



# ALCOHOL DUTY SYSTEM CHANGES

## JULY 2023 VERSION 8 (UPDATED 27/7/23)

### INTRODUCTION

The Treasury has announced its [final changes](#) to the new Alcohol Duty System which will be introduced on 1 August 2023. It has also published the [revised draft legislation](#) which will replace the existing legislation. These changes will be introduced across the whole of the UK including in Northern Ireland under the Windsor Framework.

This briefing provides an overview of these changes which are planned to be introduced on **1 August 2023** including the proposed process for Small Producer Relief and the wider alcohol changes.

SIBA has updated its [calculator](#) (courtesy of Eddie Gadd) to help you understand the changes. You must put it into Hectolitres of Pure Alcohol (HLPa) to use the calculator. HMRC has also published its own [calculator](#) which brewers may also wish to use.

For background, members may want to read the following documents provided by SIBA:

- [April 2023 Webinar video](#)
- [November 2022 consultation response](#)
- [September 2022 guide](#)
- [January 2022 consultation response](#)
- [December 2021 guide](#)
- [December 2021 video](#)

HMRC has also published a series of guidance which can be found [here](#).

### NEW RATES STRUCTURES

There are three key changes for small brewers:

- The reduced rate will be widened from below 2.8% to below 3.5% ABV and small brewers will receive relief at this level.
- The higher rate will start at 8.5% ABV that brewers will pay the same as wines and spirits.
- Cider will continue to benefit from a lower rate (£9.67 versus £21.01 between 3.5-8.4%)

This table below shows the new headline rates being introduced on 1 August 2023 representing a RPI increase.



ABV	Beer	Cider	Made-wine/wine/spirits
0-1.2%	Nil		
1.3-3.4%	£9.27		
3.5-8.4%	£21.01	£9.67	£24.77
8.5%-22%	£28.50		
22%+	£31.64		

## DRAUGHT RELIEF

### Overview

A new reduced rate of 9.2% for draught beer products in large containers is being introduced. To qualify the product must be below 8.5% ABV, in large containers of at least 20 litres and sold as to connect to a dispense system. Relief under Small Producer Relief will also apply to the draught duty rate. The rates below show the new headline rates for draught relief being introduced on 1 August 2023.

ABV	Beer	Cider	Made-wine/wine/spirits
0-1.2%	Nil		
1.3-3.4%	£8.42		
3.5-8.4%	£19.08	£8.78	£19.08
8.5%-22%	£28.50		
22%+	£31.64		

A brewery has a choice whether to charge the full duty rate on qualifying draught products instead of the reduced Draught Relief. Those that have paid the full duty can be used for takeaway beer by bottle shops and pubs such as into growlers and crowlers.

The changes introduce a repackaging restriction which means that they cannot be transferred to smaller containers that are not for immediate consumption unless authorised or alcohol duty has been charged at the full duty rate. This means that draught products can only be placed into growlers/ crowlers or other containers for takeaway if either the person is authorised (either as a producer or as a warehouse) and they pay the duty shortfall or full duty has already been paid.

For example, Bottle Shop A wants to sell keg beer in growlers for takeaway to be consumed at the customer's home. Bottle Shop A must therefore buy from the brewery kegs which have paid the full duty amount rather than the Draught Duty Relief. This should be clear on the invoice or other paperwork provided.

### Technical description

Qualifying draught products are defined as of an alcoholic strength of less than 8.5% and at the excise point are contained in or being transported for the purpose of being transferred to



a large draught containers can be charged alcohol duty at a reduced rate. To qualify the products must be produced by a person that has been approved.

A large draught container is one which is of a capacity of at least 20 litres and incorporates or is designed to connect to a qualifying system for dispensing individual drinks. Qualifying systems are defined as a pressurised gas delivery system or a pump delivery system.

No person can repackage qualifying draught products on any premises unless it is authorised or the product has paid the full duty rate. Repackaging is defined as transferring to containers that are not large draught containers but not transferred in the course of serving a beverage for immediate consumption. To be authorised a person must be approved as a producer or in an excise warehouse. When authorised an amount equal to the duty shortfall is charged on the repackaged product. If the person is unauthorised then a penalty and the products, packaging and equipment are liable to forfeiture.

## **SMALL PRODUCER RELIEF**

### **Overview**

Small Breweries' Relief (SBR) will become part of the new Small Producers Relief (SPR) which will also be applicable to small producers of cider, wines/made wines and spirits based products below 8.5% ABV.

### **Structure**

- Beer at or below 1.2% ABV will not count toward production calculations and the Treasury is raising the definition of beer from exceeding 0.5% to exceeding 1.2% ABV.
- SPR will for the first time apply to lower strength beers and fully for those between 7.5%-8.5% ABV.
- SPR will not apply above 8.5% ABV but beer above this level will count towards total production.
- Production totals apply across all drinks categories – so if you also make cider, made wine or spirits it will be included in your production totals (even if the product does not itself benefit from SPR).
- The farmgate exemption will apply to beer as well as cider although not in full. It will be 100% between 1.2-3.4% (for spirits it will be a 65%) and between 3.5-8.4% it will be 100% for cider/ wine based products, 90% for beer and 80% for spirits.
- The 'brewery year' will move to 1 February every year so you will have to calculate your HLPAs from 1 February to 31 January. For 2023 you will need to recalculate from 1 February 2022 to 31 January 2023.

### **Hectolitres of pure alcohol**

SPR will no longer be solely based on total production but be converted into hectolitres of pure alcohol (HLPAs) and therefore also depend on the strength of the beer you produce. You can convert hectolitres into HLPAs using a simple calculation: Total hectolitres/100 x weighted

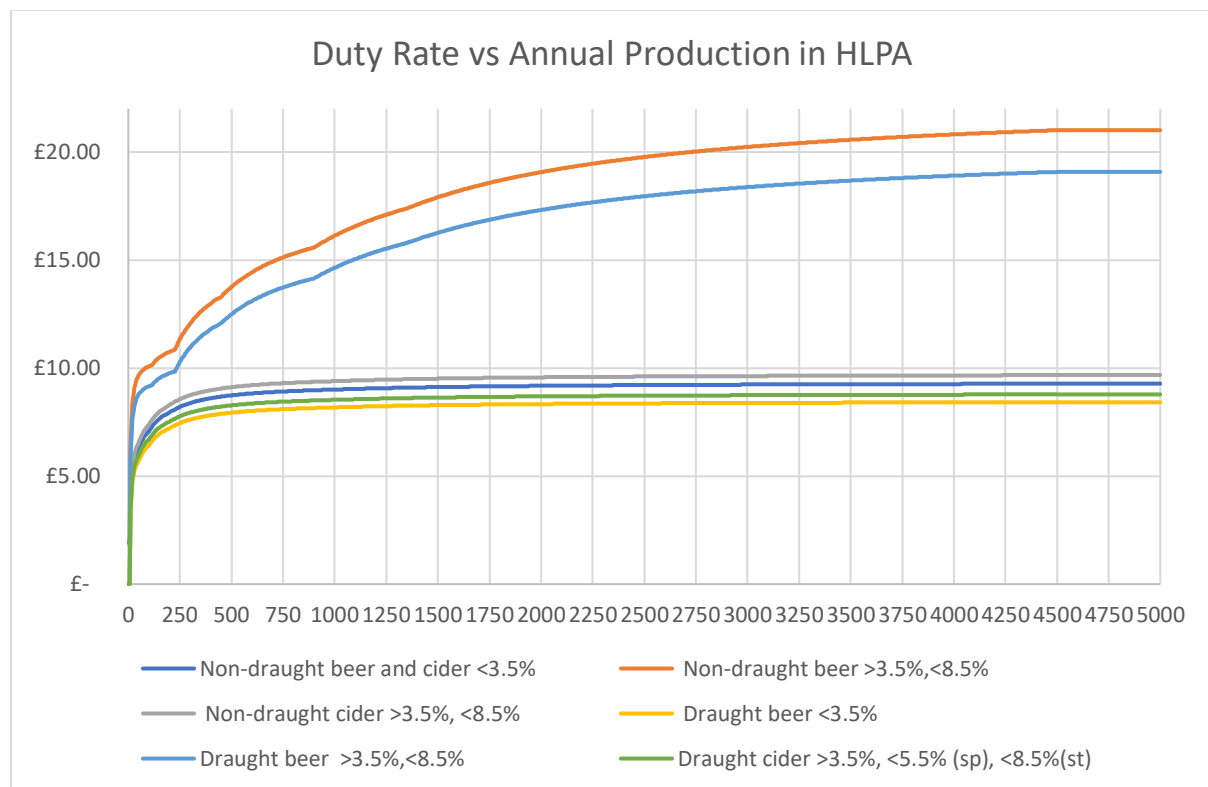


average ABV. Breweries need to use their actual ABV for each product line. For example if you produce:

500 hl at 3.5%, 700 hl at 4%, 800 hl at 4.5%

The HPLA =  $500/100 \times 3.5 + 700/100 \times 4 + 800/100 \times 4.5 = 81.5$  HPLA

The Treasury will set the SPR rates according to an overall average ABV which is 4.5%. The new SPR curve will go from 0 HPLA up to 4,500HPLA which is the equivalent of 100,000hl at 4.5% and you can see the curves for each type below:



As your relief now depends on strength as well as total production, you may move up or down the curve depending on how strong the beers are that you produce. For example if you produced 2,500 hl at a weighted average of 4.5% that is the equivalent of 112.5 HPLA. But if your weighted average was 5.5% you would be doing the equivalent of 137.5 HPLA and therefore move up the curve and pay a higher duty rate.

### Production amount

Similar to SBR, qualification for SPR will depend on your level of production. What is different is that you must include total production of **ALL** dutiable alcoholic products, this includes product over 8.5% ABV which are not eligible for SPR. This therefore includes spirits, cider, wine and made wines. Alcoholic products at 1.2% or below will not count. Products that are spoilt or disposed of before the duty point will also not be included.



For example Brewery A makes 2000hl of beer at 4.5% ABV but also 100hl of spirits at 40% ABV. They will therefore produce 90 HPLA of beer and 40 HPLA of spirits meaning their total is 130 HPLA. The total figure of 130 HPLA is used to calculate their duty for their beer under SPR.

### **New Small Producer Exemption**

The Treasury is maintaining the equivalent of the Small Cidermakers' Exemption (Farmgate Exemption) but applying it to all products below 8.5% ABV including beer. This will apply up to 5 HPLA (which is the equivalent of 70 hl of 7% cider or 111 hl of 4.5% beer). It will be 100% relief for products between 1.2-3.4% (for spirits it will be a 65%) and between 3.5-8.4% it will be 100% for cider/ wine based products, 90% for beer and 80% for spirits. Full duty for products above 8.5% will have to be paid and these will count towards their total production for relief purposes. Producers at this level will be required to register and be approved by HMRC. Once a producer exceeds this threshold they would move to the next marginal band and their overall discount will reduce gradually to 0% as they grow.

**NOTE – those making cider below the farmgate exemption will continue to be exempt until 2024 when the approval will be moved to the new system. Breweries that make exempt cider will be required to vary their approval with HMRC. However all alcohol produced (including exempt cider) will be included to calculate the SPR rate.**

### **Cash basis**

The Treasury has decided to put SPR on a cash basis. This means that instead of a percentage the Treasury will set a different cash relief rate for each of the three main rates – at the lower (1.3-3.4%), main (3.5-8.4%) and the separate draught rate. This will be the discount you can receive off the main rate of duty. To calculate your cash relief you will need to use a formula and the lookup tables provided by the Government. Each table is made up of several bands, each covering a volume of pure alcohol (HPLA). The cash discount should be rounded up to the nearest penny.

The formula that will be used is:

$$D = \frac{C + (M \times (A - S))}{A}$$

Where:

- D is the discount in £ per litre of pure alcohol
- C is the cumulative discount for that band (See lookup table)
- M is the marginal discount for that band (see lookup table)
- A is the relevant production amount (previous year's HPLA)
- S is the start threshold for that band (see lookup table)



The following are the published lookup tables for beer. You can see the other tables for cider and other products in Schedule 9 of the [draft legislation](#). A calculator has been produced to help you work out the duty rates you will pay which is available on the [Toolbox](#). HMRC has also published its own [calculator](#) which brewers may wish to use.

### Non-draught beer (e.g. small pack)

<b>Non- Draught alcoholic products other than spirits of an alcoholic strength of less than 3.5%</b>				
Discount band	Start threshold (hectolitres)	End threshold (hectolitres)	Marginal discount (£)	Cumulative discount (£)
1	0	5	9.27	-
2	5	50	2.32	46.35
3	50	100	1.39	150.75
4	100	200	0.46	220.25
5	200	600	-	266.25
6	600	1000	-	266.25
7	1000	4500	-0.08	266.25

<b>Non-Draught Beer of an alcoholic strength of at least 3.5% but less than 8.5%</b>				
Discount band	Start threshold (hectolitres)	End threshold (hectolitres)	Marginal discount (£)	Cumulative discount (£)
1	0	5	18.91	-
2	5	112.5	10.51	94.55
3	112.5	225	9.45	1224.38
4	225	450	5.25	2287.50
5	450	900	3.15	3468.75
6	900	1350	-	4886.25
7	1350	4500	-1.55	4886.25

### Draught beer (in containers of at least 20 litres or above)

<b>Draught products other than spirits of an alcoholic strength of less than 3.5%</b>				
Discount band	Start threshold (hectolitres)	End threshold (hectolitres)	Marginal discount (£)	Cumulative discount (£)
1	0	5	8.42	-
2	5	50	2.11	42.10
3	50	100	1.26	137.05
4	100	200	0.42	200.05
5	200	600	-	242.05
6	600	1000	-	242.05
7	1000	4500	-0.07	242.05



<b>Draught Beer of an alcoholic strength of at least 3.5% but less than 8.5%</b>				
Discount band	Start threshold (hectolitres)	End threshold (hectolitres)	Marginal discount (£)	Cumulative discount (£)
1	0	5	17.17	-
2	5	112.5	9.54	85.85
3	112.5	225	8.59	1111.40
4	225	450	4.77	2077.78
5	450	900	2.86	3151.03
6	900	1350	-	4438.03
7	1350	4500	-1.41	4438.03

### Case study 1

A brewery produces 2,400hl of beer at a weighted average of 4.5% ABV in the previous year. They then produce a 4% non-draught beer and want to calculate the duty discount.

The brewery produced 108 HLPAs in the previous year. Their cash discount will be calculated using the formula:

$$D = \frac{C + (M \times (A - S))}{A}$$

They use the lookup table for the non-draught beer between 3.5-8.5% ABV and are in Band 2.

$$\begin{aligned} C &= 94.55 \\ M &= 10.51 \\ A &= 108 \\ S &= 5 \end{aligned}$$

$$D = \frac{94.55 + (10.51 \times (108 - 5))}{108}$$

$$D = \text{£}10.90$$

The brewer then uses the headline rate of duty and minus the cash relief to work out their duty rate. Here it would be £21.01-£10.90 which is £10.11 per LPA on the 4% non-draught beer.

### Case study 2

A brewery produces 3,000hl of beer at 6.5% weighted average ABV in the previous year. They then produce a 7.5% draught beer and want to calculate the duty discount. The brewery produced 195 HLPAs in the previous year. Using the draught beer lookup table they are in band 3.



C = 1111.40

M = 8.59

A = 195

S = 112.5

D =

$$\frac{1111.40 + (8.59 \times (195 - 112.5))}{195}$$

D = £9.33

The brewer then would pay £19.08-9.33 which is £9.75 per LPA on a 7.5% draught beer.

### Transition from SBR to SPR

Having sought clarity from HMRC about implementing the transition to the new Alcohol Duty System, SIBA has now received important information from HMRC lawyers on how this will now operate.

They have confirmed that any beer that you have produced **before** 1 August 2023 that has not passed the duty point ahead of the 1 August (such as beer in duty suspense) will now be eligible for the Small Producer Relief (SPR) under the new system. This means the beer will be subject to the new duty rates introduced on 1 August. This is a change from the information that HMRC provided previously (see section 8 of [Notice 226](#) which was updated on 17/7/23), and is being introduced to avoid having to operate a complicated dual system.

This means that anything that has passed the duty point **before** 1 August will pay the old SBR rate. For example beer that has been packaged into casks and bottles and you have paid the duty by 31 July 2023. Anything that passes the duty point **on or after** 1 August will pay the new SPR and draught duty relief if applicable. This includes beer you have in fermenters or in duty suspense.

Breweries are still able to pay duty in advance of beer leaving the premises under 'constructive removal' if they wish to do so before 1 August. This allows a brewer to change the status of the beer held on registered premises from duty suspended to duty paid. For example, this may be useful if a brewery has strong beer above 8.5% ABV in duty suspense and wishes to pay the SBR rate as anything above 8.5% does not receive SPR or draught duty relief under the new system.

### Connected test

The existing connectedness test will carry forward to SPR and cover all products that a producer makes. This means that those that are economically cooperating together (legally connected) receive relief for the total production of all their breweries. This is based on Corporation Tax rules. However, HMRC will have discretion to treat connected persons as if they are not connected if it is appropriate in the individual circumstances.





## Production under licence

The existing under licence condition will be carried forward to SPR. This means that less than half of the total alcoholic product produced across all premises combined will have to be under licence.

## Technical description

- The new Small Producer Relief introduces a discounted rate for alcohol produced by small producers which is equal to the standard rate less the duty discount for these products. Small producer alcoholic products are defined as of a strength less than 8.5%, produced on small production premises and not produced under licence. A small production premises must meet the production limit condition and the unlicensed product condition.
- The production limit condition for non-group premises is that the alcohol production amount for the previous year and the estimated production for the current year do not exceed the small production limit which is set as 4,500 HLPA. For group premises they must not exceed the limits in aggregate.
- The unlicensed product condition is met if less than half of the alcohol production amount was contained in alcoholic products produced under licence in the previous year and the producer estimates that less than half will be contained in products produced under licence in the current year.
- The alcohol production amount is the total amount of alcohol contained in alcoholic products produced on those premises in that year. This does not include any alcoholic products that are spoilt or disposed of before the excise duty point or produced in the course of producing a different alcoholic product.
- The legislation defines how to calculate the alcohol production amount for premises that are in use for only part of a production year.
- It also states that HMRC may, if satisfied that the circumstances are exceptional, disregard certain alcoholic products or a certain amount to determine the production amount.
- It excludes from small producer alcoholic products that are exempt from duty for personal consumption, imported medical articles or flavourings.
- A formula is given to calculate the duty discount:  $C+(M(A-S))/A$ , where C is the culminative discount for the discount band, M is the marginal discount for the band, A is the relevant production amount, S is the start threshold for the band.
- It defines production premises as premises on which alcoholic products are produced. They are group premises if a person who produces alcoholic products on the premises or a person connected with a person also produces alcoholic products on any other premises. Connected premises means premises on which alcoholic products are produced by a person or a person connected with that person. Connected persons are in reference S1122 of the CTA 2010. But HMRC may treat two connected persons as if they are not connected for the purpose of this section.
- A production year is a period of 12 months beginning with 1 February.

## MERGERS AND ACQUISITIONS



When two or more producers merge there will be a three year transitional period to combine their production volumes. This will be calculated as follows:

- After the merger, the SPR production will be that of the largest single individual producer. At the end of the brewing year (the next February) production will be based on the largest producer plus one third of the difference between this and the combined production of all the merged producers.
- At the end of the final year, SPR production will be based on the largest producer plus two-thirds of the difference between this value and the combined production.

The formula will be the following:

Period	SPR production value
After the merger	Single largest entity (S)
Next year (Y2)	$S+c2-S/3$ Where C is the combined production
Year after (Y3)	$S+2(c3-S)/3$

**For example:**

- Brewery A and Brewery B merge to form Brewery AB.
- Brewery A produces 90HLPA and pays the main duty rate of £9.12
- Brewery B produces 45HLPA and pays the main duty rate of £8.69
- Currently if they merge they would pay on their total production of 135HLPA which is a main duty rate of £9.42

Under the new rules:

- Year 1: Brewery AB would be based on Brewery A at 90HLPA so would pay £9.12
- Year 2: Brewery AB would be based on Brewery A but also a third of the combined total which is 105HLPA (90HLPA plus third of difference between 135HLPA and 90HLPA) and pays £9.18
- Year 3: Brewery AB would be based on Brewery A but also two thirds of the combined total which is 120HLPA (90HLPA plus two thirds of difference between 135HLPA and 90HLPA) and pays £9.28
- Year 4: Brewery AB would pay the rate at 135HLPA which is £9.42

### **Termination of merger relief**

If the combined production or a newly merged producer falls below the starting value the merger transition will be terminated and the new producer will move to calculating it on its combined volumes.

If a subsequent merger takes place while the merger transition is taking place, it will end. The producer can claim a fresh transition for this merger.



If connected producers de-merge their individual production volumes for the previous year for SPER will be nil as they will only have combined figures for the previous year. If two or more producers demerge the transitional arrangement then it will end. The same producers will not be able to make use of the transitional arrangement within a 7 year period.

## **APPROVALS**

The Government intends to introduce a single alcohol approval that can cover all types of production. Producers will have the ability to apply and amend their production approval online. If approved a producer can produce alcohol, hold product themselves without paying duty, hold products elsewhere and import products directly to their premises.

The new digital system will also allow all alcohol products on a single return with returns due of 15<sup>th</sup> of the month and payment on 25<sup>th</sup> on the month. The online digital service is expected in late 2024 and businesses will be given at least 12 months' notice. The Government will also remove the 5km rule.

## **FREQUENTLY ASKED QUESTIONS**

### **How do I calculate my duty for 1 August 2023?**

The period for calculating the Small Producer Relief (SPR) rate from 1 August 2023 will be the same period as if SPR had been available for the whole year i.e. 1 February 2022 to 31 January 2023 for the actual alcohol production amount and estimated production amount will be 1 February 2023 to 31 January 2024. The only difference between 2023/2024 SPR year and any other SPR year is that the rate will only be able to be applied to products produced from 1 August 2023 but all the rules for determining eligibility and calculating the duty rate will apply the same way.

### **Can I sell draught containers to the public for parties and weddings?**

Breweries can sell draught containers to the public and pay the reduced draught duty relief on that product. These must meet the definition of being below 8.5% ABV, 20 litres or more in size and designed to connect to a dispense system.

### **Does this include bag in box?**

The Treasury has confirmed that the new draught duty relief will include bag in box along with gravity dispense as long as they are designed to be connected to a pump or pressurised delivery system.

### **What is the definition of immediate consumption for draught duty beer?**

Immediate consumption is intended to mean consumption on the premises it is served.



## **Who is liable/ responsible for ensuring that only fully duty paid draught containers are used for takeaway?**

The person carrying out the repackaging is the one responsible for ensuring that a fully duty paid container has been purchased. If a pub carries out takeaway it is liable for a penalty if it does not do so from a fully paid duty container.

## **What evidence do I need to provide with fully paid duty containers?**

The evidence should be based on commercial documentation such as invoice, delivery notes etc with the aim to minimise the burden on business.

## **What records do I need to keep for takeaway beer?**

When decanting beer, you should keep records of how much is repackaged as well as the duty shortfall. The duty shortfall should be included in the 'under declarations in. previous periods' box on the duty return.

## **How do I sell takeaway beer from taprooms?**

If a brewery has a taproom they can repackage for takeaway sales provided they account for the additional duty because they are an approved person. The taproom must be part of the same legal entity for this to apply.

## **What if I sell other breweries' beer in my taproom?**

If you buy beer from other breweries to sell in the taproom and wish to do takeaway, you must find out the duty rate paid. If you are unable to obtain this you should calculate the difference between the full rate of duty and the draught rate.

## **Is wash for spirits included in Small Producer Relief?**

If the wash is produced by a brewer and sold to a spirits producer the alcohol in the wash will not be included in the brewers' alcohol production volume as it will be included in the spirits producer's alcohol production volumes.



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INDEPENDENT  
BREWERS

## **NEW ALCOHOL DUTY TAX CODES**



	Tax type	Descriptor	Rate from 1.8.23
Core structure	301	Low Alcohol - not exc 1.2%	Nil
	311	Beer less than 3.5%	£9.27
	312	Cider less than 3.5%	
	313	Wine less than 3.5%	
	314	Other fermented products less than 3.5%	
	315	Spirits less than 3.5%	
	321	Beer at least 3.5 but less than 8.5%	£21.01
	322	Cider at least 3.5 but less than 8.5% & sparkling cider at least 3.5 <u>not</u> exceeding 5.5%	£9.67
	323	Wine at least 3.5 but less than 8.5%	£24.77
	324	Other fermented products at least 3.5 but less than 8.5% & sparkling cider exceeding 5.5 but less than 8.5%	
	325	Spirits at least 3.5 but less than 8.5%	
	331	Beer at least 8.5 but not exceeding 22%	
	333	Wine at least 8.5 but not exceeding 22%	£28.50
	334	Other fermented products at least 8.5 but not exceeding 22%	
	335	Spirits at least 8.5 but not exceeding 22%	
341	Beer exceeding 22%	£31.64	
343	Wine exceeding 22%		
344	Other fermented products exceeding 22%		
345	Spirits exceeding 22%		
Draught Relief (DR)	351	Beer less than 3.5% & eligible for DR	£8.42
	352	Cider less than 3.5% & eligible for DR	
	353	Wine less than 3.5% & eligible for DR	
	354	Other fermented products less than 3.5% & eligible for DR	
	355	Spirits less than 3.5% & eligible for DR	
	356	Beer at least 3.5 but less than 8.5% & eligible for DR	£19.08
357	Cider at least 3.5 but less than 8.5% & Sparkling cider at least 3.5 but not exceeding 5.5% & eligible for DR	£8.78	
358	Wine at least 3.5 but less than 8.5% & eligible for DR	£19.08	
359	Other fermented products at least 3.5 but less than 8.5% & Sparkling cider exceeding 5.5 but less than 8.5% & eligible for DR		
360	Spirits at least 3.5 but less than 8.5% & eligible for DR		
Small Producer Relief (SPR)	361	Beer less than 3.5% & eligible for SPR (small producer relief)	manual rate determined by calculating SPR discount, and deducting from relevant rate above
	362	Cider less than 3.5% & eligible for SPR	
	363	Wine less than 3.5% & eligible for SPR	
	364	Other fermented products less than 3.5% & eligible for SPR	
	365	Spirits less than 3.5% & eligible for SPR	
	366	Beer at least 3.5 but less than 8.5% & eligible for SPR	
	367	Cider at least 3.5 but less than 8.5% & Sparkling cider at least 3.5 but not exceeding 5.5% & eligible for SPR	
	368	Wine at least 3.5 but less than 8.5% & eligible for SPR	
	369	Other fermented products at least 3.5 but less than 8.5% & Sparkling cider exceeding 5.5 but less than 8.5% & eligible for SPR	
	370	Spirits at least 3.5 but less than 8.5% & eligible for SPR	
	371	Beer less than 3.5% & eligible for SPR and DR	
	372	Cider less than 3.5% & eligible for SPR and DR	
	373	Wine less than 3.5% & eligible for SPR and DR	
	374	Other fermented products less than 3.5% & eligible for SPR and DR	
375	Spirits less than 3.5% & eligible for SPR and DR		
376	Beer at least 3.5 but less than 8.5% & eligible for SPR and DR		
377	Cider at least 3.5 but less than 8.5% & Sparkling cider at least 3.5 but not exceeding 5.5% & eligible for SPR and DR		
378	Wine at least 3.5 but less than 8.5% & eligible for SPR and DR		
379	Other fermented products at least 3.5 but less than 8.5% & Sparkling cider exceeding 5.5 but less than 8.5% & eligible for SPR and DR		
380	Spirits at least 3.5 but less than 8.5% & eligible for SPR and DR		