Written evidence submitted by the UK Spirits Alliance

Introduction

The UK Spirits Alliance is pleased to make this submission of written evidence to the Treasury Select Committee's inquiry into tax after coronavirus.

The UK Spirits Alliance (UKSA) is a coalition formed in July 2019, bringing together members of the world-renowned UK spirits industry to campaign for a reduction in the excise duty burden born by a flagship national product. The UKSA is supported by more than 230 distilleries across the country, including the British Distillers Alliance and Gin Cooperative that represent more than 200 distilleries. Supporters include local distilleries and micro-businesses, and internationally recognised brands such as Diageo, Bacardi Martini, Pernod Ricard UK and Brown Forman.

About the UK spirits industry

The UK spirits industry has been a national business success story over the last decade. Independent research commissioned in 2019 by the UKSA showed spirits generates more than £13 billion a year for the economy. The number of distilleries in the UK has increased by more than 200 percent over the last four years; and spirits excise duty receipts generated nearly £4 billion for HM Treasury in 2018-19, a year on year increase of more than ten percent.

UK spirits producers supported 13,000 jobs directly and 446,000 indirectly before coronavirus, playing a vital role for sectors including hospitality, tourism and retail. Evolving consumer demand, which has become more diverse and focused on experiences and quality has contributed to the pre-coronavirus growth of the market – and consequently from where excise duty revenue is generated for the public finances. Spirits represent 34 percent of all alcohol sales in pubs, restaurants and bars; whilst investment by the industry (c.£500 million in five years – including a £50 million investment by Pernod Ricard UK in a bottling facility in Dunbartonshire) has enabled distilleries to become tourist centres, supporting job creation and millions of visits per year; whilst also contributing the economies of local communities.

UKSA written evidence

- **What are the major long-term pressures on the tax system in the UK, including those arising from changes in working practices, demographics, the environment and other factors? How are these affecting the efficiency of the tax base and the overall level of demand for public services?**

The principal pressure for the UK tax system will be how to achieve a balance between funding public services and rebalancing the public finances given the need for high borrowing to mitigate the impact of the coronavirus crisis, without stymying business growth that must be at the heart of the economic recovery.

This is particularly true in the case of sectors and products that are already highly taxed, such as spirits, which are the most highly taxed category of alcohol in the UK. Spirits excise duty in the UK is also one of the highest in the world.

The existing level of taxation puts significant strain on UK producers. Research conducted on behalf of the UKSA in 2019 found that 30 percent of distilleries would be likely to decrease production over the following 12 months if excise duty was increased; with 27 percent also being likely to reduce the size of their workforces[1]. The impact of tax increases is likely to put even greater strain on these producers, who are also grappling with the impact of Coronavirus on their businesses and who face huge uncertainty in the months ahead.

Spirits excise duty was frozen in 2018 and in March 2020, and this has generated receipts significantly exceeding HM Treasury projections, with spirits excise duty worth nearly £4 billion in 2018/19 (according to HM Revenue and Customs' data), a year on year increase of more than ten percent. There is a strong case for government to cut spirits excise duty to support business growth and investment, whilst also generating more taxable revenue to support the public services. This would also support domestic development of brands that is essential to them reaching sufficient scale for export; whilst domestic taxation rates set an importance precedent for export markets.

Conversely, increasing spirits duty as a means of generating revenue in the short-term is likely to impact business' ability to invest, innovate and grow, ultimately delivering less for the public finances.

- **What more can the UK do to protect its tax base from erosion as a result of globalisation and technological change, and what further impacts will the coronavirus pandemic have on our tax base?**

The UK can protect its tax base by enabling the growth of key industries such as spirits and thereby increasing the revenue they generate that can be taxed, rather than increasing the rate of taxation and limiting opportunities for investment and future growth.

Spirits excise duty was frozen in 2018 and in March 2020. This has generated more in excise receipts for HM Treasury than projected. HM Revenue and Customs data shows spirits duty receipts increased to nearly £4 billion in 2018/19, a year on year increase of more than 10 percent.

The stable tax environment has enabled investment and innovation, meeting consumer demand for new products and experiences. This includes the development of more than 200 new gin products and innovative new variants that drove half of all gin growth in 2019/20 – with specific products such as pink gin seeing eight-fold sales increases (£392 million) over 12 months, with its number of consumers more than doubling to 5.1 million in the 12 months to mid-May 2019.

[1] *UK Distilleries Survey*, Survation, July 2019

This demonstrates how stability in the tax regime can enable business growth, ultimately generating more for the public purse and ensuring resiliency of the tax base.

Consumer trends, tastes and preferences are also changing; which the spirits industry is well-placed to cater for and has already responded to through investment and continual innovation. Before the coronavirus lockdown, cocktail bars and experiences such as cocktail making were becoming increasingly popular, as were distillery visits and tours. The industry has invested to reflect and build on these demands from consumers (e.g. £150 million in investment by Diageo in its Johnnie Walker tourist centre in Edinburgh) and this has meant duty receipts from spirits have continued to grow. Spirits can continue to deliver increased revenue for the public finances and will a, if not the, major part in where future duty receipts are generated. This includes the ‘third space' of experience-led offerings, such as outdoor evening, festivals and other experiences.

There is consequently a strong case for government to go further and to enable the further innovation and investment within the spirits sector by reducing excise duty to ultimately generate more the public finances and support economic recovery. Conversely, increasing duty would risks restricting continued innovation, which could ultimately erode the tax base.

- **Do these pressures need to be met with tax reform, and if so, is this the right time for reform?**

Spirits are the most taxed alcohol category in the UK and taxed at a far higher level to domestically produced alcohol in other countries (e.g. France levies a tax on wine of 0.03 Euros per bottle).

As noted above, polling of UK spirits producers has shown that levels of taxation are determining factors in their investment and recruitment strategies and in their levels of production. Independent research by Biggar Economics, commissioned by the UKSA in 2019, showed that whilst the number of UK distilleries has increased by more than 200 percent over the last four years, this growth had predominantly been through the creation of micro enterprises, with 82 percent of UK distilleries employing less than five people[2], for which high levels of taxation can present significant challenges in terms of growth, innovation and investment.

Spirits excise duty being set on an annual basis also presents challenges for business planning and ongoing uncertainty.

There is a need to review how spirits are taxed in the UK, specifically in terms of excise duty. The government committed to reviewing excise duty structures in the Queen's Speech and the March Budget, and this should be taken forward to achieve a fairer system that treats alcohol categories more equitably. This must be done in such a way as to be revenue neutral for HM Treasury, whilst reducing the overall tax burden on spirits producers and their

[2] *Economic and Fiscal Impact of the UK Spirits Sector: a report to the UK Spirits Alliance*, Biggar Economics, October 2019

products, thereby creating conditions for further growth than can benefit the economy. Reviewing excise duty structures to ensure spirits are treated more fairly has the potential to support jobs and generate more for the public finances by reflecting changes in consumer trends and preferences. Consumers are placing greater emphasis on the quality of what they are drinking and are increasingly focused on experiences. The spirits industry has invested and innovated to meet these demands, including in the development of new products such as pink gin. Consequently, the category has grown and has is poised to deliver the duty receipts of the future.

Ensuring spirits are treated more fairly through a review of excise duty structures benefits the Treasury by enabling further investment, innovation and growth.

- **What overall level of taxation can the economy bear without undesirable or counterproductive harm to economic growth?**
- **Which areas of the tax system are most in need of reform, and which are best left alone?**
- **What reforms should be considered in response to the pressures on the tax system?**

As noted above, the government should review excise duty structures (as it has committed to doing) to reduce the existing high tax burden on spirits (70 percent), whilst ensuring any reforms to duty structures are revenue neutral for HM Treasury.

Data from HM Revenue and Customs has shown that stability in the tax regime enables investment and innovation by the spirits industry, ultimately generating more for the public finances. Reducing the high tax burden on the sector would support further investment and innovation, meeting evolving consumer demands and, as has been demonstrated through the 2018/19 duty receipts, generating more for the public finances. In the short-term, the government should reduce spirits excise duty in the autumn Budget. Ministers should also ensure that the planned review of excise duty structures reduces the tax burden on the producers of these iconic products, enabling future investment and growth that benefits the economy.

Conversely, increasing excise duty in the Budget and subsequently not addressing the high tax burden (70 percent) in spirits would hamper further investment and innovation at a time when the government should be supporting businesses, ultimately delivering less for HM Treasury in the long-term.

- **What is the role of tax reliefs in rebuilding the economy and promoting economic growth and efficiency? Does the current regime of tax reliefs perform this role well?**
- **What are the areas for simplification?**
- **Is there a role for windfall taxes in the post coronavirus world?**

- **What is the right balance between taxation of work, savings/pensions and wealth?**
- **What is the best way to tackle tax reform, including what changes might be needed at HMRC to support implementation, and how should the Government consult with stakeholders and parliament?**

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