



ALCOHOL DUTY SYSTEM CHANGES SEPTEMBER 2022

INTRODUCTION

The Treasury has announced its [response](#) to the consultation on the Alcohol Duty System in September 2022 along with a new technical consultation which closes in October 2022. It has also published the [draft legislation](#) which will replace the Alcoholic Liquor Duties Act. 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. Note that these are still subject to consultation and possible change.

SIBA has provided an updated [calculator](#) to help you understand the changes. For background, members may want to read the following documents provided by SIBA:

- [January 2022 consultation response](#)
- [December 2021 guide](#)
- [December 2021 video](#)

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 benefit from a lower rate (£8.78 versus £19.08 between 3.5-8.4%)

ABV	Beer	Cider	Wine, Made-Wine and Spirits
0-1.2%			Nil
1.3-3.4%			£8.42
3.5-8.4%	£19.08	£8.78	£22.50
8.5-22%			£25.88
22%+			£28.74



DRAUGHT RELIEF

Overview

A new reduced rate of approximately 5% for draught 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 will also apply to the draught duty rate.

ABV	Beer	Cider	Made-Wine / Wine
0-1.2%	Nil	Nil	Nil
1.3-3.4%	£8.00	£8.00	£8.00
3.5-8.4%	£18.13	£8.34	£18.13

The changes impose a repackaging restriction which means that they cannot be transferred to smaller containers that are not for immediate consumption unless authorised. This means that draught products cannot be placed into growlers/ crowlers or other containers for takeaway unless authorised to do so. If authorised then the difference in duty will have to be charged.

Technical description

Qualifying draught products defined as on an alcoholic strength of less than 8.5% and at the excise point are packaged in large draught containers are 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 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. 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.
- The 'brewery year' will move to 1 February every year from 2024.

Hectolitres of pure alcohol

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

The Treasury will set the SPR rates according to an overall average ABV which is 4.5%. Under the new SPR rate you receive full relief in cash terms up to 2,500hl. The new SPR curve will go up to 4,500HLPA which is the equivalent of 100,000hl at 4.5%.

Converted into HLPA at an average of 4.5% ABV the 2,500hl point is the equivalent of 112.5 HLPA. This means that if your brewery produces less than 2,500 hl in a year averaging at 4.5% you will receive the full relief in cash terms. If however your brewery average ABV is above this you will move up the relief curve much quicker. For example if you are producing 2,500hl at 5.5% average, you are producing 137.5HLPA which means that your relief will reduce at 2,045hl and not 2,500hl. At an average of 5.5% you would be doing the equivalent of producing 3,055hl instead of 2,500hl.

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.

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 be a 100% reduced rate up to 5 HLPA, which is the equivalent of 70hl of 7% cider or 111hl of beer at 4.5%. This means that if your production is below 5 HLPA you will not have to pay any duty on products that are below 8.5% ABV. 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 from 100% to 0% as they grow. This means that the benefits of the exemption are felt by larger brewers higher up the curve. A brewery with a HLPA total less than five would have to pay duty on products above 8.5% ABV and these would count towards their total production for relief purposes.

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 (HLPA).

The formula that will be used is:

$$D = C + (M \times (P - S)) / P$$

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)
- P is the production amount in HLPA in the previous year
- 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 4 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](#).



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

Non- Draught alcoholic products of an alcoholic strength of less than 3.5%				
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	136.83
4	100	200	0.42	199.98
5	200	600	-	242.08
6	600	1000	-	242.08
7	1000	4500	-0.07	242.08

Non-Draught Beer of an alcoholic strength of at least 3.5% but less than 8.5%				
Discount band	Start threshold (hectolitres)	End threshold (hectolitres)	Marginal discount (£)	Cumulative discount (£)
1	0	5	19.08	-
2	5	112.5	9.54	95.40
3	112.5	225	8.59	1120.95
4	225	450	4.77	2086.88
5	450	900	2.86	3160.13
6	900	1350	-	4448.03
7	1350	4500	-1.41	4448.03

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

Draught products of an alcoholic strength of less than 3.5%				
Discount band	Start threshold (hectolitres)	End threshold (hectolitres)	Marginal discount (£)	Cumulative discount (£)
1	0	5	8.00	-
2	5	50	2.00	40.00
3	50	100	1.20	129.98
4	100	200	0.40	189.98
5	200	600	-	229.97
6	600	1000	-	229.97
7	1000	4500	-0.07	229.97

Draught Beer of an alcoholic strength of at least 3.5% but less than 8.5%				
Discount band	Start threshold (hectolitres)	End threshold (hectolitres)	Marginal discount (£)	Cumulative discount (£)
1	0	5	18.13	-



2	5	112.5	9.06	90.63
3	112.5	225	8.16	1064.90
4	225	450	4.53	1982.53
5	450	900	2.72	3002.12
6	900	1350	-	4225.62
7	1350	4500	-1.34	4225.62

Case study 1

A brewery produces 2,400hl of beer at an 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: $D = C + (M \times (P - S)) / P$. They use the lookup table for the non-draught beer between 3.5-8.5% ABV and are in Band 2.

$$C = 95.4$$

$$M = 9.54$$

$$P = 108$$

$$S = 5$$

$$D = 95.4 + (9.54 \times (108 - 5)) / 108$$

$$D = \text{£}9.98$$

The brewer then uses the headline rate of duty and minus the cash relief to work out their duty rate. Here it would be $\text{£}19.08 - \text{£}9.98$ which is $\text{£}9.10$ per LPA on the 4% non-draught beer.

Case study 2

A brewery produces 3,000hl of beer at 6.5% 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.

$$C = 1064.90$$

$$M = 8.16$$

$$P = 195$$

$$S = 112.5$$

$$D = 1064.90 + (8.16 \times (195 - 112.5)) / 195$$

$$D = \text{£}8.91$$

The brewer then would pay $\text{£}19.08 - 8.91$ which is $\text{£}9.22$ per LPA on a 7.5% draught beer.

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 hl (note this is a mistake in the legislation and should be 4,500 HLPAs). 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.
- 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: $C + (M(P-S))/P$, where C is the cumulative discount for the discount band, M is the marginal discount for the band, P 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)	$S + \frac{C - S}{3}$ Where C is the combined production
Year after (Y3)	$S + \frac{2(C - S)}{3}$

For example:

- Brewery A and Brewery B merge to form Brewery AB.
- Brewery A produces 90HLPA and pays the main duty rate of £9.01
- Brewery B produces 45HLPA and pays the main duty rate of £8.48
- Currently if they merge they would pay on their total production of 135HLPA which is a main duty rate of £9.35

Under the new rules:

- Year 1: Brewery AB would be based on Brewery A at 90HLPA so would pay £9.01
- 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 £9.09
- 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 £9.20
- Year 4: Brewery AB would pay the rate at 135HLPA which is £9.35.

Termination of merger relief



If the combined production of 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 15th of the month and payment on 25th 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.