"The SBR scheme is too generous – giving subsidy beyond the relative cost disadvantage experienced by smaller brewers. This in turn makes it very difficult for medium-sized brewers to compete, as they lack the tax advantage provided by SBR or the economies of scale enjoyed by the multinationals that dominate market share"

- HMRC undertook a 'technical consultation', the results of which can be found here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/950523/20210107_SBR_condoc_.pdf

- This review provided SBDRC and SIBA with the opportunity to lobby the treasury directly. SBDRC did so very successfully via a third party consultant

Conclusions from HMRC Technical Review

- It is clear from the evidence obtained both by HM Treasury and external groups that the current SBR scheme does not align with the nature of production costs in the industry.

- There is no single transition point in costs for brewers. Production costs decrease gradually, although the most significant reductions occur between 0-2,000hL.

- The reduction of SBR by 25% between 5-10,000hL bears no relation to the economies of scale experienced by brewers.

- Furthermore, there is clear evidence that SBR creates a 'growth trap' where production costs increase beyond 5,000hL as SBR is withdrawn. This disincentivises growth by introducing decreasing returns to scale. Hence, infeasibly large increases in scale are required to overcome the disadvantage conferred by withdrawal

General description of the measure

As announced at Spring Budget 2023, the government will increase the duty rates under the revised duty structure for alcohol products being introduced from 1 August 2023 in line with the Retail Price Index (RPI). This includes all alcoholic products produced in, or imported into, the UK.

The government will also increase the value of Draught Relief from 5% to 9.2% for qualifying beer and cider products and from 20% to 23% for qualifying wine, other fermented products (previously made-wine) and spirits.

All changes will take effect from 1 August 2023.

Policy objective

The public finances assume that all alcohol duty rates increase by RPI year-on-year from 1 February. This measure increases duty rates by RPI equally across all categories in line with the government's commitment to manage the UK's finances responsibly.

To support the hospitality industry and recognising the vital role pubs play in our communities as well as in acknowledgement that pubs are supervised settings less associated with alcohol harm, the government has announced increasing the Draught Relief duty differential from 5% to 9.2% for qualifying beer and cider and from 20% to 23% for qualifying wine, other fermented products (previously made wine) and spirits.

Background to the measure

Alcohol duty rates have remained frozen since Autumn Budget 2020. On 19 December 2022, the government extended the current alcohol duty freeze by six months from 1 February to 1 August 2023 provide certainty to businesses.

Although the public finances assume a RPI increase each February, in practice the government has enacted numerous cuts or freezes to alcohol duties over the past decade.

The revised rates are:

- Duty on all alcoholic products less than 3.5% alcohol by volume (ABV): £9.27 per litre of alcohol in the product
- Duty on beer at least 3.5% but less than 8.5% ABV: £21.01 per litre of alcohol in the product
- Duty on all alcoholic products at least 8.5% but not exceeding 22% ABV*: £28.50 per litre of alcohol in the product

The key changes for breweries are:

- SBR replaced by SPR (Small Producers Relief) to cover all types of alcohol production
- SPR now based on HLPA (Hectolitres of Pure Alcohol) rather than just HL
- Lowest SPR/SBR threshold reduced from 5KHL to ~2.5KHL at 4.5% ABV
- Discounts beyond that threshold are tiered, replacing the former ‘cliff edge’
- Introduction of a ‘Draft Relief’ designed to help pubs by reducing duty on beer served by the pint in a licensed premise

Impact on individuals, households and families

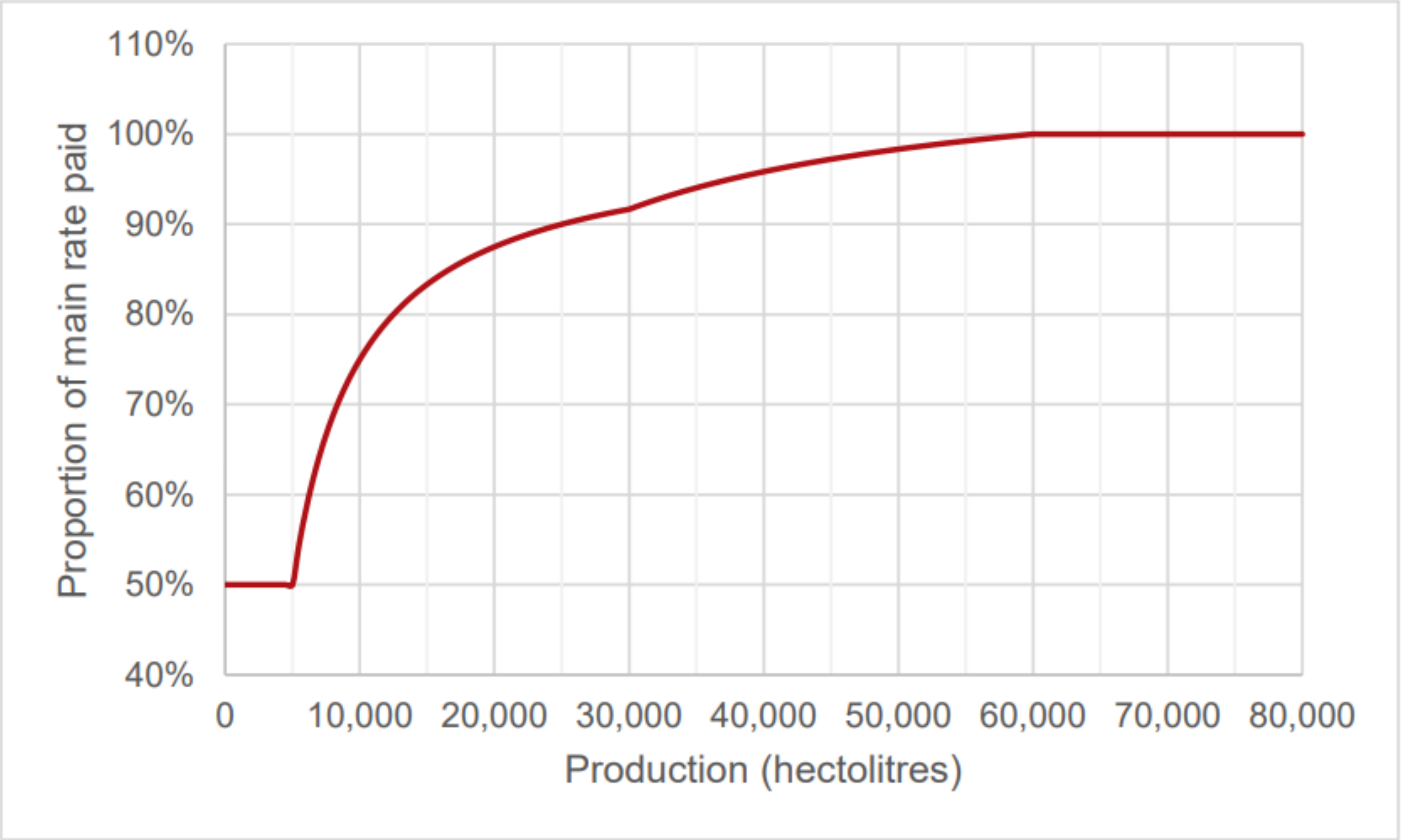
These measures may have an indirect impact on individuals who consume alcoholic products, if the changes on duty rates are passed onto individuals through higher or lower prices for these products. There could also be a difference in impact on individuals who consume draught alcohol in pubs and hospitality venues.

At the current VAT rate, and assuming 100% pass through wherever alcohol is purchased, from 1 August 2023 the tax on a typical:

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

Individuals who drink stronger alcoholic products may pay more through the revised duty structure.

Chart 2.A: Duty curve



Band	Start hLpa	End hLpa	Marginal Discount	Cumulative Discount
1	0	5	£17.17	0
2	5	112.5	£9.54	£85.85
3	112.5	225	£8.59	£1,111.40
4	225	450	£4.77	£2,077.78
5	450	900	£2.86	£3,151.03
6	900	1350	£0.00	£4,438.03
7	1350	4500	-£1.41	£4,438.03

Example – Elusive Brewing

Our production was just shy of 1000HL, with total alcohol production (HLPA) being 50HL, so an average of 5% ABV. HMRC's SPR calculator gives us the full discount, paying a rate of £9.67 rather than the full rate of £21.01. Our previous rate was £9.54, so a small increase. However, for draft our rate is £8.78, so a small decrease.

- For a 30L Keg at 5% ABV, we'll pay £14.51, up from £14.31. For draft we'll pay £13.17

- For a 9G Cask at 10% ABV, we'll pay £112.58, up from £60.16

- **For a 440ml can at 10% ABV, we'll pay £1.25, up from 67p, at 50% GP that'll be a £1.16 increase to consumers. Is high strength beer now dead as a category?**

- Remember that relief is based on HLPA, so a brewery with an average ABV of 8% will burn through their allowance twice as quickly as a brewery as one with an average of 4% ABV. We really will see a reduction in high strength production, especially from those nearing the next threshold.

Example – Brewery @ 12KHL

These figures are for brewery that produced 12KHL at an average of 4% ABV. Under the old scheme, their SBR discount would have been 20%, meaning they'd pay 80% of the main rate, or £15.26.

Under the new scheme, their SPR discounted rate is £14.44 or £13.11 for draft.

- For a 30L Keg at 5% ABV, they'll pay £28.52, down from £30.14. For draft they'll pay £25.89

- Their annual saving based on an average abv of 4% and assuming a 90% supply to pubs will be approximately £95,000 per year, or around a 14% discount