WSTA Briefing: Alcohol Duty and Budget 2024:

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Background:

The Wine and Spirit Trade Association (WSTA) is the trade body for wine and spirits businesses in the UK. WSTA membership has broad supply chain coverage, including producers, importers, wholesalers, glass manufacturers, bulk bottling providers, and retailers (both specialist and major multiple supermarkets). Over 60% of WSTA members are SMEs, and over 30% are micro-businesses. There are over 1000 independent wine merchants in the UK.

The UK wine and spirits industry is both economically significant, and a global hub for the trade. In 2022, the UK wine and spirits industry supported 413,000 FTE jobs (over 60% in the on trade), generated £76.3 billion in economic activity, and contributed £22.6 billion in Gross Value Added (GVA). The industry's largest contribution to economic activity came via the UK supply chain (importers/wholesalers/distributors/bottlers).

The UK bottles more wine in-market annually than is produced in the entire Bordeaux region (400 million+ litres). The UK is the largest exporter of spirits in the world, and second largest importer of wine globally. Wine and spirits accounted for c.70% of all excise duties collected in the last 12 months.

Scope of Submission:

Alcohol duty is covered by the Finance Bill in the following sections:

Clause 63: Rates of alcohol duty (includes the increases to headline alcohol duty, and the changes to small producer relief, and draught relief)

Clause 64: The abolition of the duty stamps scheme

The temporary easement for wine between 11.5-14.5% ABV will end on 1st February 2025. The schedule of the easement is contained in Finance Bill 2023 (Chapter 9 – Clause 115) published after Spring Budget 2023 (and therefore cannot be amended via the passage of this Finance Bill).

Autumn Budget 2024 was the final opportunity for the Government to temporarily extend or make permanent the temporary easement beyond 1st February 2025.

Existing Amendments:

The WSTA fully supports the reasoned amendment tabled by Daisy Cooper MP, Sarah Gibson MP, Steve Darling MP, Clive Jones MP, and Caroline Voaden MP at the Second Reading of the Finance Bill on 27th November. This amendment declined to give the bill a second reading for a range of reasons, including the increase to alcohol duty rates – noting the impact on consumers, the wine sector, and Scotch whisky sectors.

Top Lines:

- **The WSTA supports the abolition of the duty stamps scheme but sees this as inconsequential for industry when compared to the effect of other measures announced in the budget.**
- **The WSTA is disappointed to see the Government choose to increase headline non-draught alcohol duty by 3.65% and end the temporary easement for wine (both from 1st Feb 2025)**
- **Ending the easement will significantly increase costs and operational complexity for UK businesses – especially retailers and importers**. Consumers, the hospitality sector, and the UK's 1000+ specialist independent merchants will also be impacted - with likely no benefit to Government revenue.
- **The enactment of the 3.65% increase in alcohol duty on 1st February means that duty on a 14.5% ABV bottle of wine (75cl) will have increased 98p in just 18 months.** At this strength, the UK now levies a higher level of excise duty on wine than any other EU member state
- **The increase in duty is also unlikely to deliver an increase in Government revenue** due to inaccurate OBR forecasting methodology that underestimates consumer elasticities. Since the largest duty increases in almost 50 years on 1st August 2023, published Government receipts from alcohol duty since the start of the financial year 2024/25 (April-December 2024) are over £200 million lower than for the same period in 2023
- **A range of measures announced at the Autumn Budget will place significant costs on the SME-rich UK wine and spirits industry, which in turn will inhibit growth and deter business investment** (Aside alcohol duty changes, businesses face Extended Producer Responsibility (EPR) payments, and increases in business rates, NICs, and wages across 2025).

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Asks:

- **The WSTA asks that a full review of Treasury and Office for Budget Responsibility (OBR) forecast process for alcohol duty receipts**, to ensure as robust an evidence base as possible
- **Going Forward, duty changes must not widen existing differentials between different categories of alcoholic drink. Duty should be frozen or cut at Autumn Budget 2025** – reflecting the harm that a further RPI increase will inflict on the industry – while likely reducing Government revenue
- Urgently address fundamental issues with the Extended Producer Responsibility (EPR) scheme. Recognise that controversial illustrative fees and fundamental accounting issues mean that the scheme should be delayed

Timeline of Changes in 2025:

1st February 2025:

- Increases in the headline duty rate
- End of the temporary easement
- Further increase (1.7%) in the relief available to draught products
- Further increase in the relief for small producers (capped at 8.5% ABV and not available to winemakers and distillers)

1st May 2025:

- End of the duty stamps scheme

April 2025:

- Business Rates: Retail, Hospitality and Leisure relief decreases from 75% to 40%
- 1.2% increase in Employer national insurance contributions
- New minimum and apprentice wages (and likely payroll reviews for businesses)

Detail:

While carrying over plans to end the duty stamps scheme is a common-sense measure, and further investment into the Spirits Drink Verification Scheme was announced at the budget, these are inconsequential when compared to the end of the easement and headline duty increase. The increase in headline duty will place further pressures on an industry that has been forced to adjust to the largest overhaul of the duty system in 100+ years in August

2023, alongside 20% increases for 85%+ of wine, and 10% increases for average-strength spirits on 1st August 2023. Wine businesses face the combined effect of a duty increase and the end of the temporary easement on 1st February.

Temporary Easement: temporary easement levies a single charge on all wine between 11.5-14.5% ABV (the duty charge for 12.5% ABV). This range represents 85%+ of the entire UK market. Ending the easement means that from 1st February 2025, a different duty charge will be payable to every 0.1% ABV. The easement was implemented in recognition of the unique product, market and supply chain challenges faced by wine – predominantly the inability to produce to a specified ABV, and uncertainty over advance duty liability across the supply chain. The WSTA made a clear case to Government on business impact, warning that ending the easement would lead to significant initial, and recurring costs for business, operational and supply chain issues, have marked commercial impacts, reducing the global competitiveness of the UK industry. **The end of the easement will also weigh heaviest on SMEs: a high-street independent wine merchant estimates that ending the easement will cost £100,000+ across the first 12 months, and £80,000/year in recurring added costs.** There will be a clear commercial impact with price inconsistency (between vintage years) for consumers, and the incentive to stock and import a narrower range of ABVs/SKUs (and therefore a narrower range of products/styles) to simplify duty administration. The Government did not commission a specific impact assessment on the easement, and a built-in review of the broader excise duty system will not take place until three years after implementation (2026).

Alcohol Duty Increase/OBR Forecasts: Past trends in alcohol duty receipts make clear that freezing alcohol duty stabilises consumer demand and sales volumes, in turn stabilising Government receipts from alcohol duty. The WSTA has long held that the Office for Budget Responsibility's modelling for alcohol duty receipts and estimates for price elasticity of demand (PED) are inaccurate. The WSTA requests a formal review of the Office for Budget Responsibility (OBR) modelling process for alcohol duty receipts. Such a review should utilise industry data and will create a more robust evidence base on which Ministers make future decisions on alcohol duty.

OBR Modelling underestimates changes in consumption and the price-sensitivity of consumers. In the OBR's accompanying Autumn Budget forecast, projected total alcohol duty receipts revenue by the end of the forecast period was £15.9 billion, compared to the Autumn Budget 2023 forecast's estimate of £17.1 billion by the end of the forecast period.

Other Areas: The increase in Small Producer Relief also enhances differentials between vineyards, distilleries and breweries and cider-makers. Small Producer Relief is subject to production thresholds (Maximum 4,500HL of pure alcohol produced annually), but also at an ABV cap of below 8.5% ABV. Some English vineyards and winemakers will also be adversely affected by the planned changes to IHT relief from 2026.

The 1.7% cut to draught relief is inconsequential to on-trade operators when compared to business rates (with RHL properties facing an effective cut from April 2025), and other overheads. Wine and spirits account for c.50% of all serves in the on-trade and generate a much higher margin than draught products. The hospitality sector would have benefited significantly from a freeze to headline alcohol duty rates.

Wider Cost Pressures: The announcements at the budget place a range of cost pressures on our SME-rich industry. In addition, the headline duty increase, industry businesses face an increase in employer NICs, wages (and likely subsequent internal payroll review), and increases in business rates (both the uprating of the multiplier and a decrease in the relief for retail, hospitality and leisure (RHL) properties) in April 2025. Industry (and SME importers) could also be affected by proposals to increase the multiplier on online distribution warehouses, as part of the Government's wider business rates review. Payments and invoices under the Extended Producer Responsibility scheme will also begin from October. Government must take a joint-up approach across Departments, recognising the collective impact of costs and regulatory burden imposed on wine and spirits businesses in the UK.

Alcohol Duty Rates (Comparative Table):

	Current Duty	**Duty per bottle from 01/02/2025**	difference	% change
Vodka 37.5% abv 70cl	£8.30	**£8.60**	£0.30	3.6
Gin at 40% 70cl	£8.85	**£9.18**	£0.32	3.6
Sparkling Wine 12% abv 75cl	£2.67	**£2.65**	-£0.01	-0.5
Still Wine 14.5% abv 75cl	£2.67	**£3.21**	£0.54	20.2
Sherry 15% abv 75cl	£3.20	**£3.32**	£0.12	3.6
Port 20% abv 75 cl	£4.27	**£4.43**	£0.16	3.6
spirit-based Cream Liqueur 17% abv 70cl	£3.39	**£3.51**	£0.12	3.6
Pre-Mixed G&T 5% abv 250 ml	£0.31	**£0.32**	£0.01	3.6
440 ml can cider 4.5% off trade	£0.19	**£0.19**	£0.01	3.6
pint cider 4.5% on-trade (draught)	£0.22	**£0.22**	-£0.00	-1.7
440ml can beer 4.5% off trade	£0.41	**£0.43**	£0.02	3.6
pint beer 4.4% on trade (draught)	£0.47	**£0.46**	-£0.01	-1.7

**Please Note:/bottle rates are for exemplary purposes only; actual duty calculation refers to total volume of alcohol released*

OBR Forecast Revisions: March 2023-October 2024:

	OBR Mar 23	OBR Nov 23	OBR Mar 24	OBR Oct 24
24-25	13.9	13.5	12.7	12.5
25-26	14.5	14.5	13.5	13.1
26-27	15	15.2	14.2	13.8
27-28	15.8	16.2	15.2	14.5
28-29		17.1	16	15.2
29-30				15.9

Forecasts of total annual receipts from alcohol duty (£bn) Source: Office for Budget Responsibility, economic and fiscal outlook (published to accompany each fiscal event)

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