



## **ACS Submission: Alcohol Duty Review: Call for Evidence**

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the Treasury's call for evidence on the Alcohol Duty Review. ACS is a trade association, representing 33,500 convenience stores across the UK including the Co-op, Spar UK, Nisa Retail and thousands of independent retailers. Further information about ACS is available at Annex A.

The modern consumer expects the sales of alcohol to be incorporated into local convenience stores' product mix. As a result, 78% of convenience stores across the UK have a license to sell alcohol<sup>1</sup>. On average alcohol sales represent 15.1% of category sales in convenience stores, rising to 20.1% in independent convenience stores<sup>2</sup>. The convenience sector is therefore an effective collector of a significant proportion of indirect taxes, including £6,585m in excise duties and £669m in VAT.

Local shops are increasingly relevant to people's lives, and this has been particularly demonstrated throughout the Coronavirus pandemic, with 30% of customers using local retailers more and 80% intending to continue using them in future<sup>3</sup>. ACS' 2020 Community Barometer, which looks at which services the public want and value, found that convenience stores were ranked as having the most positive impact on their local area, followed by post offices, pharmacies, pubs and banks<sup>4</sup>.

We do not support the proposal to distinguish duty rates by the place of retail, as suggested in the call for evidence. We set out in our response the following reasons for our opposition to this proposal; both local shops and pubs make a positive contribution to communities, there is a merging of on-trade and off-trade operations making it difficult to define the place of retail, a separate duty rate presents an opportunity for duty evasion, the alcohol duty system cannot account for the differing business models operated in the on-trade and off-trade, and the application of duty on alcohol licenses could disproportionately impact small businesses.

We have answered the call for evidence questions below. ACS' recommendations on the Alcohol duty review are:

- We do not support distinguishing duty rate by place of retail
- We support the application of duty rates at the highest point in the supply chain
- The Government must remain focused on stamping out non-duty paid alcohol that is damaging for legitimate retail business and the communities they serve

**For more information on this submission please contact Eleanor O'Connell, Public Affairs Executive, via [Eleanor.o'connell@acs.org.uk](mailto:Eleanor.o'connell@acs.org.uk) or call 07761521771.**

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<sup>1</sup> ACS Local Shop Report 2020

<sup>2</sup> ACS Local Shop Report 2020

<sup>3</sup> YouGov June 2020

<sup>4</sup> ACS Community Barometer 2020

## **The overall duty system**

### **1. Overall, how effectively does the current set of individual duties work in meeting the Government's aims of raising revenue and protecting public health?**

We acknowledge the complex nature of the alcohol duty system and welcome a debate on how to simplify it. Our starting point for this discussion is that alcohol duty should be applied at the highest point in the supply chain. Applying duty at the highest point in the supply chain makes it easier for the Government to collect tax receipts and reduces opportunities for duty evasion further down the supply chain. Looking at the duty system purely based on where the duty is collected, it is working well, but we also acknowledge differing methodologies for calculating the rate of duty across different products, strengths and volumes is suboptimal.

We have seen the Government introduce higher duty rates on 6.9% - 7.5% ABV for high strength white ciders in response to public health challenges, in particular street drinking. This is a prime example of how the duty system is a blunt instrument for tackling acute and complex health challenges. We are sceptical about how much increases in duty will influence the drinking habits of problem drinkers. We therefore urge caution in relation to using the duty system to address public health challenges.

We believe that tackling alcohol related harm is more complex than the introduction of an increase in price of one product category. Instead, tackling alcohol-related harm is most effective when offering support to individual problem drinkers to change their drinking behaviours in the long term. Drinkaware's latest data shows that 15% of drinkers are classified as higher risk, consistent with 2019<sup>5</sup>.

### **2. Do you have any general comments about the current system of alcohol duties, and how it could be improved? In particular, if you are a producer, we would welcome information on your experiences of the duty system.**

Alcohol duty rates increase each year at the Budget. In recent times, this has often led to duty rates changing close to Christmas, the busiest trading period of the year for retailers. We welcome action by the Treasury to delay the implementation of duty increases to avoid busy trading periods whether for anticipated events such as Christmas, or during unprecedented periods of activity. We encourage continued engagement between the Treasury and industry about the application of new duty rates to avoid busy trading periods.

### **3. Are there any structural changes you anticipate taking place in the alcohol industry that you believe the duty regime should reflect?**

As noted in this call for evidence, there has been a shift in alcohol volumes from the on-trade to off-trade premises. This pattern has been accelerated by the pandemic with the temporary closure of hospitality businesses during national and local lockdown. The shift of alcohol volumes from the on-trade to off-trade premises reflects changing societal dynamics, not the current duty framework. We do not believe that this trend justifies structural changes to the way alcohol duty is applied or collected.

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<sup>5</sup> [Drinkaware Monitor 2020](#)

We also note that there is an overall decline in alcohol consumption among the British public. This is especially prevalent in younger people<sup>6</sup> and has implications for the security of the duty receipts in future. The Government should seek to review the fiscally neutral approach to duty receipts as these trends play. It is not sustainable for the Government to expect the same levels of alcohol duty receipts if the volume of alcohol being consumed continues to decline.

Low and no alcohol products are a significant and growing market, with 59.8% of convenience stores selling non-alcoholic beers, wines and spirits and 62.6% selling low alcohol alternatives up to 1.2% ABV<sup>7</sup>. Whilst we acknowledge that duty is not applied to alcohol products under 1.2% ABV, we urge the Government to consider other public policy levers that can be used to incentivise the provision of low and no alcohol products.

### **Distinguishing products by strength**

#### **14. Would you support a “strength escalator” system, i.e. one where products that are stronger consistently pay more duty per unit?**

The Treasury should analyse the impact that the introduction of higher duty bands on high strength white ciders and other products has had when looking at a strength escalator system. Further analysis is needed about whether increases in duty rates resulted in reformulation of high strength products and the overall impact on consumption of high strength products by harmful drinkers.

The prevailing trends of growth in lower alcohol products suggest that the market is moving towards lower ABV, with growth in both the off-trade and the on-trade<sup>8</sup>. In 2018, low and no-alcohol lager and ale grew in retail sales value by 29% compared with the total beer market, which grew 3.9% on the previous year<sup>9</sup>. 78% of independent convenience stores sold reduced alcohol beer in Summer 2019, with stockists increasing from 29% to 41% compared to the same period in 2018<sup>10</sup>.

### **Distinguishing based on the place of retail**

#### **21. Is there a case to distinguish between different retail sources in the alcohol duty system? What would be the benefits and disadvantages of doing so?**

No. The duty rates system is a tax on alcohol volume and strength, not where alcohol is sold. The alcohol duty system should be blind to the type of business that is selling the product. We acknowledge and admire the important role of pubs in communities, but we do not believe justifies special status within the duty system. Moreover, there is significant evidence demonstrating the equally important role of local shops in communities.

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<sup>6</sup> Office for National Statistics [Adult drinking habits in Great Britain: 2017](#).

<sup>7</sup> ACS Voice of Local Shops survey February 2018

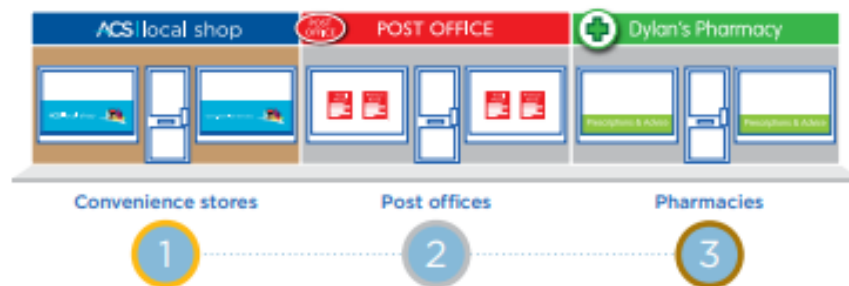
<sup>8</sup> [CGA Understanding moderation in the on-trade 2019](#)

<sup>9</sup> [Mintel - Alcoholic Drinks Review UK, February 2019](#)

<sup>10</sup> [The Retail Data Partnership 2019](#)

Convenience stores are ranked by consumers as having the most positive impact on their local community<sup>11</sup>. Convenience stores are increasingly a hub for a range of services that could not be sustained by themselves, for examples Post Offices, pharmacies, and off licenses<sup>12</sup>. The importance of convenience stores has been brought to the forefront by the Coronavirus pandemic, with shoppers increasingly relying on their local stores to purchase essential items.

### Most positive impact on the local area



The convenience sector also makes an important economic contribution to local communities. We offer flexible, local and secure employment to 412,000 people. We have invested £585million in the last year in improving our stores to better serve our customers. We estimated that the convenience sector contributed £10.1 billion in gross value added to the UK economy in the last year.

We also contribute to the cohesion of the local community through extensive community activities. 80% of independent retailers have engaged in some form of community in the last year, such as collecting money for charities, providing funding for local events and sponsoring local sports teams<sup>13</sup>. ACS' consumer polling from 2019<sup>14</sup> also shows that local shops rank alongside pubs and coffee shops in tackling loneliness.

We have set out below the arguments for not distinguishing duty rates by place of retail and welcome further discussion on the proposal as the Treasury gathers evidence.

#### *Definition of Place of Retail*

There is an increasing blurring between on-trade and off-trade premise making it difficult for the duty system to make a clear distinction between them. 46% of on-trade premises have as part of their alcohol license the ability to sell products for consumption off the premises<sup>15</sup>, including from alcohol served via a pressurised gas system, and this is a growing trend.

The importance of off sales for on-trade premises has also been acknowledged during the coronavirus outbreak, with the Government passing legislation to allow off trade sales without changes to licenses<sup>16</sup>. Although to a lesser extent, it is also the case that more off-

<sup>11</sup> ACS Community Barometer 2020

<sup>12</sup> ACS Community Barometer 2020

<sup>13</sup> ACS Local Shop Report 2020

<sup>14</sup> ACS Community Barometer 2019

<sup>15</sup> [Home Office, 'Alcohol and late night refreshment licensing England and Wales' 2016](#)

<sup>16</sup> [The Business and Planning Act 2020](#)

trade premises are experimenting with on-trade sales within their store footprints. As the merging of on-trade and off-trade premises continues it will become challenging to apply a separate duty rate by place of retail.

Blurring of the lines between place of retail also extends to the supply chains that serve on-trade and off-trade premises. Often local shops and pubs are supplied by the same wholesale supply chains. This has two key implications for a duty rates that distinguishes by place of retail. Firstly, there is a significant opportunity for duty evasion, whereby less reputable wholesalers can claim higher proportions of product going to the distribution channel that is afforded a lower duty rate. Secondly, increased administration and cost for wholesalers that will be required to separate the same product and apply different duty rates. The separation of these products will require more space in warehouses, labour costs and administrative burdens.

### *Safety and Crime*

We do not agree with the assertion set out in the call for evidence that the consumption of alcohol in on-trade premises is safer than in off trade premises. We believe that people are responsible enough to consume alcohol in their own homes. Furthermore, ONS data on alcohol related violence suggests that incidents have a strong concentration in on-trade premises with 19% of violent incidents located in or around a pub or club<sup>17</sup>.

ACS commissioned consumer polling on how people consumed alcohol purchased from convenience stores. The polling found that most people buying alcohol from convenience stores consume it at home in front of the TV (65%), followed by at home with a meal (54%), at a party with family or friends (50%) or on special occasions (46%). Alcohol was typically bought in supermarkets along with weekly groceries for “normal” drinking at home, with consumers happy to stock up on alcohol for future consumption<sup>18</sup>.

### *Business Model*

The duty rate system should not distinguish between place of retail as this cannot account for the differing business models and associated pricing strategies across the retail and hospitality sectors. The call for evidence rightly identifies the higher cost of alcohol in on-trade premises compared to off-trade premises. This is also true of other products; consumers would also expect to pay more for a sandwich or bottle of water in an on-trade premises because the overall proposition is different<sup>19</sup>.

On-trade businesses incorporate their operating costs into the price of their goods. The price of alcohol in a pub for example, includes the environment that the customer consumes the product in and how it is served to the customer. These operating costs and business models differ considerably compared to off-trade premises where dwell time in stores and service provision differs.

Given the higher operating cost for the pubs and restaurants it is unlikely that any duty differential would allow them to operate at similar pricing levels to shops. A lower duty is

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<sup>17</sup> Office for National Statistics – [Violent Crime and Sexual Offences - Alcohol-Related Violence](#), 2015

<sup>18</sup> Jericho Chambers - Attitudes to Key Product Categories in Convenience Stores October, 2016

<sup>19</sup> Lumina Intelligence – [Menu & Food Trends Report 2019](#)

unlikely to offset the higher operating costs associated with running on-trade premises. This makes it difficult for on-trade businesses to pass on the cost to the consumer.

### *Excise duty on licences to sell or produce alcohol*

The alcohol licensing system is one of the most burdensome regulatory process for both on-trade and off-trade premises to manage. As a result, there exists an entire industry of lawyers and consultants that support premises to manage their alcohol licences. Therefore, we would not support adding further complexity, cost and administration associated within the licensing system. We therefore oppose the application of excise duty on licenses to sell alcohol.

The Licensing Act 2005 does not distinguish between on-trade and off-trade premises. The legislation is intentionally objective and allows local authorities to determine conditions that are specific to the circumstances of each premises. The suggestion that the duty system should interfere with this key principle of the licensing system, by distinguishing between on-trade and off-trade premises, would have a distorting effect on the licensing system.

The costs associated with the licensing system have been extensively reviewed, concluding that the licensing fees system should be set nationally with the intention of allowing local authorities to only cover their costs, not to raise revenue. The amount of licensing fees paid is determined by the rateable value<sup>20</sup>, with most convenience stores fitting into Bands A to C.

We are concerned that the application of excise duty on a license to sell alcohol would disproportionately impact convenience stores and other small operators compared to larger multiple retailers that sell significantly higher volumes of alcohol. The application of excise duty to alcohol licenses would also create another barrier to entry to the market, favouring incumbent businesses.

## **Indexing rates for inflation**

### **30. Would a more consistent, systematic approach to indexing alcohol duties be of benefit?**

We do not support alcohol duty escalators, as ongoing upward increase in the duty rates risks driving consumers to the illicit market by growing the price differential between legitimate and illicit and non-duty paid products. The illicit trade presents a significant threat to legitimate retailers of alcohol.

### **31. Is there a more appropriate index to use for inflation-matching increases than RPI Approvals**

As outlined in the call for evidence, RPI is no longer a widely used measure of inflation. Both indexation of universal benefits and business taxes, like business rates, now use CPI inflation.

## **Avoidance and evasion**

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<sup>20</sup> Gov.uk [Alcohol Licensing Fee Levels](#)

### **35. How effective do you think the current systems of controls are at tackling avoidance and evasion?**

The Alcohol Wholesaler Registration Scheme has been effective at tackling tax avoidance and evasion, which presents a huge threat to the profitability of law-abiding wholesalers and retailers. Duty-avoided beers, wine and spirits cost the Exchequer £1bn in lost revenue in 2017/18 as criminal gangs have taken trade away from legitimate wholesalers. The most recent Government illicit market statistics have shown that the amount of beer sold illegally now represents 10% of the total UK market.

The Alcohol Wholesaler Registration Scheme introduced in April 2017 has led to a decline in the illicit trade in alcohol with the tax gap on beer duty falling by 5%, compared to 2016/17. Responsible wholesalers have seen an uplift in sales, up to 10% in 2017/18<sup>21</sup>.

Whilst these trends suggest that the AWRS has helped to prevent fraudulent activity, there is still more work to be done. ACS members still report activity around non-duty paid alcohol product, despite the introduction of the scheme. In order to stamp out illicit trade in alcohol at the source, proactive enforcement is essential. The Government must issue tough penalties to any retailers engaging in the non-duty paid market, including by removing their alcohol licence. The Government must also continue to measure excise duty tax gaps in order to monitor the trends in illicit trade.

Funding for law enforcement measures in this area must also continue. Alcohol fraud is costing legitimate wholesale and retail businesses, but also the Exchequer. Investment in this area will ultimately lead to savings for the Government and help deal with serious organised crime.

### **36. What more could be done to reduce the alcohol tax gap?**

The current penalties regime for the sale of illicit alcohol needs to look at removing the alcohol license for non-compliant premises. We recommend the Government focuses its resource on enforcement activity to remove criminals from trading illicit and non-duty paid goods.

There is an extensive range of sanctions already available to HMRC and to tackle the illicit market, but under-resourcing at HMRC prevents fast and consistent enforcement. We recommend promoting more effective and targeted use of appropriate sanctions to fit the offence at the lower end of the supply chain, including removing retailers' ability to trade by removing their alcohol licence if they are found to be selling illicit or non-duty paid products. This is an effective but underused sanction which we know would deter business in our sector for engaging in the illicit alcohol market.

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<sup>21</sup> Federation of Wholesale Distributors (FWD)



## Annex A

### ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 46,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.



### WHO WE REPRESENT

#### INDEPENDENT RETAILERS



ACS represents almost 19,000 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

#### SYMBOL GROUPS AND FRANCHISES



ACS represents over 14,000 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

#### MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents over 13,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

### THE CONVENIENCE SECTOR



In 2020, the total value of sales in the convenience sector was £44.7bn.

The average spend in a typical convenience store transaction is £7.46.



There are 46,955 convenience stores in mainland UK. 72% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 412,000 people.

13% of independent/symbol stores employ family members only.



22% of shop owners work more than 60 hours per week, while 24% take no holiday throughout the year.

72% of business owners are first time investors in the sector.



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

80% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2019 and May 2020, the convenience sector invested over £585m in stores.

The most popular form of investment in stores is refrigeration.

### OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

#### ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1,200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

#### ACS INVESTMENT TRACKER

Regular quarterly survey of over 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

#### ACS LOCAL SHOP REPORT

Annual survey of around 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,700 stores. The Local Shop Report also draws on data from Lumina Intelligence, IGD, Nielsen and William Reed.

#### BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit [www.acs.org.uk](http://www.acs.org.uk)