# The price is right

## Minimum unit pricing for alcohol and the case for a windfall tax

Jake Shepherd
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SMF Social Market Foundation

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## EXECUTIVE SUMMARY

Evidence shows that minimum unit pricing reduces alcohol harm. However, a key objection to the policy of setting a floor price for alcohol is that it unfairly creates a financial windfall for retailers, who benefit financially from being able to charge higher prices without competition. This report explores ways of taxing this windfall, examining potential changes to the alcohol duty system and the case for a new additional tax.

### Minimum unit pricing for alcohol is likely to be under consideration at Westminster, following success in Scotland

- The new Labour Government has a mission to raise healthy life expectancy and reduce health inequalities through “a relentless focus on prevention”.
- It will likely be considering minimum unit pricing (MUP) for alcohol:
  - Raising the price of cheap alcohol is the best evidenced policy to prevent harmful drinking.
  - MUP sets a ‘floor price’, below which it is illegal to sell alcohol – in Scotland, this is 65p per unit (10ml pure alcohol).
  - Wales and the Republic of Ireland also have MUP, with Northern Ireland currently exploring the option.
- In Scotland, MUP is estimated to have reduced alcohol consumption by 3%, alcohol-attributable hospital admissions by 4% and alcohol-attributable deaths by 13%.

### An objection to MUP is that it creates a windfall for retailers while reducing Treasury revenue from alcohol taxes

- Lower rates of drinking mean that alcohol duty receipts fall under MUP, but retailers benefit financially from higher prices. As retailer costs do not increase under MUP, these higher revenues are effectively additional profit — the basis of the windfall.
- This was a major objection from the Labour Party in Scotland, with the Scottish Government proposing to use a ‘social responsibility levy’ to claw back some of this retailer windfall, though it has never been implemented.
- Estimates vary, but our ‘best guess’ at the size of the retailer windfall from a 65p MUP is £600 million per year in England and Wales and £65 million in Scotland.
  - Some of this is recouped by the Government in VAT, leaving a £550 million surplus remaining.
- We estimate that MUP, without a windfall tax, would reduce UK tax revenue by just over £300 million each year.
- These figures are proportionately modest – representing a day’s trading for supermarkets or 2.4% of all alcohol duty revenue – but the principle of retailers profiting from MUP still risks undermining public consent.

## The simplest response would be to raise alcohol duty rates, but this would be poorly targeted

- To balance out the £300 million decline in duty receipts under MUP, we estimate off-trade alcohol taxes would have to rise by around 4%, while to capture the full £550 million windfall the increase would need to be 7%.
- However, the tax would not be well calibrated to the MUP windfall: products whose profitability rises with MUP and those unaffected are hit relatively indiscriminately.
- By raising the price of other products, a blanket duty increase could reinforce the health benefits of MUP by deterring drinking even more, but this could undermine its political appeal.

## A better option would be to supplement alcohol duty by introducing a "minimum unit tax" alongside MUP

- The UK Government levies a minimum excise tax on cigarettes to prevent them being sold too cheaply.
- A minimum unit tax would work well as a complement to minimum unit pricing because it would increase duty specifically on the products that generate windfall profits from MUP, in a way that is reasonably proportional to the size of the windfall.
- If duty rates were automatically adjusted to ensure that the total tax paid (duty plus VAT) on any off-trade product never falls below 36p, this would raise about £481 million.
- A higher minimum unit tax (MUT) may be necessary to capture the MUP windfall from spirits. A 46p MUT on spirits would raise £177 million to bring the total revenue raised to about £659 million. Under this system, tax increases would be fairly well targeted at cheaper products whose profitability rises most under MUP.
    - Since VAT is proportional to price, most more expensive products that are unaffected by MUP would not be liable for higher tax under the MUT as the combined take from duty and VAT would already exceed the MUT threshold.

## New dedicated taxes on retailers are harder to justify, but may be necessary for devolved governments

- Since the Scottish and Welsh governments do not have power over alcohol duty, they must introduce a new tax if they wish to capture the MUP windfall and the UK government does not act.
- However, a new tax may add operational complexity and find it difficult to appropriately target the MUP windfall.
- The most commonly discussed proposal is for a new scheme along the lines of Scotland's Public Health Supplement, which ran from 2012 to 2015.
    - This operated through the business rates system and was levied on large retailers on the basis of rateable value, as such it was not linked to the

    - volume of alcohol sold – and would lack a direct connection to a MUP windfall.
    - The supplement also excluded smaller retailers, even though they are no less likely to benefit from the MUP windfall and also contribute to harm.
- Alternatively, a new tax could be appended to the alcohol licensing system, as was intended for the Social Responsibility Levy in Scotland.
    - With regards to MUP, the most practical approach would be a blanket levy on all off-trade premises, integrating with existing licensing frameworks.
    - Yet this would represent a significant shift from the traditional role of licensing, requiring legislative changes and potentially placing administrative burdens on local authorities.
- A new tax could be linked to alcohol sales data – such as through enhanced HMRC VAT reporting – allowing for better targeting, but this would require a substantial overhaul of data recording and collection.

## Hypothecation could make it easier to argue for additional taxes – but it ought to be 'weak' rather than binding

- Earmarking the revenue from additional taxes for projects that address alcohol harm conveys an appealing political message.
- However, such hypothecation has clear drawbacks: it blocks the efficient allocation of resources and can create volatility in funding for important services.
- A better approach is 'weak' hypothecation, nominally linking revenue to certain types of spending but without tying revenue and spending too closely.
    - For example, additional funds for alcohol treatment could be announced, but the actual tax revenue could be given to the NHS with some flexibility on how to spend it.

## A minimum unit tax offers the best balance of effective targeting and practicality, but depends on the UK Government acting

- An MUT would be well calibrated to capture the MUP windfall for retailers, and would not mean significant price increases for consumers.
- To consider price as well as drink type and alcohol content, it would require a complex shift in the way alcohol tax operates – but tobacco duty shows this is feasible.
- For devolved administrations, an alternative tax would be less well targeted and create operational difficulties, but may be the only suitable option if Westminster does not act. If so, the preferred option would be to tax retailers on the basis of alcohol sales.
    - A sales-based levy is the most accurate option for capturing a windfall, but it presents significant operational challenges. A levy based on rateable value through the business rates system – as used in the original Public Health Supplement – is a reasonable alternative.

# CHAPTER ONE – INTRODUCTION

It is important to understand the broader context in which MUP operates and the issues it raises. While the policy has been shown to reduce alcohol harm, its financial impact remains a point of debate, particularly around whether retailer profits should be taxed. Before going into the details of how this could be done, we first explore the evidence on MUP and the political landscape surrounding it.

## Minimum unit pricing is likely to be under consideration at Westminster once more, following success in Scotland

The new Labour Government has come to power setting itself the mission to "improve healthy life expectancy for all and halve the gap in healthy life expectancy between different regions of England". In order to achieve this, it has promised "a relentless focus on prevention", a theme that the Health Secretary has continued to emphasise since taking office.[1]

Those commitments might be expected to entail action to address the problem of cheap alcohol. Deaths from alcohol have spiked alarmingly since the pandemic. This has exacerbated health inequalities, with the greatest harms experienced by the most deprived.[2] Given the relative youth of those affected, addressing alcohol harm would also be expected to have economic benefits, and potentially contribute to the Government's efforts to raise employment and economic growth. Even prior to the pandemic, alcohol was the leading risk factor for death, ill health and disability among 15-49 year olds,[3] and the cause of an estimated 178,000 years of lost working life each year in England.[4]

A preventative approach to alcohol harm means reducing alcohol consumption, in particular heavy and binge drinking, and the most effective way achieve this is to make cheap alcohol more expensive. Increasing prices is widely regarded as the most effective policy measure to address alcohol harm – including in our own work comparing different approaches to public health policy.[5] For example, increasing alcohol excise taxes and establishing minimum prices are endorsed by the World Health Organization among its 'best buys' of recommended interventions to reduce harmful alcohol use.[6] Numerous international studies show that making alcohol more expensive – typically by raising alcohol taxes – reduces how much alcohol people buy and consume, and that, in turn, reduces rates of alcohol-related death and illness.[7]

### England is the only part of the British Isles not to have implemented or openly be considering MUP

In recent years, however, policymakers have been increasingly attracted to a different form of pricing policy – *minimum unit pricing* (MUP). As the name suggests, this involves setting a 'floor price' – a minimum – below which it is illegal to sell alcohol. MUP effectively bans cheap alcohol. That, in turn, raises the price consumers face, and discourages consumption. MUP is called *unit* pricing because the minimum price level is set proportionate to the number of units of alcohol in a product. The most prominent MUP system in the world is Scotland's, which sets the minimum price at 65p per unit. Consider, for example, a 500ml bottle of 4% ABV beer. It contains 2 units of alcohol,[i] and so cannot be legally sold in Scotland for less than £1.30 (2x65p). A 70cl bottle of 14% wine contains 9.8 units, and as such has a minimum price of £6.37.

MUP has at least two attractions as a complement to alcohol tax. First, it is more targeted. There is substantial evidence that the heaviest and most harmful drinkers disproportionately consume the *cheapest* alcohol.[8] Focusing on those cheap products directly can have a relatively large effect compared to broad-based tax increases, which have to be fairly large in order to significantly shift low prices.[9] The fact that heavier drinkers are affected more than moderate drinkers (certainly compared to tax increases) improves the efficacy of MUP, as well as the popularity and political feasibility of the policy. Second, MUP is a more direct way to affect consumer prices. Alcohol duty is a tax levied on drinks producers, and while it does generally influence the cost of alcohol at the till, producers need not pass the cost increase in full to retailers and retailers need not pass the cost on in full to consumers. Indeed, there is some evidence to suggest that retailers adjust prices less for cheaper products in response to an increase in alcohol duty.[10] MUP, by contrast, regulates prices paid directly.

Forms of minimum pricing have existed for years in Canada and the former USSR. However, the policy has built international momentum since its adoption by the Scottish Government. Though the Alcohol (Minimum Pricing) (Scotland) Act was originally passed in 2012, legal challenges by drinks producers delayed its implementation until May 2018, initially at a rate of 50p per unit. Wales soon followed suit, introducing its own 50p per unit minimum price in March 2020. The Republic of Ireland brought in its own minimum unit price, at a higher level of €1 per unit (around 80-85p) in January 2022. Northern Ireland has also been actively exploring the measure, with health minister Mike Nesbitt telling Stormont's health committee last October that he had instructed officials to progress work on the introduction of MUP.[11] Last year, the Scottish Parliament voted to retain the measure, and increase its level to 65p per unit. The Northern Territory in Australia had a minimum price of A$1.04 (c50p) per unit from 2018 to 2025,[12] and the Dutch Government has also explored it.[13] The World Health Organization Europe produced a guide to support member states that are interested in the policy.[14]

As things stand, England is the only part of the British Isles neither to have MUP in place nor to be taking active steps towards introducing it. In 2012, David Cameron announced his intention to introduce a minimum unit price for alcohol in England as part of his government's alcohol strategy. A consultation was carried out, supposedly to determine the level of the MUP. Yet following intense lobbying from the alcohol industry, the Government u-turned, and dropped its plans for MUP.[15] Since then, successive Westminster governments have claimed to be monitoring the progress of MUP in the rest of the UK.

[i] A UK unit is 10ml of pure alcohol. 4% x 500ml = 20ml = 2 units.

### Initial evidence from other countries is encouraging that minimum pricing reduces alcohol harm

The official evaluation of MUP in Scotland, carried out by Public Health Scotland, was published in 2023, and concluded that the policy had been effective. Public Health Scotland's best estimate is that MUP reduced overall alcohol consumption by 3%, wholly alcohol attributable hospital admissions by 4% and deaths wholly attributable to alcohol by 13%.[16] The evidence is more ambiguous regarding the impact of MUP on the most severely dependent drinkers and acute harms (things like poisoning) – however, the preponderance of evidence suggests that the overall health impact is positive. Moreover, MUP seems to have reduced health inequalities. Consumption fell by the most among heavier drinkers in poorer households. Reductions in death rates and hospital admissions were highest in the most deprived areas.[17] Furthermore, Public Health Scotland has asserted that MUP has slowed the increase in alcohol-specific deaths seen across the UK since the pandemic,[18] with Scotland experiencing a 25% increase in alcohol-specific deaths from 2019 to 2022, compared to a 42% increase in England.[19]

The official evaluation of MUP in the Australian Northern Territory was similarly encouraging.[20] There, overall alcohol consumption fell by 6%, and a number of measures of alcohol harm improved. Non-domestic violence assaults fell by 26%, and emergency department admissions fell in some hospitals – though the evaluation could not confirm this was attributable to MUP rather than other licensing and policing initiatives. MUP has been trickier to evaluate in Wales, as it came into force just as the pandemic struck – but studies so far suggest that it has reduced alcohol consumption relative to England, particularly among the heaviest drinkers.[21]

## Fears that retailers win and the Treasury loses from MUP have long been an issue for the policy

It is unclear how actively the UK Government is looking at MUP. However, given media reports,[22] the growing international momentum and its policy objectives, it would be extremely surprising if it wasn't considering it. Yet there are likely a number of issues and objections to overcome.

One source of opposition has been the question of where the money goes. MUP is generally expected to increase the amount of money consumers spend on alcohol – though the volume of alcohol people buy goes down, the additional price is expected to more than offset it. That creates something of a windfall for retailers. At the same time, the reduction in volume sales would generally be expected to reduce the amount of money the Treasury raises in tax.

Putting these two dynamics together, some have objected to MUP on the basis that it boosts supermarket coffers, while short changing the public purse. This, they argue, makes MUP inferior to alcohol duty, which raises prices but captures the benefit for the Treasury rather than the retailer. A 2013 Institute for Fiscal Studies paper illustrates the argument, proposing reforms to alcohol duty as an alternative to MUP.[23] However, it is worth noting that the IFS' position seems to have evolved following the introduction of MUP in Scotland – with IFS' own analysis showing a reduction in harmful drinking due to the policy, it has shifted to presenting tax reform as a complement rather than a substitute for MUP.[24]

In any case, the worry that governments might be leaving millions of pounds on the table is not just a concern in England. In debates over the Alcohol etc (Scotland) Bill, the Scottish Government's first attempt to enact MUP, then Health Secretary Nicola Sturgeon presented its proposed social responsibility levy as a way to defuse opposition concerns about the potential windfall for retailers: "they [Labour] said that it [MUP] would increase supermarket profits. They were knowingly misrepresenting the figures but, even so, we suggested that we work together to use the social responsibility levy to claw back increased revenue for reinvestment in our services".[25]

The levy was proposed as part of the Scottish Government's 2008 discussion paper *Changing Scotland's relationship with alcohol*, which also initially floated the idea of MUP, though the two policies were not initially explicitly linked. The SRL would be charged to alcohol licence holders to offset the harm caused by alcohol in their local communities, though it was primarily aimed at the on trade who are largely unaffected by MUP. However, as the parliamentary debate progressed, the SRL was rhetorically pressed into action as a way to defuse opposition objections to the retailer windfall issue.

Ultimately, the social responsibility levy made it into the 2010 Act, but MUP had to be dropped from the bill.[26] It was not until 2012, once the SNP had a majority at Holyrood, that they could pass the necessary legislation for MUP. Nicola Sturgeon continued to use a levy as a means of assuaging opposition concerns: "If the windfall issue that Labour raises is one that we need to deal with, we have mechanisms through the public health supplement and the social responsibility levy to deal with it, but it is not a reason not to introduce minimum pricing".[27]

In practice, the Scottish Government has never actually used its power to implement the Social Responsibility Levy. In 2012, it did however introduce another, different tax – the 'Public Health Supplement', which was applied to retailers of both alcohol and tobacco. Unlike the Social Responsibility Levy, which was appended to licence fees, the Public Health Supplement was anchored to business rates. The Supplement was initiated by the finance ministry and was intended to raise revenue from harmful products to sustain public finances and help mitigate the harm they cause.[28] In the event, however, the Public Health Supplement was repealed in 2015, while MUP remained held up by legal challenges, so the two were never implemented in tandem.

Nevertheless, proposals for additional taxes have persisted, intensifying last year as the Scottish Government debated whether to maintain MUP and increase its level. Both Scottish Labour and the Scottish Green Party went into the 2021 Scottish Parliament elections pledging to introduce a social responsibility levy on retailers.[29] Last year, they endorsed a proposal from Alcohol Focus Scotland and the NCD (non-communicable diseases) Alliance Scotland for a public health levy through the reintroduction of the Public Health Supplement, in order to redirect alcohol sales revenue to addressing alcohol harm. The health spokesperson for the Green Party – then in government - Gillian Mackay, said "Minimum unit pricing has helped to change our nation's relationship with alcohol, but, at present, the money being made from it is being passed on to supermarkets as profit when it could be supporting communities who are dealing with the consequences of alcohol misuse".[30] Along similar lines, Labour MSP Carol Mochan said "the SNP's actions are allowing retailers to cash in on additional money from alcohol sales while frontline services are being cut".[31]

## This report considers the pros and cons of different approaches to taxing the MUP surplus

In this report, we examine these objections more closely and consider how the government should respond to them. Who wins and loses financially from MUP? To what extent should that colour our judgement of the merits of the policy in general? How might any 'surplus' from MUP be taxed or recovered for the public purse? How do different options affect the perceived legitimacy of MUP or any additional tax?

The report is organised as follows:

- **Chapter Two** estimates the potential windfall to retailers and loss of tax revenue to the Government resulting from the introduction of MUP.
- **Chapter Three** considers the criteria we should use to judge efforts to tax back this windfall.
- **Chapter Four** explores how the windfall could be taxed using alcohol duty, either by raising rates or altering the structure of the tax.
- **Chapter Five** looks at alternative taxes, including through non-domestic rates and changes to alcohol licensing.
- **Chapter Six** weighs up arguments on how the revenue should be spent – specifically, the case for hypothecation.
- **Chapter Seven** concludes, comparing the different options we have considered against our proposed criteria.

# CHAPTER TWO – ESTIMATING THE RETAILER WINDFALL AND FISCAL COSTS OF MUP

In this chapter, we attempt to assess the size of the issue we are discussing. How much do retailers stand to gain from minimum unit pricing, and how much does the public purse stand to lose?

For the purposes of this report, we are interested in the impact of a 65p MUP introduced in 2025 – the level of MUP already in force in Scotland, the model we would expect Westminster to follow. However, because of inflation – prices have risen about 40% since 2018 – 65p today buys about as much as 47p in 2018 money.[ii] That suggests that the impact of the 50p MUP in Scotland in 2018 provide a reasonable indication of the likely effects of a 65p MUP in England and Scotland today.

## Estimates of the retailer windfall from MUP vary substantially, but our 'best guess' is that it would be around £550 million across Great Britain

### Static estimate

As a first pass, it is relatively straightforward to produce a 'static' estimate of the impact of introducing MUP, assuming no behavioural response to the price increase. All we have to do is work out how much prices would rise for products below the minimum price, and apply these new prices to the existing sales volume. Public Health Scotland published data on the volume of alcohol sold at different price points in the off-trade (supermarkets and other shops, where alcohol is taken away to be consumed) in 2017, the year before MUP came into force. If we assume that everything below 50p per unit increased to exactly 50p, that would imply an increase in sales revenue of £133 million.[iii] That amounts to a 7.2% increase in off-trade revenue, and a 3.1% increase in overall revenue.[iv]

However, this estimate relies on two unrealistic assumptions. First, it assumes that retailers do not make any pricing changes beyond what they are required to do as a result of MUP. In practice, we would expect at least some products to have their prices raised beyond 50p per unit to maintain price differentials.

Secondly – critically - it assumes that consumers buy exactly as much alcohol as they previously did. If this were true, it would render the entire policy pointless – the whole point is to encourage consumers to buy less alcohol. And as we showed in the previous chapter, the best available evidence suggests that MUP did reduce alcohol purchases. So, we would expect the revenue changes to be smaller. Note that the

[ii] Although alcohol-*specific* inflation has been considerably lower, at around 20%. Using that figure a 65p MUP is equivalent to 55p in 2018.

[iii] The Public Health Scotland data provides price bands, for which we take the midpoint. So, for example, 481 million units of alcohol were sold at prices between 40 and 44p per unit. We assume that these increase by 8p per unit on average. 481 million units x £0.08 = £38.5 million revenue from products in this price band.

[iv] We can plausibly assume that effectively no alcohol in the on-trade is sold for less than 50p per unit.

'static' estimate implies no fiscal impact – if people buy exactly the same alcohol as before, the Treasury takes in exactly as much duty as before. Again, this highlights why the underpinning assumptions are unrealistic.

### Using retail sales or purchases in England and Wales as a counterfactual

So how can we do better, with a 'dynamic' estimate that accounts for consumer, and possibly retailer behaviour? One approach is to roughly approximate the causal estimation strategy used by other studies, including the official Public Health Scotland evaluation, and use England and Wales as a counterfactual for Scotland. Using Public Health Scotland's data, gathered from leading market research agencies between 2017 and 2019, we can calculate that alcohol sales revenue in the off-trade increased by 9.8% in Scotland and 7.5% in England. That implies MUP was responsible for a 2.3% increase in off-trade revenue before tax. However, this approach also implies that MUP had a slightly negative effect on the on-trade (pubs, bars, restaurants – places where alcohol is bought to be drunk on the premises). On-trade revenue fell by 0.7% more in Scotland than England following MUP.

Admittedly, this method is rough. Published data only covers calendar years, while MUP came into force in May 2018 – for that reason, we have had to compare 2017 to 2019. However, it offers an order of magnitude indication of the potential effect of MUP in England and Wales. We estimate that off-trade alcohol sales were around £25 billion in 2024.[v] A 2.3% revenue increase on top of that would mean that off-trade retailers would stand to gain around £585 million. Conversely, a 0.7% decrease in on-trade revenue would amount to a loss of around £135 million. Our figures are in line with those of the Fraser of Allander Institute[32], which carried out very similar analysis for Scotland alone, and found that the increase in revenues for retailers from MUP was £47 million.[vi]

We can produce another estimate of the revenue impact of MUP in the off-trade using IRI data published by Aston Manor.[33] This data should be treated with a little caution because Aston Manor are a leading producer of cheap, high strength cider – and as such, one of the biggest losers from MUP. However, IRI, now Circana, are a reputable research agency that collects sales information from retailers that is comparable to the data used in the estimated above (which comes mainly from Nielsen). IRI data covering the first twelve months of MUP in Scotland suggests that value sales increased by 9.8% in Scotland, but 5.1% in the rest of the UK – implying a 4.7% increase in off-trade revenue, around double the estimate we get from other sales data. That would mean a revenue increase of £1.2 billion for retailers in England and Wales.

Other analyses of the impact of MUP have used purchasing rather than retailer data. Anderson et al draw on Kantar's 'homescan' data, where households record everything they buy from shops and bring home (and as such, their results relate only

[v] The most recent available data published by Public Health Scotland only covers 2021, when the market size was £22 billion. We have uprated this figure by alcohol price inflation to reach the 2024 figure.

[vi] They report the windfall as £39 million, but that is excluding VAT.

to the off-trade).[34] This is slightly less reliable than till scan data, because it depends on people remembering to include all their purchases, but still has validity. Oddly, they find that MUP has no positive revenue effect for retailers. Comparing Scotland to Northern England, they find that the price people paid for alcohol rose by 7.6%, but that this was almost exactly cancelled out by a 7.7% relative reduction in purchases. Similarly, in Wales following MUP they found that prices rose by 8.2% but purchases fell by 8.6% relative to the West of England. Anderson et al therefore find MUP to be much more effective at reducing consumption than other studies – retailers do not benefit because purchases fall much more than in other studies.

The Institute for Fiscal Studies also use Kantar data and reach a similar result. They find a much stronger effect of MUP in reducing off-trade consumption than the official evaluation: they estimate unit sales fell by 11%,[35] whereas Public Health Scotland estimate a reduction of 3.5-3.6%.[36] Nevertheless, they do estimate that extending MUP to England and Wales would increase industry revenue, but the size of the increase is relatively small: £175 million (in 2019 prices).[37]

### Microsimulation modelling

Another approach to gauging the effect of MUP is microsimulation modelling. This involves modelling the impact of the policy from the 'bottom up', drawing on survey data about drinking patterns and consensus estimates from the literature about behavioural responses to policy. So, for example, this approach estimates how much a given type of drinker (e.g. a low income male heavy drinker) would cut back their consumption as a result of a given change in prices, and then aggregates those estimates up to calculate the total effect. The Sheffield Alcohol Policy Model which uses this method has been extremely influential in the political debate over MUP, particularly in its estimates of the health benefits of the policy.

The most recent published results using the Sheffield model imply that MUP would have quite significant revenue effects.[38] These relate to Scotland (they were prepared to help inform deliberations over increase of the MUP rate from 50p to 65p), and rely on 2019 data. There are significant limitations for making wider inferences, given differences in drinking patterns between Scotland and England, and the major effect that the pandemic has had on alcohol consumption since. But in the absence of new modelling, they are the best we have.

The model implies quite substantial effects on consumption, considerably higher than the official estimates of its impact. It estimates that removing the 50p MUP would increase consumption by 5.4% (recall that Public Health Scotland estimate it only reduced consumption by around 3.5%). A 55p MUP would reduce consumption by 8.1% relative to no MUP.

Given the inflation of recent years, a 65p MUP today would be expected to be roughly comparable to a 55p MUP in 2019 money. The Sheffield model implies that removing the 50p MUP would decrease off-trade revenue by 3.7%, and that implementing a 55p MUP would increase off-trade revenue by 2.1%. Adding these numbers together would imply that a 55p MUP in 2019 money, which we take to be equivalent to a 65p MUP in 2024 money, would boost off-trade revenue by 5.8%. This would be worth £1.5 billion in England and Wales.

### Official industry impact evaluation

The official evaluation of MUP in Scotland published a report exploring the impact of the policy on industry.[39] This did not examine the most robust sales data (coming from till scans), which was covered by other strands of the evaluation, and is discussed above. Instead, it used higher level data, for example from ONS business surveys, and qualitative interviews. By their own admission, the researchers admit that the data is noisy, and only powered to pick up large impacts on retailers.

The industry impact study found no evidence of negative impacts on the industry, and little to contradict the evidence of higher revenue. On some datasets Scottish retailers performed better than their English counterparts following MUP, on others they did worse. Moreover, outcome measures were highly volatile (for example turnover for specialist drinks retailers supposedly doubled in Scotland and halved in England in 2019, which is implausible). Qualitative evidence suggested no dramatic impact, though clearly a shift in the products that were sold towards more premium products.

### Synthesis

There is a frustrating lack of consistency across the different estimates of the impact of minimum pricing on retailer revenue. It is also worth emphasising the limitations of all these studies. We have mostly taken estimates for Scotland and applied them to England and Wales, but while the countries have great similarities, they do start with differences in drinking patterns. Perhaps more significantly, all of these estimates (including the Sheffield modelling) draw on data from before the pandemic, even though the pandemic dramatically altered drinking habits. Since 2020 we have seen a sharp increase in alcohol-related deaths, and 'polarisation of drinking', with heavier drinkers consuming more and lighter drinkers consuming less.[40] The table below summarises the estimates we have reviewed, and the implied revenue implications in England and Wales.

**Table 11: Estimated retailer revenue increase from MUP in England & Wales by different methods, if revenue changes in line with Scotland's experience in 2018 with a 50p MUP**

| | Off-trade | | On-trade | |
|---|---|---|---|---|
| | £ | % | £ | % |
| **Static estimate** | £1.8bn | 7.1% | | |
| **SMF/FAI method:** 2017-19 retail sales Scotland vs England | £600m | 2.3% | -£150m | -0.7% |
| **Aston Manor/IRI:** 12 month retail sales Scotland vs England | £1.2bn | 4.7% | | |
| **Anderson et al:** Reported purchases Scotland vs N England; Wales vs W England | 0 | 0 | | |

| | | | | |
|---|---|---|---|---|
| **IFS:** Reported purchases Scotland vs England & Wales | £175m | | | |
| **Sheffield Alcohol Policy Model (55p in 2019 £)** | £1,460m | 5.8% | -£210m | -1.1% |

*Source: SMF analysis*

With such a range of numbers, we have to concede that there is significant uncertainty. At the low end, Anderson et al imply MUP has no positive impact at all. At the upper bound, retailers in England and Wales could increase revenue by £1.5 billion. **Our preferred estimate is around £600 million**, and not just because that is the figure we come to with our method. That number has the virtue of being consistent with the approach taken in the official MUP evaluation, and the scale of reduced consumption that evaluation found. By contrast, Anderson et al and the IFS imply much greater reductions in consumption. We also believe that our numbers are preferable because they are more conservative than the Sheffield or IRI numbers. If we are using these estimates to calibrate an appropriate level of tax, it is better to work on the basis of a smaller windfall than to tax companies on the basis of money they do not actually receive.

**Our preferred estimate for the off-trade MUP revenue increase in Scotland is around £65 million, which would be £54 million after VAT.** This is little higher than the £47 million reported by Fraser of Allander using a similar method, but that is driven mostly by inflation. That figure increases proportionately if we use the IRI or Sheffield numbers, rising to over £100 million. If we take the Anderson et al approach, it shrinks to about £20 million while the IFS method would put it near 0.

Putting these numbers together, our central estimate for the off-trade retailer revenue increase from MUP of 65p is around £665 million for Great Britain. That is the gross increase in retailer revenue. However, a sixth of that is automatically taxed by the Treasury in the form of VAT. Therefore we estimate the windfall, which we define as the extra revenue that isn't already captured by tax, to be around £550 million.

### Profit is likely to rise by a similar amount to revenue

Thus far, we have only looked at retailer *revenue* – how much they make from sales. Yet from the industry perspective, this is not the metric that really matters. The actual best indicator of the benefit to industry is how much of this extra money they get to keep in *profit*. Our analysis so far has focused on revenue, because it is observable from the outside, whereas estimating profits requires a detailed understanding of cost structures. However, it would be unreasonable to try and tax back revenue gains if they did not translate into profit.

Fortunately, in this case, we can be confident that profits are likely to rise by a similar amount to revenue, if not more, under a minimum price. Profit is simply revenue minus cost. As we have established, alcohol sales revenue goes up under a minimum price. Profit will only rise by less than the increase in revenue if costs increase. Yet as we have also seen, volume sales decline under MUP (people buy less alcohol). If anything, we would expect costs to fall since the industry needs to produce and supply less alcohol.

Now, it is theoretically possible for costs to rise while volume falls if people are switching to products that are more expensive to produce. Yet on aggregate, for costs to rise by more than profit would imply that overall profit margins have fallen. For that to be the case, the average product would need to be less profitable following MUP than it was before MUP. Yet this is inconsistent with the shift in the market towards more 'premium' higher margin products that we observe.

What this means is that we cannot be certain exactly how much industry profit rises by following MUP, but we can confident that profits rise overall, and probably by a similar amount to revenue. Moving from revenue to profit adds another layer of uncertainty to our estimate, and offers a further reminder that the £550 million figure should not be taken too literally as the exact size of the MUP windfall. However, we do believe it represents our best order of magnitude estimate of retailer profit.

## Lost tax revenue is likely to be less – around £300 million

We can use a similar range of methods to estimate the impact on tax revenues as we used to estimate the impact on retailer revenues. However, our preference is to rely on Public Health Scotland's estimates of the impact of MUP on consumption – which we take to be the most authoritative and robust – and apply these to alcohol duty receipts.

Table 2 shows the amount of revenue collected in alcohol duty in the UK from each type of drink in 2023/24, and calculates the decline in that revenue if sales of each product were to fall in line with the estimated effect of MUP in Scotland, an overall drop of 2.5%. Since alcohol duty is fixed, Treasury revenues fall when consumption declines, even if prices rise or consumers switch to more expensive products. That implies that the Treasury would take in £315 million less in alcohol duty if MUP were extended nationally.

**Table 2: Foregone tax revenue if consumption falls in line with Public Health Scotland MUP estimate**

| | 2023/24 duty receipts | Decline in sales | Foregone revenue |
|---|---|---|---|
| Beer | £3.6bn | -2.7% | £100m |
| Cider | £0.2bn | -7.8% | £15m |
| Wine | £4.6bn | -1.2% | £55m |
| Spirits | £4.1bn | -3.4% | £140m |
| **Total** | **£12.6bn** | **-2.5%** | **£315m** |

*Source: HMRC, Public Health Scotland, SMF analysis*

Of course, this figure will be higher if MUP is more effective at reducing consumption. For example, the Institute for Fiscal Studies modelled an 11% reduction (though off-trade only), and estimate that this would reduce tax revenue by £390 million.[41] Note that this was in 2020, so with inflation would be over £460 million in today's money. Sheffield's modelling implies that a 55p MUP would cost the Government 6.4% of total duty and VAT revenue.[42]

The Sheffield analysis raises the question of how to account for VAT. In our previous section, we suggested that our best guess estimate is that MUP would mean consumers spend £650 million more on alcohol. Since a sixth of the price of alcohol is collected by the Treasury as alcohol duty, we can infer that the Treasury would take in around £110 million in additional VAT revenue on alcohol as a result of the change. If we net this off from our estimate of the lost duty (£315m), the implication is that the public purse is only £200 million worse off in terms of alcohol tax revenue.

However, our inclination would be not to do this, but instead to ignore VAT. This is because the additional VAT take on alcohol is most likely offset by lower VAT revenue on other goods and services. If people spend £650 million more on alcohol, they would be expected to spend £650 million less on other things, and so the Treasury will receive less VAT on those other products. Now, it is possible that some of the products people cut down on to pay for more expensive alcohol are zero rated – for example, if people spend less on food. In that case, the extra VAT revenue *would* be additional. However, it is more prudent and conservative to assume that overall VAT revenue is unaffected by MUP.

Putting this together, our central estimate is that **MUP would reduce tax receipts by a little over £300 million**. Estimates that suppose the policy would produce a bigger reduction in consumption imply this would be higher, potentially in excess of £450 million. But overall, the impact on tax revenue, while still in the hundreds of millions, seems to be somewhat smaller than the size of the retailer windfall.

## Do these figures justify additional taxes?

"Is that a big number?" is often one of the trickiest questions to answer in policy analysis. From one perspective, hundreds of millions of pounds is obviously a colossal amount of money. Yet to government and businesses used to operating with billions, these sorts of numbers are not so alarming as to necessitate response.

£550 million is not trivial, but equally is not that much relative to the sums supermarkets handle on a regular basis. The annual revenue of the UK grocery sector is around £200 billion[43] – so it would be a boost of 0.3%, the equivalent of an extra day's worth of trading over the year. Plausibly, the additional revenue is of greater significance to off-licences and corner shops, which may be more reliant on alcohol sales.

£300 million duty foregone is small relative to the £1.1 trillion raised each year in tax by the UK government. It would represent a 2.4% decline in overall alcohol duty revenue, which amounts to £12.5 billion a year in total.[44] In a context of tight public finances, it is hard to imagine the Treasury letting £300 million disappear easily. Yet this is not out of line with the cost of the regular cuts and freezes to alcohol duty of recent governments, which have combined to reduce revenue by £2.5 billion a year since 2012.[45] For example, the 2021 Budget, which froze alcohol duty instead of allowing rates to rise by inflation, carried a cost of £315 million in its first year, rising to £350 million in 2025/2026.[46]

Of course, these figures could rise significantly, approaching billions, if MUP were set at a higher rate, which would be more likely to necessitate response. However, the issue often seems to be about the *principle* as much as the money itself. In public debate around MUP, there is a general distaste for the possibility that commercial actors may benefit from a policy designed to promote health, especially ones that have contributed to the problem by selling harmful products. Consider these comments from a Scottish parliamentary evidence session on MUP last February: [47]

- "My big concern is that MUP should not be generating profit – that should not be what it does. It should be helping people" (Conservative Shadow Cabinet Secretary for Health & Social Care, Sandesh Gulhane MSP)
- "It is unfair that shops and supermarkets should profit from minimum unit pricing" (Alison Douglas, Chief Executive of the charity Alcohol Focus Scotland)
- "Families really support the polluter pays idea – that is, if someone is making money from alcohol, some of that should definitely be put back into treatment" (Justina Murray, CEO, Scottish Families Affected by Alcohol and Drugs)

None of these are knock down arguments – MUP can function perfectly effectively and achieve its core purpose of reducing alcohol harm, while boosting retailer revenue as a *side effect*. And if we accept that selling alcohol is a legitimate commercial activity, it is unclear why it is inherently bad for companies to profit from it. Yet it is evident that people find something *distasteful* about the windfall.

There is a stronger economic argument that the Government should try to tax 'supernormal' profits. In general, policymakers try to engineer maximally competitive markets so that prices and profits fall as low as possible, and consumers benefit rather than retailers. In the case of cheap alcohol, it is undesirable to have an excessively competitive market driving overconsumption, which is why we would want to introduce a floor price to constrain competition. But we would still rather that surplus go to consumers or the Government than to industry, not least because excessive profit can allow incumbents to limit competition in other sectors. Higher profit margins on alcohol might also – perversely – encourage retailers to promote alcohol more. While we would not expect this effect to be strong enough to offset the reduction in consumption due to MUP, it could theoretically offset some small part of the benefit.

However, the UK's grocery market is generally perceived to be relatively competitive. If supermarkets do not compete on alcohol prices, it seems likely they will continue to try to undercut each other on other products. It would not be surprising, then, to see retailers reinvest the windfall profits from minimum pricing to reduce food prices – though there is certainly no guarantee that the discounts would be on *healthy* food.

Beyond concerns about retailer windfalls and lost duty revenue, it is also important to consider the broader fiscal impact of MUP. By reducing alcohol consumption, particularly among heavy drinkers, MUP is expected to ease pressure on public services – most notably the NHS, but also areas like policing and social care. A 2024 analysis by IAS, supported by Balance, estimated that alcohol harm costs society £27.44 billion per year in England alone. In Scotland, the figure is between £5-10 billion, while in Wales and Northern Ireland, it is estimated at £800 million and £900 million, respectively. The case for MUP and additional taxation is therefore not just about recovering lost revenue but about ensuring that the financial benefits – whether from reduced harm or retailer windfalls – are used to support public services, maximising the wider societal impact of the policy.

In any case, the *perception* of unfairness or profiteering still matters. The issue has been an obstacle to support for the policy among Scottish politicians since the very beginning, and there is no reason to think Westminster would be much different. There is a risk that retailer windfalls undermine the legitimacy of the policy in public opinion. Indeed, it is not uncommon for people to assume that MUP is a form of tax. An account of a recent citizens' jury on alcohol policy describes "jurors' shock at learning that minimum unit pricing in Scotland does not raise government revenue"[48] and this contributed to a slight decline in their support for pricing policies – though they still retained majority support.

Advocates of MUP need to be prepared to address these criticisms, but should not necessarily overstate the problem. In Scotland, for example, MUP has maintained public support despite creating the retailer windfall.[49] Given the current fiscal situation facing the Government, however, addressing the revenue issue is nonetheless important to the prospect of extending MUP to cover the whole of the UK.

# CHAPTER THREE – WHAT ARE WE LOOKING FOR IN AN MUP WINDFALL TAX?

With around £550 million accruing to retailers as a result of MUP, and the Treasury facing a loss of £300 million, there is a reasonable case for a supplementary tax to offset these effects. In this chapter, we first consider the criteria by which we should judge such a tax. Then, we consider the different design considerations that apply to any such tax – the variables or parameters by which different options vary. Having set these out, in the following chapters we will set out some potential candidate taxes and evaluate how well they perform against our proposed criteria.

## An ideal tax would be well targeted, have positive health impacts, be practically implementable and politically feasible

Given the objectives of a supplementary tax to complement MUP, we intend to use four criteria to evaluate different options.

### Targeting

Who pays the tax? Which products or companies are most affected? If the goal of the tax is to allow government to capture as much of the £550 million windfall as possible, the revenue it generates ought to come from those that benefit the most.

### Health impact

The fundamental goal of minimum unit pricing is to reduce alcohol-related harm. Any tax introduced alongside it ought to support this aim. At the very least, it should not work against the policy by doing anything to encourage or facilitate harmful drinking. However, it could also support health outcomes by driving behaviour change in consumers and/or industry, nudging them towards lower alcohol consumption and sales. It can also generate income that can be reinvested in services that support health in ways that complement MUP.

### Practical implementation

Any change we propose should be feasible. Introducing new taxes, and creating the necessary infrastructure to administer them, can be costly and time consuming. In addition, we would ideally like to avoid unnecessary complexity in the tax system in the interests of efficiency and minimising business burden. Therefore, we will judge our options on how straightforwardly they can be incorporated into the existing tax system.

As we are looking at measures that could be implemented by the Scottish Government as well as the UK Government, one consideration we will take into account is whether the devolved administration has the power to implement a particular form of tax.

### Political feasibility

Raising taxes is politically sensitive at the best of times, but particularly in the current context of cost of living pressures, a historically high tax burden and a manifesto commitment to limit taxes on working people. Political feasibility is therefore another key consideration in judging our options. This is likely to be closely related to the question of targeting: a tax is likely to be an easier political sell if it is borne by people or organisations that might be deemed to need or deserve it, and harder to justify if it has negative 'side effects' on those perceived to be sympathetic or innocent.

## Any tax raises four design questions

We will discuss specific options for tax in the next two chapters, but at a general level there are a few design questions to address around any tax that we might consider to complement MUP.

### Who should bear the tax?

First, who should we tax? All of the taxes we consider are indirect, rather than direct i.e. they are not imposed on the consumer. That is in keeping with other analogous or relevant taxes like alcohol duty or VAT, and it reflects the fact that consumers do not benefit financially from MUP, so are not appropriate targets.

An indirect tax could be applied either to producers (as is the case for alcohol duty) or retailers (VAT). In principle, retailers would seem to be a better target since they receive the windfall of higher revenue from MUP in the first instance. They may theoretically choose to share that windfall with producers, though qualitative evidence suggests this does not generally happen.[50] It would also make sense to exempt the on-trade, since drinks sold in pubs, bars, restaurants, hotels etc almost never fall below the MUP, and as we have seen they receive little windfall from the policy.

Within the off-trade, there is the question of whether the tax should apply to all retailers, or a particular type – for example, targeting supermarkets but not independent off-licences, newsagents, corner shops and the like. One way to do this (as we shall see with the example of Scotland's Public Health Supplement) is to impose a size threshold, and exempt smaller retailers. This is politically attractive, given the emotional resonance small businesses often have, but it is hard to justify from a policy perspective. Cheap alcohol is often central to the business models of such retailers. Indeed, certain products particularly associated with harm – most prominently high strength 'white ciders' - are almost exclusively sold through independent retailers since large supermarkets have voluntarily agreed not to stock them.

Similarly, if producers are taxed, we would ideally want to prioritise taxing those that produce drinks that are most affected by the policy. However, it is not necessarily obvious in practice which products or producers this means taxing. The natural assumption would be that producers of the cheapest alcohol, which rises the most in price, are the most obvious targets for a tax, but they could in fact be worse off if demand for their products falls dramatically. By contrast, sellers of more expensive products could be winners if they can increase prices to maintain their premium.

### On what basis should they be taxed?

A second question is *what* to tax. In an ideal world, we would be able to identify exactly how much excess profit a retailer or producer makes from MUP, and set a tax calibrated perfectly to that level. That is not straightforward. First, it requires us to have data on alcohol sales for each retailer or producer before and after the implementation of the policy. But even more challenging, it requires a robust counterfactual – a clear idea of how much money they would make in the absence of MUP. This is challenging enough in terms of revenue. As we have seen, there is substantial uncertainty over the size of the windfall at an aggregate level. Trying to model how much an individual store or producer has benefitted, or applying a blanket aggregate percentage, involves significant crudeness. Estimating the effect on profits is even trickier. There is less transparency around the costs associated with producing or serving alcohol. Moreover, profit may make more sense at an aggregate level than for individual categories or products – for instance, a supermarket may cross-subsidise from (say) fresh produce to alcohol.

Since we likely cannot tax excess revenue or profit directly, we need to target some proxy – and inevitably most of the available proxies will have only imperfect correlation with excess revenue/profit. A natural basis for a tax is to set it in proportion to the volume or value of alcohol sold by a company, perhaps focusing on sales of products below the level of MUP. More crudely, we could just target those that we know sell alcohol because they have an alcohol licence.

Alternatively, we could seek to tax companies on the basis of their ability to pay, which leads us towards some tax that accounts for business size. This could be on the basis of total revenue or employees, but the most natural approach – as we shall see – is rateable value. However, it is worth noting that this takes us quite far from the original rationale for the tax.

### What is the structure of the tax?

Having set the basis of the tax, we need to decide how the level of the tax should vary with that basis. For example, should there be a flat tax, with all businesses affected paying the same amount? Should it be a single rate, set as a particular percentage of revenue or profit? Should it be progressive, with higher rates for bigger companies, or those that benefit more?

### How is the revenue used?

Finally, there is the question of hypothecation. As we have seen, a concern around the legitimacy of MUP is that the revenue is not used in a way that addresses alcohol harm – and indeed, that companies that contribute to harm may profit from it. More generally, it is often believed to be the case that reassuring voters that the proceeds of a tax will be used for a particular specified purpose can help sustain support for that tax. On the other hand, politicians and officials are often highly sceptical of hypothecation in principle. We discuss these issues in more detail in chapter six.

## CHAPTER FOUR – PLUGGING THE GAP WITH ALCOHOL DUTY

Now we turn to some specific options for recouping the retailer windfall and foregone duty revenue. In this chapter, we start with what might seem the simplest and obvious response: use the existing alcohol taxes we have to claw back some of the money. This is most natural when it comes to recovering lost duty revenue – if lower consumption generates less alcohol duty revenue following the introduction of MUP, it makes sense to raise duty rates to compensate. But even as a means of taxing the retailer windfall, alcohol duty has an attraction since it is an already operational tax that hits the product that generates the surplus.

### Raise existing alcohol duty rates

**Who bears the tax?** Existing alcohol duties are levied on **producers** when they release their product for sale. However, taxes are largely *passed through* to retailers, and then to consumers. There are separate taxes for draught beer and cider, so by exempting these from a tax increase it is somewhat possible to target the tax increase on the **off-trade** (though the on-trade would not be completely insulated since wine and spirits taxes would rise).

**On what basis?** Alcohol taxes are levied according to the volume of pure alcohol in a product, so the more alcohol a producer or retailer sells, the more tax they have to pay.

**What is the structure of the tax?** The rate of alcohol duty varies between beer, wine, cider and spirits, but the rate is always proportionate to alcohol content, often banded, with higher rates for stronger drinks.

Given that the impact of MUP on the on-trade appears to be modest and likely negligible, it would make sense to exempt draught beer and cider duty from any increase. This should also increase the political palatability of any change. To offset the £300 million lost alcohol duty revenue, we estimate that all other alcohol duties would have to rise by around 4%. To tax away the £550 million or so industry windfall would require an increase of around 7%.

These are very rough calculations – we have not for this project recreated the sophisticated microsimulation models used by the Office for Budget Responsibility or the Sheffield Alcohol Research Group. But we have run the numbers using a couple of methods – first using the Government's published estimates of how alcohol consumption responds to increases in duty,[51] and then using the rough rule of thumb from international literature reviews that a 1% increase in price reduces consumption by 0.5%.[52] See Appendix A for more details.

An increase in alcohol duty of 4% or 7% would be sizeable, but hardly unprecedented. At the last Budget, most alcohol duties were increased by 3.6%. In 2023, they were increased by 10.1%. In both cases, those increases were simply to keep up with the inflation of recent years. However, the alcohol duty escalator gradually increased alcohol taxes by 2% above the rate of inflation each year from 2008 to 2013 (or 2012 for beer). That led to even bigger real-terms increases in the rate of alcohol duty – for example, spirits duty increased by 20% over this period.[53]

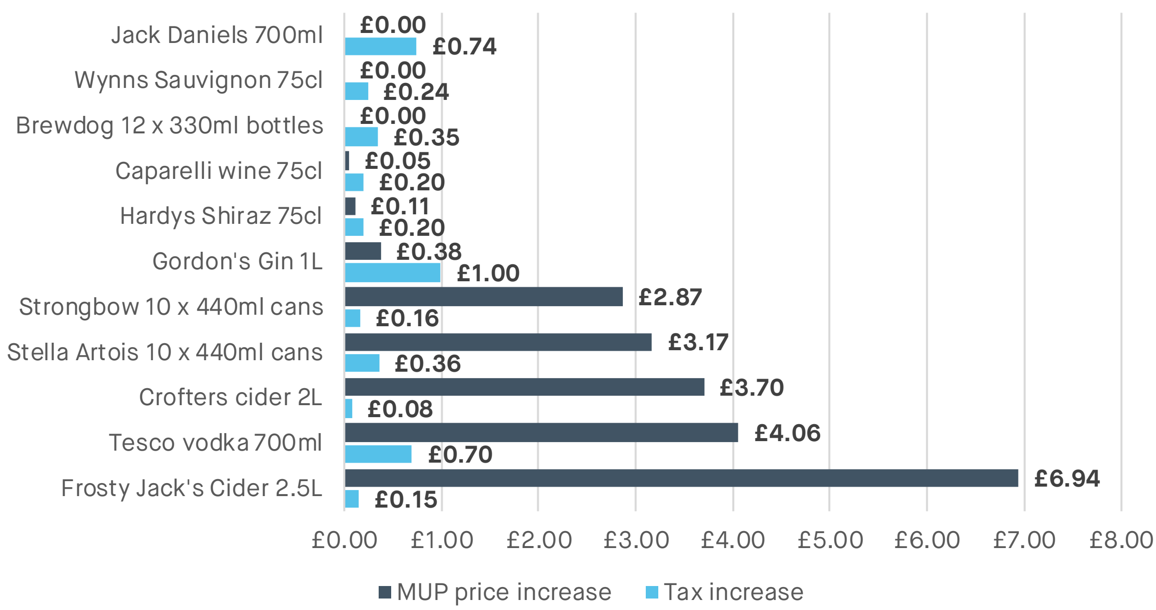
### A flat increase in alcohol duty would not be well targeted at products affected by MUP

As noted above, alcohol duty is paid by producers, not retailers, and so does not directly hit those who receive the windfall from MUP. However, we would expect any increase in alcohol duty to be passed on by producers to retailers in the form of higher wholesale prices. The question then is whether the tax is passed on to consumers or whether retailers pay the additional tax out of their profits.

An analysis of supermarket prices between 2008 and 2011 found that pass-through of tax increases varied from 78% for lower price beers (i.e. retailers absorbed around a fifth of the tax) to 124% for premium ciders (i.e. retailers increased prices by more than the tax).[54] However, the dynamic is likely to be a bit different in the context of MUP, at least for cheap alcohol. Since the competitive market price for cheap alcohol is below 65p per unit, any attempt by a retailer to pass through a tax increase to push prices above 65p leaves them vulnerable to being undercut by their competitors. That would suggest tax increases are more likely to be paid out of retailer profit, and less likely to be passed through to consumers, under an MUP.

By exempting draught products we can somewhat protect the on-trade from the tax, though of course wine and spirits sold in the on-trade would still be affected, as would packaged beer and cider. However, blanket increases in alcohol duty are not especially well targeted at the specific products affected by an MUP. That has two implications. First, the tax is more likely to be passed onto consumers. This is because, as noted above, pass-through tends in general to be higher for premium products. But also, in the context of MUP, retailers have greater latitude to raise prices above the minimum price without being undercut by competitors. Second, it means that 'moderate' consumers of more premium products are more likely to face higher bills.

**Figure 11: Comparing the size of a 7% duty increase and the price increase from a 65p MUP for selected products**




*Source: SMF analysis*

The chart above shows how a selection of products would be affected by either a 65p MUP or a 7% duty increase. For products like Frosty Jack's cider and Tesco own brand vodka, the duty increase is nowhere near big enough to capture the substantial rise in prices that would follow from MUP. At the same time, products like Brewdog beer and Jack Daniels whisky would have to pay more tax though they are already above the MUP level. In the middle, products like Gordon's Gin would face a bigger increase in duty than they would have to increase their price via MUP.

Figure 1 demonstrates that there is a relatively weak correlation between the size of the MUP windfall, and the increase in tax liability from an across-the-board increase in duty. In other words, it highlights the fact that a broad-based increase in alcohol duty would not be especially well targeted.

### A broad-based duty increase could amplify the health benefits of MUP, by driving broader increases in alcohol prices

Increasing alcohol duty is perhaps the best evidenced policy lever to reduce harmful drinking.[55] For example, researchers extrapolating the findings from one prominent meta-analysis, on average across a number of published studies found that a doubling of the relatively low alcohol taxes in the US would be associated with a 35% reduction in alcohol-related mortality.[56] It is often argued that tax increases can reinforce and support the positive health impact of MUP. For example, modelling carried by the Sheffield Alcohol Research Group for Public Health England in 2016 found that a 60p MUP alone would reduce hospital admissions by 17,000 a year. However, combining MUP with a five year duty escalator, increasing alcohol taxes by 2% above inflation each year, would increase the health gains to 28,000 hospitalisations averted each year.[57]

The sorts of duty increases we are discussing here are not of that order of magnitude, and we would expect much of the duty increase to eat into retailer profits rather than to be passed on to consumers in the shape of higher prices. However, to the extent that the duty hike affects products that are above the MUP, and thus further reduces the affordability of alcohol, it would be expected to have a positive impact on alcohol-related illness and death.

### Changing the rate of alcohol duty would be straightforward to implement

Compared to the options considered below, increasing alcohol duty would be entirely straightforward to implement. Alcohol duty rates are changed regularly (each Budget assumes they will be uprated in line with inflation, though this does not always happen in practice), and this would require no change in operation or procedure for HMRC to collect the revenue.

### The political feasibility of duty increases has been challenging in the recent past

Compared to the options below, a flat increase in alcohol duty is liable to be less popular and more politically challenging. As we have argued in previous SMF publications, public opinion is more favourable to alcohol duty than is sometimes assumed.[58] YouGov's public opinion tracker shows a consistent majority of people saying that alcohol duty is fair since they started asking the question in 2019. In the most recent poll, 64% said it was fair and only 19% unfair.[59] Compared to other taxes, alcohol duty is relatively popular. In an SMF survey ahead of last year's Budget, 58% of people put alcohol duty in their top three taxes that the Government should prioritise raising. This was behind gambling (74%) and tobacco (72%) tax, but well ahead of inheritance tax (34%), income tax (22%), fuel duty (22%) and VAT (18%).[60]

At the same time, it would be a mistake to overstate the popularity of alcohol duty increases. A 2023 poll found that 38% of voters support using tax to increase the price of alcohol, while 34% are against such a move.[61] And even if public opinion is amenable, raising alcohol tax is often *perceived* by politicians to be difficult, not least because of the strong industry lobbying it generates.[62] This apparent risk explains why beer duty has fallen by a third in real terms over the past 12 years, with politicians unwilling to increase it even in line with inflation.[63]

## Supplement the duty system to tax the cheapest alcohol

Rather than an indiscriminate, across-the-board tax, it would seem preferable to try and target alcohol duty at the products that benefit more from MUP, where windfall profits are higher. How might this be done?

### An 'inverse ad valorem tax' would be an imperfect substitute for MUP, not a plausible complement

One option would be to try and mimic the effects of MUP in the tax system directly, reforming alcohol duty in a way that means that cheaper products face a bigger tax increase. This would also have the benefit of meaning that products whose prices and profitability rise the most are the ones that are taxed more.

The way this could work would be to have an "inverse ad valorem" tax, on top of other alcohol duties, for the cheapest products. What this would mean is that products sold for below a certain price would face a tax that increases as their price goes down. For example, this could be set such that a product faces an additional 1p per unit in alcohol duty for every 3p it falls below £1. This would mean a product selling for 70p per unit would face a 10p per unit surcharge, and a product selling for 40p per unit would face a 20p per unit surcharge.

However the idea of an inverse ad valorem tax makes most sense as an alternative to MUP rather than a compliment. If MUP is in place, we no longer observe the very cheap prices that an inverse ad valorem tax is set up to address, and so it is less clear what should be taxed. Trying to use an inverse ad valorem to capture the MUP windfall would mean either taxing products on their pre-MUP price (which adds to the data complexity, and raises issues with new products, or products that do not change), or to assume that products that are cheap following MUP were below it beforehand. Either way, it is messy and imperfect.

In that regard, it is a sub-optimal alternative, as tax rates are unlikely to increase drastically enough to have as strong an effect on the price of cheap alcohol as MUP. Moreover, to replicate the effect of MUP through the duty system we need to be confident that the tax increases are fully passed through to consumers – there is a risk that the inverse ad valorem tax would be absorbed by retailers keen to maintain low prices as a 'loss leader'. Moreover, as discussed below, shifting the alcohol duty system to tax products based on their price as well as their alcohol content would be a significant shift, that would create some challenges to implement.

### A minimum unit tax is the best way to target the MUP windfall

A better option for increasing taxes on the cheapest alcohol would be to introduce a minimum unit tax. This would be designed to increase taxes on the cheapest products, but in a simpler way that better complements MUP than the inverse ad valorem tax.

A minimum unit tax (MUT) would ensure that the total tax paid (duty and VAT) does not fall below a certain amount per unit of alcohol. Our analysis suggests that this should be set at 36p per unit to best capture the MUP windfall. This would change the duty system so that producers and importers pay:

*The higher of—*

*(i) the duties payable under the current alcohol duty system OR*

*(ii) 36 pence per unit, minus the VAT payable on the product at the retail price provided by the producer or importer*

Under such a regime, no additional tax would be due on products where the duty and VAT combined is already more than 36p per unit. Since more expensive products attract more VAT (since VAT is 20% of the retail price), it is easier for them to escape the MUT. For many cheaper products however, extra duty would be due to ensure that the minimum unit tax is paid.

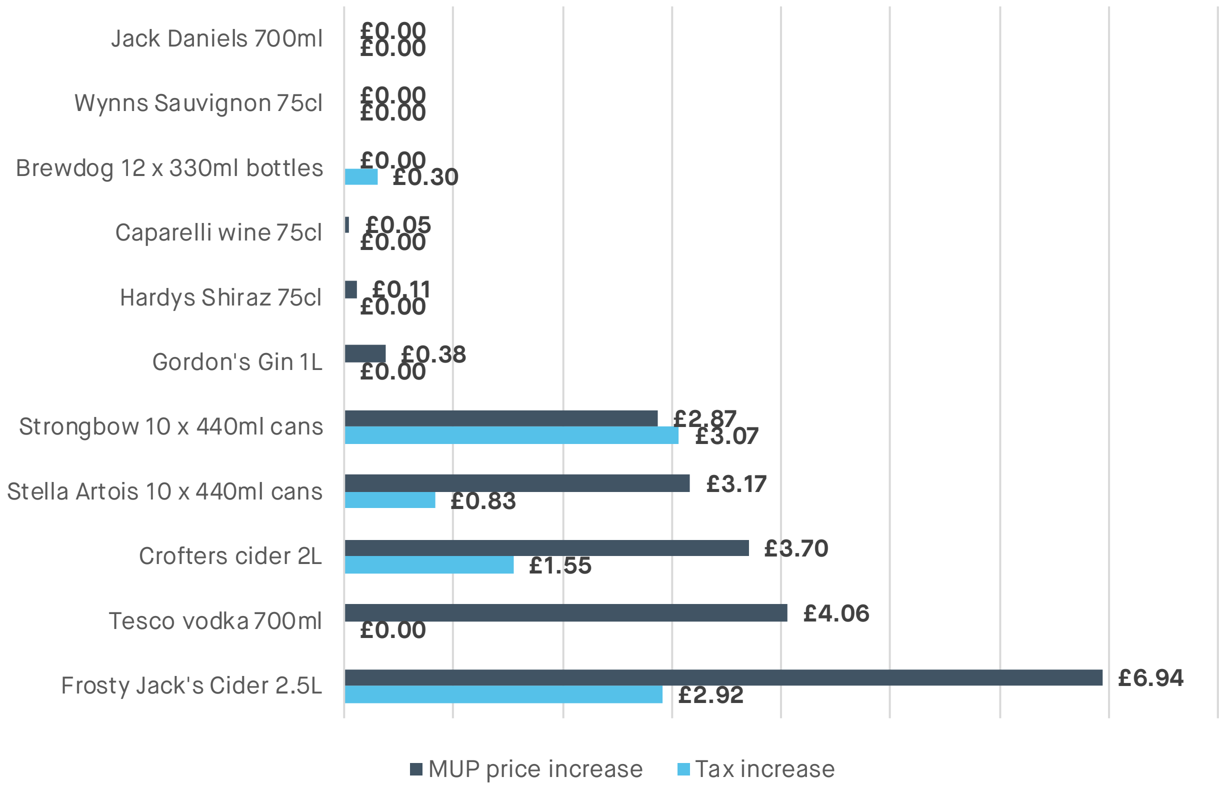
For example, a bottle of wine at 10% ABV and priced at £8 – above the 65p MUP – is currently taxed at £1.33 in VAT and £2.22 in duty. This is just over 47p per unit, meaning that no additional tax would be due. However, for a bottle of 2 litres of high strength cider at 7.5% ABV, which would be priced at £9.75 under MUP, the duty due is just £1.50 and the VAT £1.63. This is about 21p per unit. Under MUT the total taxes charged would rise to £5.40.

### A minimum unit tax would be fairly well targeted to raise taxes on products whose price goes up under MUP

We estimate that the introduction of a 36p minimum unit tax would, alongside a 65p MUP, raise an additional £481 million, compared to implementing the MUP on its own. An extra £240 million would be raised on beer and roughly the same would be raised on cider. No extra tax would be raised on wine – wine faces a duty rate of 30p per unit already, and even the wine priced at the 65p minimum attracts more than 10p a unit in VAT, meaning it is above the MUT threshold. Given wine is minimally impacted by MUP compared to other drinks, it is appropriate that the extra tax does not hit wine sales. Similarly spirits are unaffected by 36p MUP, with a duty rate of 33p per unit meaning VAT carries it well over the MUT cut-off. Cheap spirits are heavily affected by MUP, so it is a possible drawback that this MUT rate does not increase taxes on these products. We might accept that, since the taxes levied per unit on spirits are already well above 36p, we need not increase taxes further, despite the windfall accruing to retailers from MUP. Alternatively, we could impose a higher minimum unit tax on spirits, in order to capture the windfall from products sold below the minimum price but above 36p per unit. A “two-rate” MUT with a higher 46p rate for spirits would raise an additional £177 million, taking the total raised to £659 million.

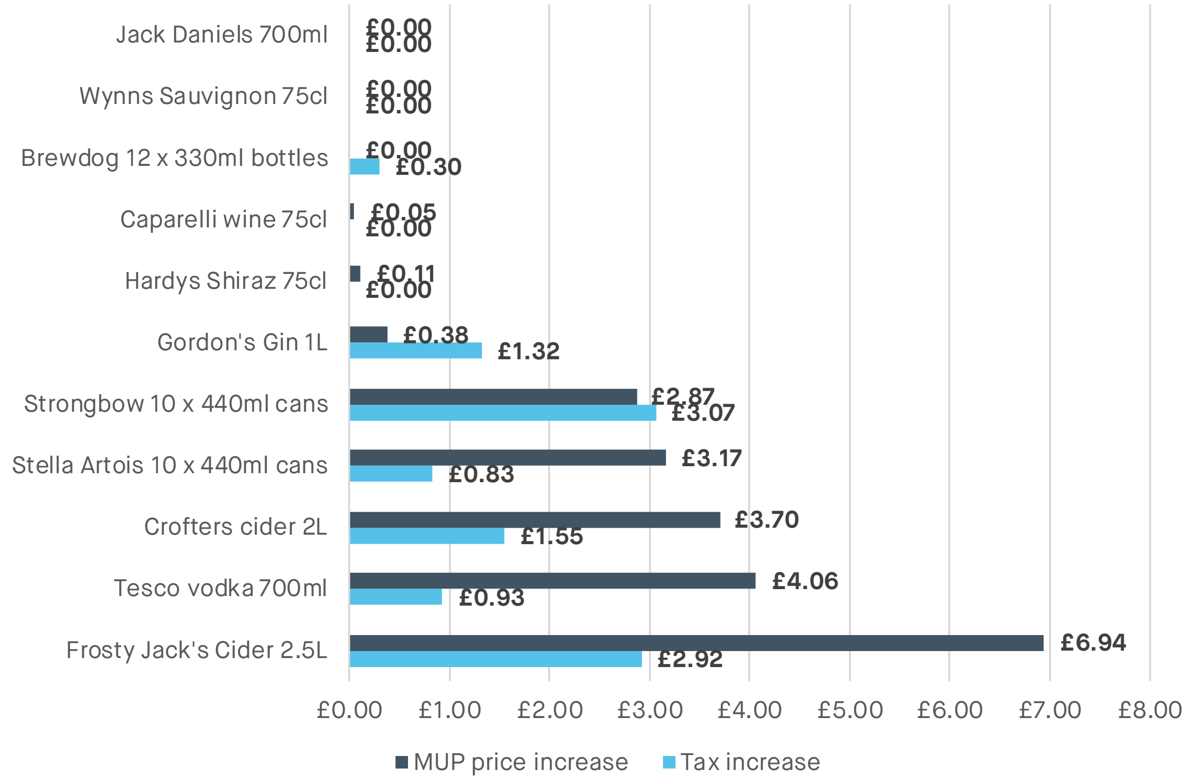
Figure 2 shows how the example products considered in Figure 1 above would be affected by a 36p MUT. While the MUT fails to capture the entire MUP windfall, it is reasonably proportionate and well-targeted. The effect on products sold above the MUP rate is modest. Figure 3 shows the effect of the two-rate model, with better targeting of spirits.

**Figure 2: Price and tax changes of selected products under a 65p MUP and a 36p MUT**




*Source: SMF analysis*

**Figure 3: Price and tax changes of selected products under a 65p MUP and a two-rate MUT (46p for spirits, 36p for everything else)**



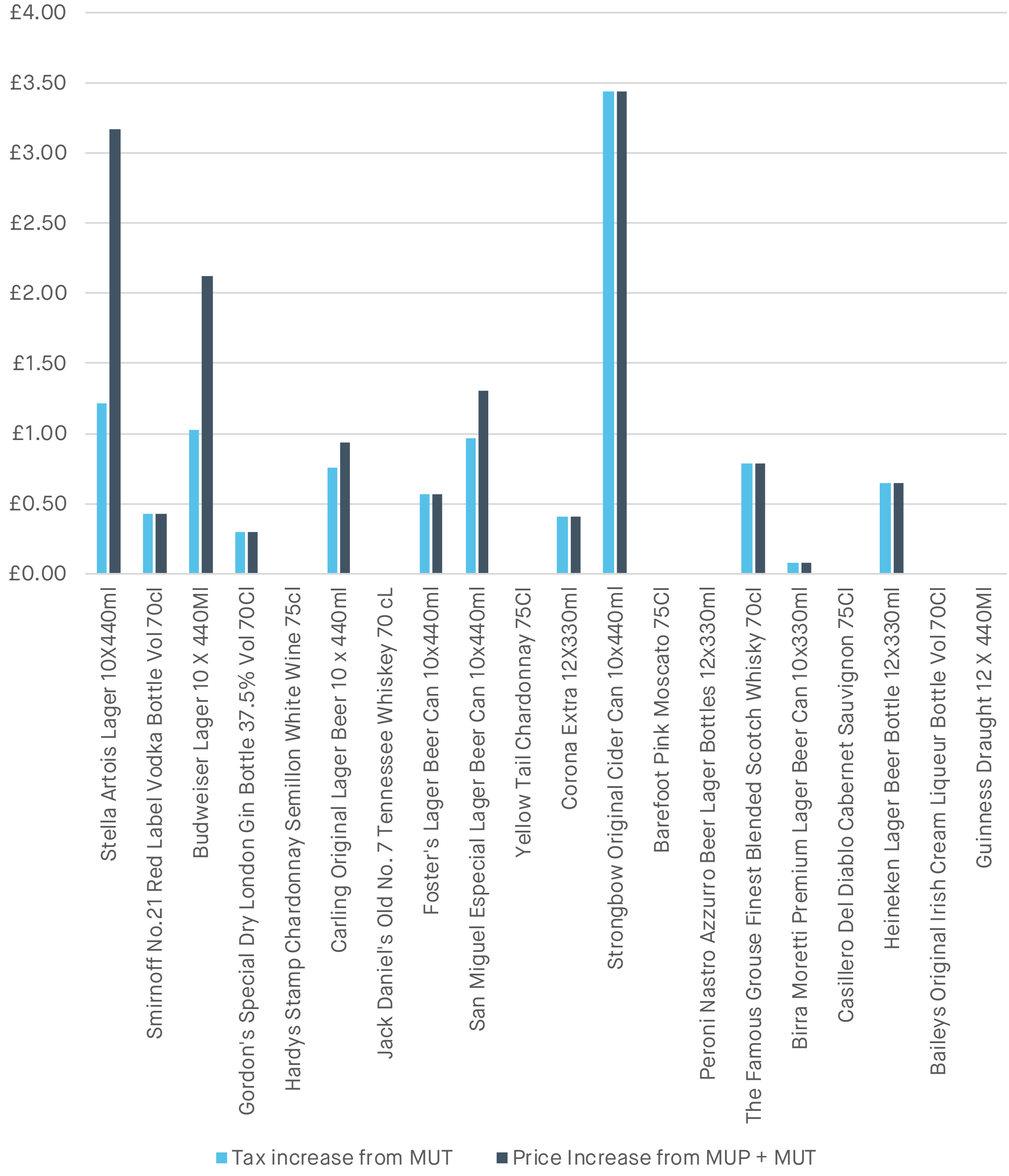

*Source: SMF analysis*

## Targeted at the cheapest alcohol, MUT would have little impact on most popular alcohol products

We can also examine the impact of a two-rate MUT on some of the UK's most popular alcohol products. Here we assume that all producers will increase their prices to at least match any increase in tax on their products. Looking at selected products from the top 20 UK brands,[64] Figure 4 shows that eight would be completely unaffected while another four would see a tax increase of less than 50p on products costing £10 or more. The most affected items are multipacks of cheaper lager and cider, whereas more premium beers such as Birra Moretti and Guinness are barely impacted. Wine, as previously noted, remains entirely unaffected, and most spirits would see only a modest increase.

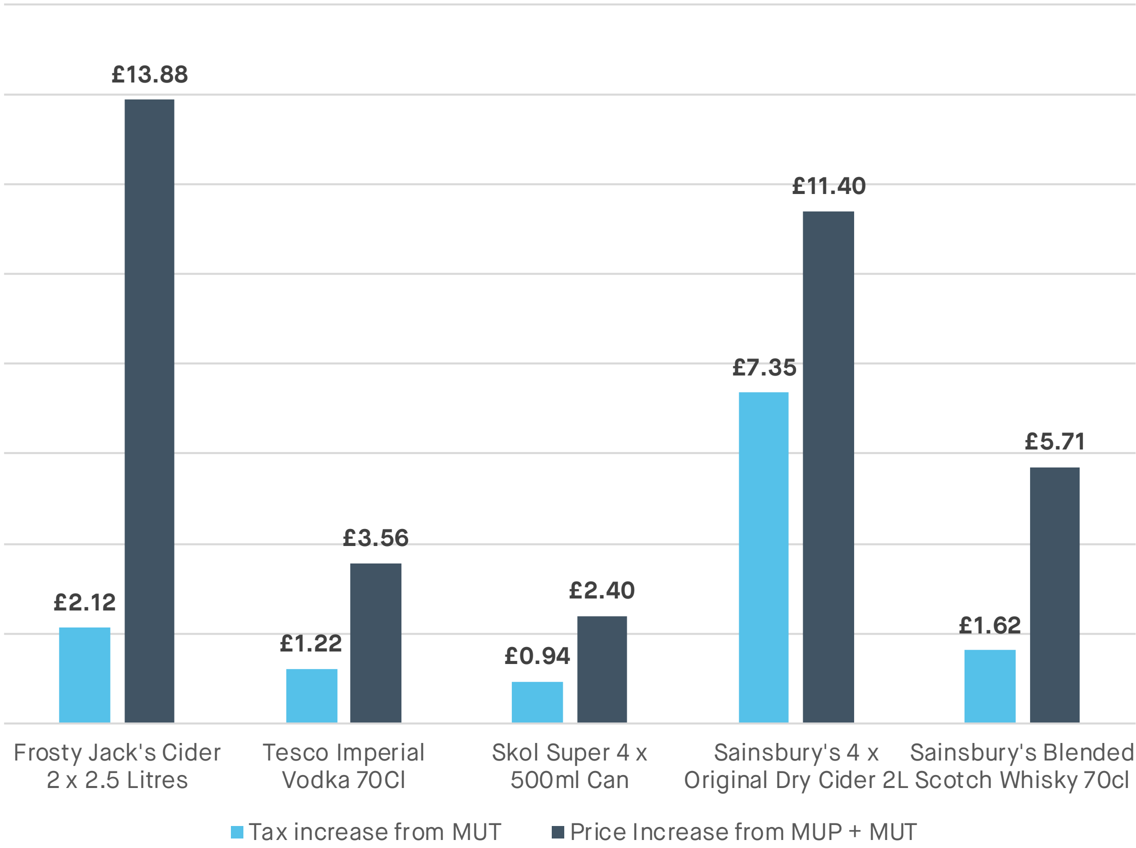
Figure 5 illustrates the effects on some cheaper products in the UK market. All of these face substantial tax increases, generally much larger than those shown in Figure 4. Taken together, this analysis shows that many of the most widely consumed products – and the budgets of most ordinary drinkers – would see little to no change, while the biggest increases would fall on the cheapest drinks, such as cider.

**Figure 4: Price and tax changes of products from the 20 most popular brands in the UK under a 65p MUP and a two-rate MUT (46p for spirits, 36p for everything else)**




*Source: SMF analysis*

**Figure 5: Price and duty changes of selected cheap products under a 65p MUP and a two-rate MUT (46p for spirits, 36p for everything else)**




*Source: SMF analysis*

Like other duty increases, minimum unit taxes would hit producers rather than retailers, though we expect the increases in duty to be passed on to retailers in the form of higher wholesale prices. Overall, a minimum unit tax would be well targeted at the cheapest alcohol. No extra taxes would be due on most mid-range or more expensive products. There would however be a sharp rise in duty on the very cheapest products, particularly cheap ciders – which see bigger price increases under MUP. This is one reason to favour minimum unit taxes over uniform increase in alcohol duty.

As discussed above, there is good reason to believe that taxes on cheaper alcohol are less likely to be passed through to consumers, especially in the competitive context of an MUP defining the lower end of the market. For that reason, we would expect this proposal to capture more of the windfall than a broad-based tax increase.

### MUT could provide a small health bonus above MUP, but likely smaller than broad-based duty increases

The minimum unit tax approach would provide a small extra health bonus over and above that provided by MUP. This is because it causes a small price increase in some of the cheaper beers and ciders that are more expensive than the 65p per unit price, which would reduce consumption of those products. A similar bonus would accrue if a higher minimum tax was applied separately to spirits. These would further reduce the consumption of these products beyond the impact on consumer behaviour from the core MUP policy.

Minimum unit taxes would probably provide fewer extra health benefits than just increasing alcohol duty uniformly. A uniform increase on duty would raise the price of all drinks while MUT raises the price of only a few. In both cases, the additional benefit is proportionate to the scale of the 'mis-targeting', as this reflects the extent to which the duty increases 'overcompensate' for the windfall.

### An MUT would bring some practical complexity, but a similar system is already in place for cigarettes

The alcohol duty system has recently been through a rather significant set of structural reforms, described by then Chancellor Rishi Sunak as the most radical changes in over 140 years. Core to that process was a simplification to ensure that alcohol duty rates are levied only on the basis of alcohol content, and are dependent only on what type of product (beer, cider, wine, spirits) is being sold, and at what strength.[65]

With the new system barely bedded in, it might seem troublesome to propose another change to alcohol duty to consider another factor – price. As well as the impact of more upheaval, this would create new administrative burdens. Producers and importers would be required to specify a retail price for their product, and the calculation of duty would become more complex as well.

There would also have to be an additional layer of enforcement to operate this policy. Some retailers and producers could try to avoid minimum unit taxes by selling products for less than the retail price provided to HMRC. There would need to be a mechanism to prevent such fraud.

However, these problems are certainly not insurmountable. The approach we have set out here is modelled on an already existing scheme: the minimum excise tax for cigarettes. As we are suggesting should be the case for alcohol, tobacco excise depends not just on the number of cigarettes sold, but also their price. The amount of duty paid per cigarette sold must be at least a specified minimum level – an approach almost identical to the minimum unit tax proposed here.[66]

Producers and importers of cigarettes are required to specify the retail price of their product when paying duty, so that the ad valorem element of cigarette duty can be calculated, and so that the minimum excise tax can be applied where necessary. The bureaucratic and enforcement mechanisms for minimum unit taxes therefore already exist and would just need to be extended to cover alcohol as well as cigarettes.

It would be necessary to ensure retailers were not routinely selling products below the price specified for duty purposes and therefore avoiding tax. This should not be overly burdensome as it could be integrated with checks that retailers are compliant with MUP. Regulation linking the retail price of alcohol to the duty paid also has precedent. Legislation came into force in 2014 that prohibited the sale of alcohol below cost, which was defined as duty plus VAT.

### A more targeted and technical change like MUT would likely be more politically feasible than a broad-based duty increase

The more general arguments made above regarding the political feasibility of increasing alcohol duty broadly apply to the MUT proposal as well. However, it would likely be easier politically to implement minimum unit taxes than to increase duty across the board. This is because most products would be minimally affected, and so most consumers would not see notable increases in price over and above the effect of the minimum unit price. Politicians might find it easier to make the case that this measure is proportionate and focused on cheaper products that cause greater harm.

Moreover, the slightly technical nature of the proposal perhaps protects it from scrutiny and the risk of being politicised, as alcohol duty often is. A tweak to structures is less attention grabbing than a change to headline rates, especially since it would have a relatively small impact on consumer prices.

Of course, a measure like this which is aimed squarely at producer profits would still likely attract significant pushback from industry. In particular, cider producers that have fought hard to defend their relatively advantaged position within the tax system are unlikely to give it up without a fight. However, the rationale of taxing a windfall could give the Government cover to take bold action.

# CHAPTER FIVE – IMPLEMENTING A NEW TAX

The last chapter explored ways to tax the retailer windfall and recoup some of the lost duty from MUP by modifying the existing framework, either by simply increasing alcohol duty rates or restructuring duty. This chapter examines the case for a new additional tax, drawing on lessons learned from Scotland's Social Responsibility Levy (SRL) and, in particular, its Public Health Supplement (PHS).

These approaches are particularly attractive to devolved administrations like Scotland and Wales, which do not have responsibility over alcohol duty, and so cannot straightforwardly tax alcohol directly. This chapter begins by describing Scotland's experience with the SRL and PHS, setting out the key principles that underpin them, before discussing how they might be refined and better suited to addressing the MUP windfall. Finally, we assess how a tweaked version might perform against our tests of targeting, health impact, political feasibility and practical implementation.

## Scotland's Social Responsibility Levy established a framework for taxing retailer alcohol profits, but it was never brought forward

As discussed in the introduction, the 2010 Alcohol etc. (Scotland) Act contained provisions for a Social Responsibility Levy. The purpose of the levy is to offset the public costs of alcohol harm – misuse, overconsumption, disorder – and it is explicit in its ambition to target those who profit from the sale of alcohol, operating under the principle that the additional cost of providing relevant services should not be met solely by the taxpayer.[67] While the 'sleeper' provision remains in licensing law, the Scottish Government has never developed the detail[vii] of how it would work in practice or brought forward regulations to bring it into force.[68]

The primary legislation which provides the powers to establish a levy states that money raised by the charge would be for local authorities to use and contribute to the costs of dealing with the negative effects of the operation of alcohol premises on the licensing objectives, such as extra policing or street cleaning.[69] In Scotland, there are five high-level objectives that represent the values on which the Scottish alcohol licensing system is based: preventing crime and disorder, securing public safety, preventing public nuisance, protecting and improving public health, and protecting children from harm.[70]

## The Public Health Supplement is seen as a model to build on, despite only surviving three years in its first iteration

As discussed earlier, in 2012 the Scottish Government introduced a different tax, the Public Health Supplement. This was levied on large retailers of both alcohol and

[vii] A case ruling suggests that licence fees must be proportionate to the costs of the licensing scheme, meaning general levies or profit-making charges would not be permissible, including those applied to alcohol-selling premises. Source: Local Government Association (2013), *LGA briefing on the implication of Hemming v Westminster City Council on locally set licence fees.* Subsequent rulings and legal interpretations leave some ambiguity over whether a levy could be structured in a compliant way.

tobacco, nominally intended to fund additional health spending. In practice the Government's primary objective appeared to be revenue generation and the economic benefits of introducing the levy.[71] The PHS operated essentially through a surcharge on top of business rates for large supermarkets in Scotland that sold both alcohol and tobacco. 'Large' was defined by way of rateable value (RV), which relates to the rental value and occasionally the turnover of a business, of over £300,000, with the tax rate set at 13p per pound of RV.[72]

In terms of revenue, the Supplement raised £95.9 million over the three years of its operation – within a million pounds of what the Scottish Government had initially predicted would be generated. In a fiscal sense it therefore performed well, although it would fall short of the £65 million annual windfall we have estimated to be generated by retailers from MUP in Scotland.[73] Despite this, there is little evidence to suggest that the new funds were in fact used to support public health goals. The measure was seen as being driven by the finance department to help balance the wider budget. This, combined with the fact the PHS was unlikely to influence consumer or retailer behaviour regarding alcohol or tobacco consumption, meant it failed to gain active support from public health stakeholders. That meant there was little resistance to ongoing business opposition, which led to the Scottish Government dropping the measure in 2015.[74]

Appending the PHS to the business rates system made it easier and more efficient to collect revenue, but rateable value is not a good proxy for alcohol sales as it is not proportionate to sales of cheap alcohol or the MUP windfall. The Supplement is unlikely to change retailer or consumer behaviour. That said, health experts suggest that if the objective is to change behaviour, a sufficiently high levy could have the potential to do so.[75]

Another lesson from the PHS relates to who should pay, as it only applied to large retailers – around 240 – that met the RV threshold. This reflects a trade-off between applying the tax universally, including small businesses and focusing only on larger businesses with deeper pockets and perhaps seen to be an easier political target. The cause and overall legitimacy of the PHS was also undermined by the failure to clearly specify where the money would go. Health actors considered this strategically important, and its absence seems to have contributed to the Supplement's discontinuation.[76] This may be explained by the traditional finance department objection to hypothecation.[77] We discuss these complexities in greater detail in Chapter Six.

Despite these challenges, ten years on from its discontinuation the PHS continues to have support. So long as it is designed differently and learns the lessons from its first incarnation, public health experts believe that a more sustainable and impactful version of the PHS is achievable,[78] while the Fraser of Allander Institute recently modelled how much revenue might be raised by a levy similar to the PHS.[79] Ahead of the 2024 Scottish budget, a coalition of health campaigners, including Alcohol Focus Scotland, wrote to the Scottish Government calling for the introduction of a new "Public Health Levy", modelled on the PHS.[80] Crucially, political parties have also endorsed it, including Scottish Labour[81] and Scottish Greens[82].

## There is potential for creating a new tax, but it must be designed carefully

Given the renewed interest in the PHS in Scotland and the belief that it cannot only generate revenue (which it successfully achieved) but also deliver on health objectives, it would be remiss of us to not discuss what a new, refined version of it could look like in this report. As we have highlighted, the original PHS faced several challenges – issues which could be resolved through careful redesign, thereby increasing its effectiveness.

### A well-targeted tax should cover small retailers and focus on sources of harm

The Public Health Supplement was levied on retailers, as the Social Responsibility Levy was intended to be. By contrast, alcohol duty is charged to producers. From the perspective of taxing the windfall from MUP, this is a point in favour of a new tax, because it is retailers that benefit directly. That picture is somewhat complicated by the phenomenon of 'pass through', since duty increases are generally assumed to be passed through by producers to retailers. It is also theoretically possible that retailers might share some of their windfall with producers by paying higher wholesale prices, but the evidence indicates this has not been the case.[83] The fact it directly goes after retailers is a reason to favour a new supplementary tax.

The question, then, is *which* retailers should pay the tax. In this report, we have suggested that the on-trade should be exempted since, as discussed above, it is overwhelmingly the off-trade that benefits from MUP. This was the case for the PHS, but not for the SRL.

Limiting the tax to large retailers, however, is hard to justify as a matter of principle. Small retailers, including off-licenses, also sell alcohol and therefore stand to benefit from the sale of cheap, harmful drinks. Indeed, it could be argued that small retailers – off-licences, newsagents, corner shops and the like – are more justified targets for a tax. The economic evidence is ambiguous, but some indicators suggest that smaller retailers did better following the introduction of MUP than their larger counterparts and some retailers have spoken about doing well from MUP as they were on a level playing field with supermarkets. Though the data is noisy, specialist retailers selling alcohol performed better following MUP than their English counterparts.[84] Certainly, there is nothing to suggest smaller shops got less than their fair share of the windfall.

Proponents of a new levy – including at times the Scottish Government – sometimes imply that it would be particularly well targeted because it takes a "polluter pays" approach to alcohol harm.[85] It would, the argument goes, ensure that the companies responsible for the consequences of harmful drinking contribute to the cost of addressing it. Yet this fails to explain why we need another tax to do this, given that alcohol producers already pay alcohol duty, which ought, in principle, to reflect the societal harm caused by drinking. Indeed, because alcohol duty directly taxes the harmful commodity – alcohol – it would seem to be better targeted than a tax hooked to rateable value.

The polluter pays argument has greater validity if the charge targets problematic retailers rather than producers, since we do not currently have a tax targeted at retailers. At times in the debate over the Scottish Government's original plans for the Social Responsibility Levy, it seemed like the target was pubs and bars that cause disturbance in the night-time economy. That shifts the focus to the on-trade, rather than the off-trade that MUP is supposed to target.

However, as conversations around the SRL took place over a decade ago, the debate has since moved on. Evidence now shows that drinking at home, driven by the accessibility of cheap alcohol, is a key driver of increased consumption and harm,[86] with supermarkets and off-licenses selling the majority of alcohol products. For example, a 2022 report from Public Health Scotland indicates that off-trade premises accounted for 85% of all alcohol sold in Scotland in 2021 (up from 73% in 2019, though slightly down from 90% in 2020).[87] Given the significant challenges the on-trade sector has faced, particularly in the aftermath of the pandemic, a levy focused on pubs and bars is no longer seriously advocated.[88] In this context, a new approach, much like the Public Health Supplement, would more logically focus on the off-trade sector where the bulk of (cheaper) alcohol sales – and associated harms – now occur.

Ultimately, there is merit in both approaches we have outlined – with business rates (as used in the PHS) and the licensing system (as proposed for the SRL) both being feasible, as both systems can target off-trade retailers.

### The tax would be fairer and more effective if linked to alcohol sales rather than a system based on rateable value, though it would be more complex to administer

The PHS was not tied to alcohol sales – meaning it would lack a direct connection to an MUP windfall – and it instead used business rates as its basis, providing a pragmatic way for retailers to contribute to public health costs. An optimal tax would be tied explicitly to profits, capturing a proportion or all of the excess profits generated from MUP-affected drinks. Retailers may also be more inclined to support more accurate sales reporting if they perceive broader levies as unfairly targeting businesses with little MUP windfall. However, as discussed in Chapter Three, accurately estimating the excess profit made by a given retailer is likely infeasible given the data enforcement agencies would have available and the inferential judgements they can robustly make.

A more practical option is a turnover-based levy on alcohol sales. This would tax retailers on the basis of some percentage of the revenue that they make from alcohol. However, this would hit retailers regardless of whether they sell cheap or more premium products. Indeed, set proportionate to value, it would actively penalise retailers that sold more expensive products, even if these products are above the minimum price.

Better still might be a tax that was dependent on the sales value of products sold for less than the minimum price prior to its adoption. However, this approach would add an extra layer of data complexity, as we would need to compare sales data pre- and post-MUP, an entirely new data exercise that most retailers are unlikely to systematically store. It would also be unable to account for any reduction in sales or change in strategy in response to the policy.

In either case, getting hold of the necessary sales data to implement the tax will be challenging. While retailers will report aggregate level sales data, for example, for VAT reporting, the tax authorities will not necessarily know how much revenue comes from alcohol specifically. Taxing alcohol sales at the retailer as well as the producer level will likely entail a degree of duplication of operational effort. We explore the operational feasibility of this sales-based targeting approach in Box 1.

**Box 1: Operational feasibility of taxing MUP-related sales**

Implementing a tax on sales – including excess profits – from MUP presents significant operational challenges, largely due to the way sales and VAT data are currently recorded. In the UK, businesses usually file VAT returns with HMRC every three months, and all businesses are required to keep and preserve digital records which is done using compatible software.[89]

However, these reports provide only aggregated sales data, such as total sales and purchases and the amount of VAT owed, without breaking down revenue from specific products like alcohol.[90] As such, HMRC does not have direct visibility into alcohol sales at the retailer level. For such a tax to be feasible, retailers would need to submit more detailed, standardised reports on alcohol sales, including volumes sold and prices.

Calculating the volume of pure alcohol could provide a more precise measure of MUP's impact because it directly links taxation to alcohol consumption rather than just sales revenue. However, tracking pure alcohol volume is significantly more complex than tracking monetary sales, as retailers' typically track sales transactions or stock and do not account for differences in alcohol content, meaning extra calculatons and reporting would be needed. A tax based on the monetary value of alcohol sales is therefore much more practical, even if it is a less accurate measure of alcohol consumption.

Retailers' electronic point-of-sale (EPOS) systems already track alcohol sales in real time. If a regulatory requirement were introduced, this data could be directly reported to a central system. In theory, this could involve integrating EPOS systems with a data hub, where the alcohol sales data could be automatically captured, categorised, and reported. This approach poses obvious challenges for businesses without such systems – particularly smaller, independent stores[91] – requiring either an alternative method of data collection or mandatory adoption (and enforcement) of EPOS technology.

HMRC would be the most obvious authority to enforce a tax linked to MUP-related alcohol sales. However, this would likely place a significant mandate on retail businesses to provide accurate and clear information or face severe consequences and enforcement action. Other systems could also potentially facilitate this. For example, since alcohol licensing (discussed below) is already regulated at the local level, councils could play a role in data collection.

While a sales-based tax could be introduced, its implementation would require significant system changes, including substantial system changes and auditing complexities, including the integration of new regulatory processes. The feasibility of this approach hinges on whether HMRC – or another suitable authority – can collect reliable data without placing excessive administrative burdens on retailers and regulators.

While we can be confident that profits are likely to rise by a similar amount to revenue, under MUP, it is not possible for us to more precisely calculate the potential revenue generated from taxing excess MUP profits as we are unable to access the necessary sales data. However, it is possible to assess the economic viability of using the non-domestic rate framework and RV as taxation basis, as has already been carried out by the Fraser of Allander Institute. Examining off-premises licenses in Scotland, the Institute found that a 13p per pound of RV – the same rate as the Public Health Supplement in 2013-14 and 2014-15 – would be expected to raise around £57 million annually.[92] Given that Scotland's off-trade market is approximately 11% of that in England and Wales,[93] scaling up these estimates proportionally suggests that a comparable levy at the same rate might generate around £518 million per year in England and Wales. When considering the devolved nations together, this approach would not only meet but exceed our estimated windfall target.

### Licensing-based taxation offers integration with existing systems, but has no distinct benefits in capturing windfall profits

Another avenue to consider is alcohol licensing. The dormant Social Responsibility Levy was intended to be applied through licensing fees, which could be a straightforward way to ensure alcohol-selling businesses contribute, integrating seamlessly with existing frameworks. That said, licensing fees are set and collected at the local level, and across areas administration can be inconsistent,[94] which could pose some challenges for implementation.

Overall, this approach would be relatively simple to administer, but it does not account for variations in alcohol sales and targets pubs and bars that see little, if any, MUP windfall. If it were limited to off-trade retailers, it could still raise concerns around business size. While a Scottish Government discussion paper found that most respondents supported applying the fee to all premises, the Government clarified their position that small businesses, where alcohol sales represent a smaller turnover, should be exempt.[95] This again highlights a key trade-off: target all retailers to ensure accountability, or risk affecting small businesses, particularly those selling higher-priced, artisanal alcohol – boutique wine shops, for example – rather than low-cost, high-strength products. A sales-based approach could allow for more precise targeting and exclude retailers that do not primarily sell low-cost, high-strength alcohol. However, as discussed above in Box 1, this comes with significant operational challenges.

Just as we have suggested, the majority of respondents also favoured a fee based on alcohol sales or turnover, rather than business rates.[96] The Scottish Licensed Trade Association argued that this would be fairer, as alcohol comprises a larger share of turnover for small businesses, whereas it forms a much smaller portion of turnover for large supermarkets. It was noted that this approach – or a variation of it – could also help recoup the additional revenue the alcohol industry gains through the introduction of minimum pricing.[97]

With regards to MUP, the practical approach to licensing-based taxation for MUP would be a blanket levy on all off-trade premises, easily integrating with existing licensing frameworks and operating on the basis of sales. However, we recognise that this would represent a significant shift from the traditional role of alcohol licensing, especially in countries like England and Wales where protecting public health is not a licensing objective. As well as being contentious for small businesses, this may be operationally challenging due to the need for legislative changes and the potential administrative burden on local authorities.

We have calculated the potential revenue from a licensing-based levy. Drawing on government data on licensing fees[98] and premises[99] in England and Wales, we use RV banding to assess contributions across different types of premises to find a rough estimate for the total annual revenue from off-trade premises is £15.63 million. Even before estimating the potential levy contributions, compared to the FAI's Scotland-only estimates – a much smaller market – this seems paltry. Indeed, a 10% levy would generate only £1.56 million in England and Wales, and to achieve the £500 million windfall we have estimated (£600 million from a 65p MUP revenue minus VAT) the required rate would need to be exceptionally high at 3,119%. On average, each off-trade premises would need to pay £8,361 to meet this target. If applied selectively to large retailers, such as with the PHS, the rate would need to be even higher. Compared to our estimates for alcohol duty and MUT, this approach has a weak economic basis and offers limited benefits, making it ineffective for generating revenue. Our calculations can be found in Appendix C.

There are other ways to introduce a tax through the licensing system. Rather than increasing licensing fees directly, we could apply a levy based on RV. However, given that our previous estimates – scaled from FAI analysis – for calculating RV through the business rates system uses licensing data to identify off-trade premises and draws on actual RV data and poundage rates, we can reasonably assume that a licensing-based RV levy would generate a similar level of revenue. The key difference, then, lies in administration. Implementing a levy through the licensing system would likely require significant changes to existing processes to enable licensing authorities to calculate and collect RV-based charges — an overhaul that may not be as efficient as using the business rates infrastructure already in place.

### A sales-based levy is best for targeting, but is less practical than using rateable value in the business rate system

Above, we've explored four potential ways to capture the MUP retailer windfall: through alcohol sales, through RV via the non-domestic rates system, by increasing licensing fees, and by applying a levy on RV through changes to the licensing framework. Of these, increasing licensing fees looks like the weakest option, as the rates would need to be set at an unreasonably high level to raise the retailer windfall we estimated, and would be difficult to justify. We also examined the feasibility of applying RV through the licensing system. However, this offers no clear advantages over using the business rates infrastructure and would introduce unnecessary administrative complexity.

A sales-based levy remains the most accurate and targeted option for capturing the windfall, and is the 'ideal' approach. However, it also presents the most significant operational challenges, particularly for devolved governments, which may not have access to the necessary VAT data and infrastructure to support a sales-based system. This leaves a levy based on RV through the NDR system as a more practical approach. While RV is an imperfect proxy for alcohol sales and does not directly capture the MUP windfall, it is straightforward to implement, sits within devolved powers, and is capable of generating significant revenue. It also aligns with the method used for the original Public Health Supplement.

**Table 3: Assessment of implementation methods for a retail-focused MUP levy**

| | Targeting | Feasibilty |
|---|---|---|
| **Sales based levy** | Very well targeted at retailers that sell the most cheap, high-strength alcohol | Difficult to implement with exsting data, particularly for devolved governments |
| **Levy based on RV through NDR System** | Targets retailers who sell alcohol, but has a weak link to actual windfall and is not sensitive to sales volumes | Can be implemented within the existing business rates regime and has precedent in the original PHS |
| **Levy based on RV through licensing system** | Targets alcohol retailers, but similarly lacks sensitivity to retailer windfall | Could be integrated into the existing licensing framework, but would require more administrative effort |
| **Licensing fees levy** | Targets alcohol retailers, but lacks sensitivity to retailer windfall | Requires high licensing fees to raise meaningful revenue and would require a administrative overhaul |

### A new tax could reinforce the health impact of MUP, particularly if maximised through hypothecation

In Scotland, the primary aim of the PHS was not to change health behaviour but to raise additional public funds. If the goal were to maximise health impacts, one option would be to set the levy at a rate high enough to prompt some large retailers to stop selling tobacco or alcohol products.[100] It is also important to stress that the 2012-15

PHS was not associated with MUP. A new version of the levy introduced alongside MUP, designed to complement it and recoup excess from a measure that *does* affect alcohol prices, could resolve this.

The original PHS did not directly target consumers and it was unlikely to indirectly change their behaviour, reducing purchases of alcohol or tobacco products. As reported by health experts, the tax was not set at a high enough level to persuade retailers to stop selling these products (or to deter them from expanding their offerings, or applying for new licences altogether) nor were there any requirements for them to increases prices. There is little evidence to suggest that retailers passed the costs of the levy onto consumers. This, along with the allocation of revenue generated, raises questions about whether the Supplement was truly a 'public health' tax at all. That said, there is no evidence that the levy undermined health objectives by encouraging or facilitating harmful drinking.[101]

However, these dynamics are somewhat speculative. Given that retailers were generally not incentivised to drop alcohol and tobacco for a comparable level of tax under the PHS, the prudent assumption is that few would do so for a revived version of the levy. If a new version of the Supplement were introduced alongside MUP, the most significant factor determining its health impact is likely to be how the money is spent. If, as originally intended, the revenue were dedicated to health spending and/or addressing alcohol harm, that could complement the direct impact of MUP. However, that is true of all the options we consider. We discuss the pros and cons of hypothecation in more detail in the next chapter.

### A new tax could be more politically appealing than increasing alcohol duty, but this depends on targeting and hypothecation

Political feasibility is another key consideration, especially given the non-implementation of the Social Responsibility Levy, and the failure of the Public Health Supplement to endure. Our analysis is that this is not to do with the principle of these taxes, but results from limitations in their design and presentation.

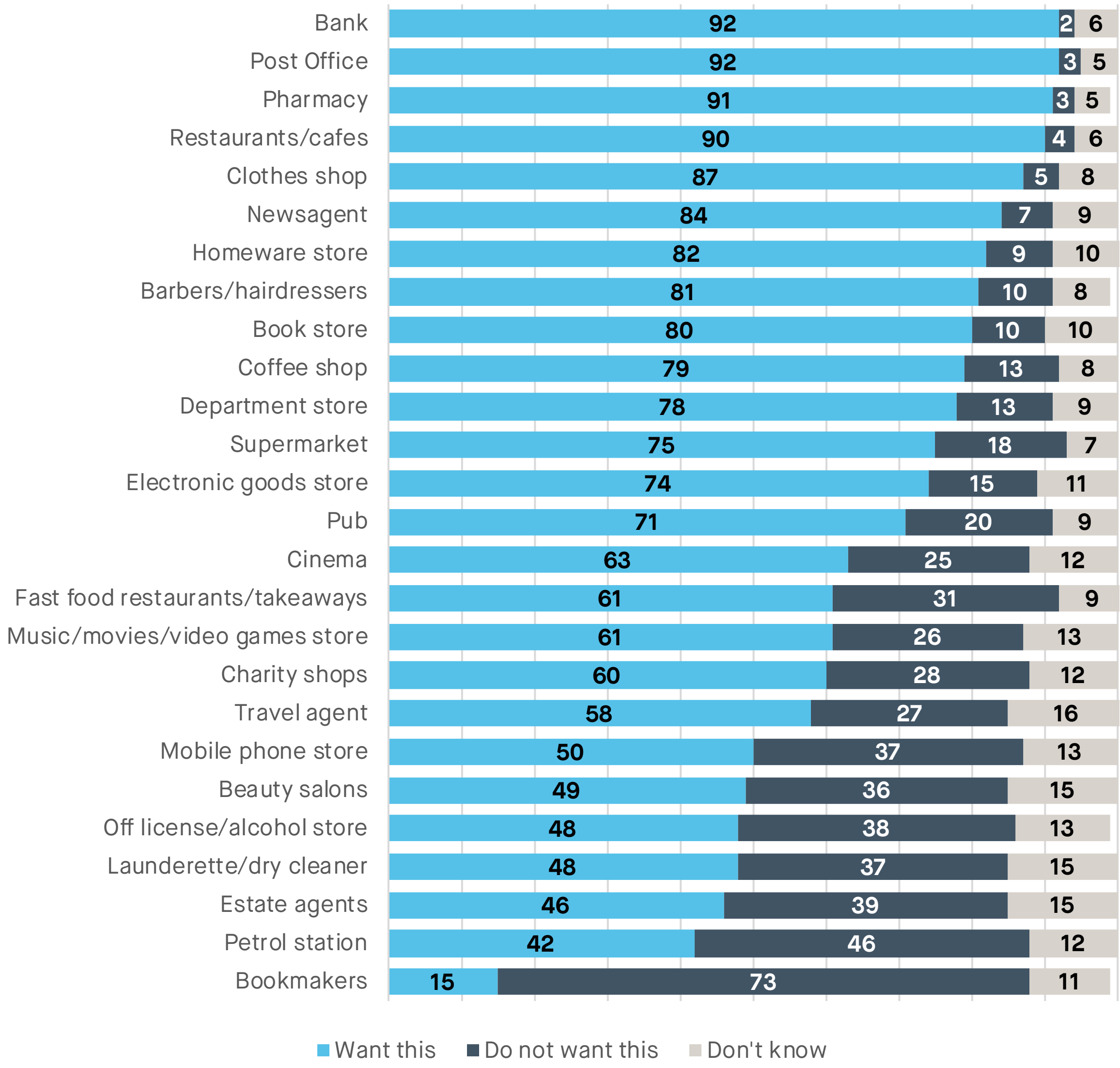
In particular, framing any new tax as a public health intervention that raises money for services will make it easier to defend. This approach is likely to garner support from health experts and the public. As discussed in the following chapter, taxes tend to be more popular when the proceeds are linked to a sympathetic cause. Introducing the Supplement alongside MUP, with the aim of reducing harmful drinking, may also enhance its appeal. Citizens' juries indicate public recognition of the alcohol industry as having significant impacts on lives and communities, and there is strong backing for policies to reduce alcohol related harms.[102]

Scottish politicians have assumed that exempting smaller businesses is necessary to improve the political viability of a new alcohol tax. However, this seems to present a trade-off between good politics and good policy. There is no principled basis to exclude smaller retailers, who benefit from MUP, and also contribute to alcohol harm. For example, an independent review of the Liquor Licensing System in Northern Ireland, conducted by experts at the University of Stirling, found that alcohol-related deaths and hospital admissions are particularly linked to the number of off-licences in a given area. The review recommended limiting off-licence numbers to "avoid a free-for-all and protect public health".[103] Exempting smaller retailers from such measures would also reduce the potential revenue generated.

While smaller licensed shops are expected to oppose any intervention that threatens their bottom line, there is little to suggest that – unlike with pubs[104] – there would be widespread backlash. For instance, a 2018 YouGov survey found that alcohol stores and off-licences (48% in favour and 38% opposed) ranked 22nd out of 26 types of shops on the ideal high street, suggesting that public backing may be limited.[105] However, newsagents, many of which will carry alcohol, are rather more popular. Similarly, if the tax is framed as hostile to corner shops, that may also undermine its viability. Public First recently asked people how much they would have to be compensated for the loss of their local corner shop, and the average figure was 50% higher than for their local pub.[106] The University of Stirling's review of licensing found that communities expressed a desire for a greater diversity of bars but saw no need for additional off-licences.[107]

A key lesson from the Scottish example is that a clear and transparent link between the levy and its intended health outcomes is crucial for sustaining support. The ideal version of the PHS would align closely with national health objectives and demonstrate accountability in its use of funds, strengthening public confidence. Without this, framing and health support become weak and potentially unsustainable. The trade-off here is a practical one: while hypothecation may gain broad public support, it is complex and could deter policymakers, particularly those within the Treasury. At the same time, a national rollout could receive backing from devolved governments as it may lead to a significant uplift in their budgets – meaning a UK-wide approach would be more likely to gain support from Scotland, Wales, and Northern Ireland. Balancing these priorities adds yet another layer of complexity to discussions around MUP and potential taxation approaches.

**Figure 6: 'Thinking about your ideal high street, which of the following shops would you like to want or not want to see on it?', (%)**




*Source: YouGov*

## The ideal features of a new MUP tax must be balanced with practical implementation

Any change we propose should be feasible. But designing a new tax requires extensive and careful planning, not to mention the establishment of necessary infrastructure to administer it. This process is likely to be both costly and time-consuming, and would introduce significantly more complexity than simpler alternatives, such as increasing alcohol duty or incorporating measures into alcohol licensing (discussed below).

There is also tension between achieving ideal outcomes and adopting more realistic approaches. For example, the ideal method for collecting revenue would involve taxing MUP profits using precise sales data. However, this involves considerable technical complexity (see Box 1) and is more demanding than current systems, such as RV, which is easier to administer. Pragmatic alternatives, though not optimal, would include targeting only large retailers, relying on established revenue collection methods, and foregoing hypothecation. These simpler approaches would better strike a balance between effectiveness and feasibility.

Another consideration is whether the devolved administration in Scotland faces different challenges compared to the rest of the UK. Outside of Scotland, the supplement could be introduced as part of a comprehensive package alongside MUP, creating a cohesive narrative that ties alcohol harm reduction and wider public health goals to revenue generation. This approach may make the tax more straightforward to justify and deliver.

In contrast, an MUP supplement in Scotland could face resistance. Since MUP already exists as a standalone measure, incorporating a supplementary tax at a later stage could be perceived as an additional burden, potentially undermining support. At the same time, Scotland's devolved powers mean it cannot increase alcohol duty, a measure which is reserved for the UK Government. In this context, a new supplement may be a more practical approach compared to other approaches we have laid out. We discuss the broader complexities of implementing an MUP windfall tax across the devolved nations in greater detail in Chapter Six and Chapter Seven.

**Table 4: Ideal and pragmatic design features for a new Public Health Supplement levy**

| | Ideal | Pragmatic |
|---|---|---|
| **Targeting** | • Tax all retailers<br>• Tie taxation explicitly to profits generated by MUP | • Tax large retailers only<br>• Use existing revenue collection systems, such as those based on business rates |
| **Health impact** | • Hypothecate revenue to public health initiatives<br>• Encourage healthier retailer and consumer behaviour by indirectly increasing prices | • Do not hypothecate revenue<br>• Accept limited behavioural impact and focus on revenue generation |
| **Political feasibility** | • Frame as a public health intervention, with transparent use of funds | • Frame as a public health intervention, but keep administrative demands low |
| **Practical implementation** | • Implement across the UK as part of a cohesive MUP package | • Introduce a supplementary windfall tax in Scotland |

*Source: SMF analysis*

# CHAPTER SIX – HYPOTHECATION: FOR AND AGAINST

As we have seen, calls to tax the MUP windfall are often combined with suggestions that the additional revenue should be used in ways that address alcohol harm. This sort of earmarking of tax revenues for particular purposes or programmes is referred to as 'hypothecation', and it remains a controversial policy approach. As discussed above, the failure of the Scottish Government's Public Health Supplement to be genuinely hypothecated is seen by public health stakeholders as a significant contributor to its demise. The Social Responsibility Levy, too, was intended to be used to address the costs of alcohol – its rationale is to ensure those that profit from the sale of alcohol contribute to mitigating the harm it causes.

Arguments around hypothecation are clearest in the case of new taxes, perhaps because they offer a 'blank slate' to rethink the way the system works. Yet there is nothing to stop alcohol duty revenue being hypothecated, in full or in part. For example, if the Government were to announce the 7% increase in alcohol duty or the 36p minimum tax we have considered, it could commit to setting aside the additional revenue to deal with alcohol-related harm.

## Hypothecation is likely to increase public support for tax

Hypothecation of taxes is generally perceived to be popular with the public. It stands to reason that it is easier to justify and defend a tax when the proceeds are to be used in service of a deserving cause. Indeed, polling specifically on alcohol taxes would seem to illustrate the point. A 2024 survey conducted by YouGov for ASH found that 39% of people are in favour of using tax to increase the price of alcohol. Support rises to 57% when the proposal specifies that alcoholic drinks retailers should pay a levy to government for measures to reduce and prevent harm for alcohol, with slightly higher support (61%) for alcohol drinks manufacturers to pay such a levy.[108] This is not quite a clean test of hypothecation as it also implies that business will be taxed rather than consumers. However, it does strongly suggest that specifying a use for tax revenue makes a measure more popular.

## Revenue could be earmarked for the NHS, alcohol treatment services or local authority funding

There are a number of potential hypothecation targets when it comes to additional alcohol tax revenue. One natural model is the Statutory Gambling Levy.[109] In some ways, this is reminiscent of the Scottish Social Responsibility Levy, lying dormant for several years. The 2005 Gambling Act gave the Government the power to impose an annual levy on gambling operators, which is set to finally come into force in April this year. The revenue it generates is to be allocated to projects in three areas: research, prevention and treatment. These categories could be applied just as easily to alcohol.

### NHS funding

Using alcohol tax revenue to fund the NHS has obvious appeal. Alcohol-related harm costs the health service around £5 billion a year.[110] Though existing alcohol duty revenue helps contribute to paying this bill, there is a case for making that connection more explicit. Around 40% of people rate health among the top three issues facing the country, and it has been around that level or higher since the pandemic.111 That prioritisation helps explain why, when hypothecation has been discussed, it has often been in relation to releasing funds for the health service – winning “grudging backing” even from Nick Macpherson the former permanent secretary of the Treasury, usually perceived to be sceptical of hypothecation.[112] Indeed, perhaps the most prominent hypothecated tax of recent times is the short-lived health and social care levy, which was repealed by Liz Truss before it was due to come into force.[113] However, given the scale of the overall NHS budget – £171 billion in 2023/34[114] – any revenue would be a drop in the ocean, and so critics could argue that it would not be material.

### Alcohol screening and treatment services

We could be more specific, and specify that funding is directed towards alcohol screening and treatment services. Alcohol Focus Scotland have proposed that a harm prevention levy could be used to fund non-invasive liver scans in GP surgeries, to catch liver disease early. There is evidence to suggest that such scanning encourages patients to reduce their alcohol consumption. They have also suggested that the revenue could be directed towards recovery communities.[115]

Both would address important gaps in provision. It is estimated that fewer than one in six dependent drinkers in England receive treatment, and though the number of people in treatment has risen in recent years it has merely recovered to a comparable level to where it was ten years ago.[116] In Scotland, there has been an alarming drop in access to specialist alcohol treatment, which has fallen by 40% over the course of a decade.[117]

Hypothecating revenue for expanding treatment services would create a direct link between the source of harm and its mitigation, and improve access to treatment, helping to reverse recent funding pressures. In England, local authority public health grants declined by £630 million in real terms between 2015/16 and 2023, and though an additional £533 million was provided by the independent Black review of drugs, this is only short term.[118] In Scotland, Alcohol and Drug Partnerships have seen volatile funding, and an 8% real terms cut to their budgets in the last two years.[119] Hypothecating alcohol tax revenue could restabilise the treatment sector. There are some concerns that using the money in this way might result in substitution of existing government funding rather than additional resource, so there would be a need to ensure transparency and accountability. Equally, by tying funding to a fluctuating revenue base rather than need, there is a risk that service funding could be less secure and predictable through hypothecation.

### Local authority funding

Local authorities are a natural recipient of funding from a supplementary alcohol tax, especially schemes that piggyback on the licensing system. Councils already are allowed to charge and keep licensing fees (though they do not set the level of the fee), though these are intended only to cover the cost of issuing, administering and enforcing these licences. However, a long standing freeze on licence fees means they do not even do that – a 2015 CIPFA analysis found that licensing authorities across England and Wales were carrying a deficit of over £10 million.[120] Scotland’s

Social Responsibility Levy is more open to helping local authorities cover the wider costs associated with drinking – maintaining public safety, street cleaning and repairing damage – under its ‘polluter pays’ principle. The Public Health Supplement, too, was reallocated to local authorities. Keeping money within the locality could also help maintain support for the tax and demonstrate how the money could be used.

However, this raises the challenge of allocating funding appropriately to local authorities in line with the scale of their alcohol harm. One model might be to allow councils to set their own charges within certain bands, and keep the revenue. That may encourage competition, though, with the risk of a ‘race to the bottom’, where councils cut their fees to attract licensed premises. Equally, it could incentivise local authorities to approve more outlets in order to get more fee revenue, with deleterious effects on public health. In any case, it is unclear that the sorts of harm that local authorities tend to deal with through the licensing system – often disorder and damage in the night-time economy, particularly in England and Wales where protecting public health is not a licensing objective – is proportionate to sales in the off-trade, or well correlated with wider public health harm.

A better approach would be to allocate resources according to need, using an algorithm such as Public Health Scotland’s National Resource Allocation Formula. This is used to allocate healthcare funding in Scotland based on demographics such as age and sex, population health and cost of delivery.[121]

## Strict hypothecation encourages volatility and inefficiency

Economists in general, and the Treasury in particular, are known to dislike hypothecation.[122] This is because it carries a number of well-established drawbacks.[123] First, as noted above in relation to drug treatment services, it encourages funding volatility. When service funding depends on a specific revenue stream, it becomes vulnerable to fluctuations in that revenue. In broad strokes, we might expect demand for alcohol treatment and alcohol tax revenue to move together, but that might not be the case in any given year. This dynamic is particularly problematic in a recession, when revenues fall and service needs might be greatest. The apprenticeship levy is an example of a relatively recent hypothecated tax that has failed to generate sufficient revenue, and has led to inadequate and mis-allocated investment.[124]

Second, ring fencing undermines the effective use of public money. By tying the Government’s hands it prevents it from responding flexibly to need. Earmarking funding for alcohol treatment, research or prevention only in practice means spending less on other government priorities, regardless of their urgency. Yet a responsible government ought to be able to decide where money can do the most good, rather than being constrained by shackles imposed by their predecessors. Equally, removing budgetary pressure weakens the need to operate as efficiently as possible. Spending that does not have to compete or justify itself is at greater risk of being misused or wasted.

Strict hypothecation also raises challenges for devolved governments. Health policy is devolved across the UK, with Scotland, Wales, and Northern Ireland each having distinct public health strategies and priorities. If a nationwide tax were introduced by the UK government and hypothecated centrally, it could limit the ability of devolved nations to direct revenue toward their own alcohol harm reduction campaigns. This would risk undermining their health efforts, and it could provoke political opposition. At the Social Market Foundation, we have argued that a number of hypothecated taxes have outlived their usefulness, but have generated a momentum and set of institutions and interests that makes them hard to remove.[125] Consider the Agricultural and Horticultural Development Board Levy, which has its origins in the 1960s, but now speaks to the confusion of the Government as to whether it ought to be promoting meat consumption or encouraging people to eat less.[126] Similarly, it is unclear that the Government should use a hypothecated tax to subsidise horse racing, but the Horse Race Betting Levy is now a central part of the landscape for that industry.[127]

## Weak hypothecation may be the best of all worlds

Different forms of hypothecation can be classified in terms of how strict and how broad they are. Former HMRC civil servant Sam Mitha has identified four types:[128]

- Strict and wide: a whole spending programme, funded entirely by its own tax – for example, if we had an education or NHS tax.
- Strict and narrow: A particular category of expenditure funded by a specific tax e.g. the BBC license fee.
- Weak and wide: the tax in its entirety goes into a big programme, but is not the only contributor to its budget e.g. national insurance contributions, which are intended to fund contributory benefits, in particular pensions, but are in practice topped up from general taxation.
- Weak and narrow: some of the revenue goes to fund some of a programme e.g. the 2003 1% increase in national insurance to fund the NHS.

Strict and wide hypothecation is the most problematic, as it creates the likelihood of large swings in big budgets that could be incredibly destabilising. Strict, wide hypothecation might be possible if all alcohol duty were to be hypothecated, but our supplementary proposals here raise too little revenue for it to be viable. Strict and narrow hypothecation is more plausible, but we have grave concerns about the impact on, for example, alcohol treatment services, if they were to be too dependent on any given revenue stream.

Weak hypothecation, where the additional tax revenue is not the only determinant of funding for a programme, is more attractive, in our view. This could be weak and wide – with revenue going broadly to fund the NHS – or weak and narrow, dedicated specifically to alcohol treatment. Either way, this approach has the potential to tell a compelling story to the public, and win support for the additional tax, but does not bind the Government's hands too much. Committing the extra resources to the NHS would, be such a small drop in the ocean as to be essentially symbolic. Using the funds to commit to higher treatment services would be neat, and in our view perhaps the best option. As discussed above, it is important that a new tax does not disadvantage devolved nations, and they too should be able to benefit. Soft or weak hypothecation would help to sidestep this challenge, as it avoids rigid earmarking and complicating how funds are distributed between different governments. By maintaining flexibility, each nation can pursue its own public health priorities using its share of the national revenue.

That said, it is worth recognising many economists see something slippery or deceitful about this sort of approach.[129] After all, if hypothecation is weak, the tax actually has no real impact on the amount of funding the services receive – the revenue raising and spending decisions operate separately. This line of criticism can be overstated, but such a move does invite questions and scrutiny as to whether the money 'really' is additional and going where promised. Given the neglect of alcohol treatment services, that may be no bad thing, but it may nonetheless store up a political headache for the Government.

# CHAPTER SEVEN – COMPARING THE OPTIONS

In this report, we have set out four broad options for taxing the retailer windfall and recouping the lost tax revenue that would be expected to follow from MUP: an across-the-board increase in alcohol duty, a minimum unit tax, and a new tax approach – either based on alcohol sales or on rateable value. We have assessed these options against four criteria: targeting, health impact, practical implementation and political feasibility. In this final chapter, we pull this all together and compare the options side-by-side.

**Table 4: Summary of the four MUP taxation options**

| | Summary |
|---|---|
| **Increase alcohol duty** | A general increase in alcohol duty, which is simple to implement using existing tax structures but not well-targeted to a MUP windfall. It is likely to improve public health but is politically sensitive. |
| **Minimum unit tax** | A tax applied per unit of alcohol designed to ensure that total tax paid does not fall below a set threshold. It is best targeted at retailers benefiting from MUP and reinforces health goals. However, it requires a new tax system and may be complex to enforce. |
| **New levy on alcohol sales** | A levy applied in proportion to alcohol sales. This could target MUP windfall but it would be difficult to implement due to data challenges and significant administrative complexity. |
| **New levy on rateable value** | A tax linked to the rateable value of retailers through the non-domestic rate system. It is easier to administer but poorly targeted, as rateable value does not reflect alcohol sales. It is harder to justify on public health grounds. While this could also be administered through licensing, it would require additional changes to the existing system. |

*Source: SMF analysis*

Table 5 shows how the different options do on these tests on a red/amber/green framework. In our view, targeting is perhaps the most important criterion, and on this score, the minimum unit tax is the best calibrated to capture the windfall. On top of that, a minimum unit tax would support the health objectives of the MUP, and possibly give them a modest boost. Moreover, its reasonably strong targeting, and the indirect nature of the minimum unit tax, somewhat shielded from consumer focus, suggests it may be more politically feasible than other options. A minimum unit tax does raise practical challenges, but so would any new tax. Performing well on health and practicality measures, taxing alcohol sales more broadly, whether through an across-the-board increase in alcohol duty or a new levy proportionate to alcohol sales, would be a second-best option. Working within the existing alcohol duty system would be more straightforward and have a better health impact, but it is probably the most politically challenging.

We are more sceptical of a new levy, though we recognise this may be the only option for devolved governments. Rateable value, we believe, is a poor proxy for what we want to target. While a tax based on alcohol sales would be more precise, obtaining reliable sales data presents significant challenges, as discussed in Box 1. Any new tax will face political scrutiny. Overall, the technical challenges of gathering the necessary data on alcohol sales is probably worth it for a more defensible tax. The preferable option would be for the Westminster Government to act and add to the existing alcohol duty system to capture the MUP windfall.

**Table 5: Assessing the options**

| | Flat off-trade alcohol duty increase | Minimum unit tax | New levy on alcohol sales | New levy on rateable value |
|---|---|---|---|---|
| Targeting | | | | |
| Health impact | | | | |
| Practicalty | | | | |
| Political feasibility | | | | |

*Source: SMF analysis*

Across the four options assessed, MUT appears to be the most effective and balanced approach. It directly targets the retailer windfall from MUP, aligns with public health objectives by reinforcing price-based deterrents to harmful drinking, and is likely to be more politically feasible. While it poses some practical implementation challenges – a notable advantage of the increasing alcohol duty approach – these are not necessarily greater than those of alternative new taxes.

It should be noted that MUT could pose some problems for devolved administrations. Minimum pricing is controlled by devolved governments while MUT, as it works through the duty system, would be controlled from Westminster. If different nations enforced different minimum prices, it would not be possible to optimise the level of MUT to capture the windfall precisely for each of them. This should not concern us too much, as MUT would still be directionally correct for every nation – there would still be extra tax collected on the products that generate the most windfall from MUP. Nonetheless, devolved administrations would have to reconsider how they might optimise their policies on minimum pricing and retailer levies if a minimum unit tax was introduced nationally. As previously discussed, there are also implications for hypothecation and the distribution of new revenue, though these problems are surmountable through weak hypothecation. These are not necessarily new challenges – devolved nations have long had to navigate the UK government's fiscal decisions, including those related to alcohol duty. Ultimately, introducing MUT is a decision for Westminster so we have rated the feasibility of this scheme from that perspective, but decisionmakers should be aware of the potential reaction from devolved governments.

A flat increase in alcohol duty would be a second-best option. This would be simpler to administer and would likely have a stronger health impact overall, but it faces greater political resistance, particularly from consumers and industry stakeholders. New levies, particularly those based on rateable value, are the least effective option; while they may be the only available route for devolved governments, they are relatively impractical and would be harder to justify on public health grounds.

Therefore the UK government would be best served by introducing a new minimum unit tax alongside a minimum unit price, ensuring both revenue recovery and alignment with broader health objectives. Devolved governments do not have this option, so if they want to claw back some of the MUP windfall independently of Westminster, the best option would be to introduce a new levy on rateable value. For a detailed comparison of these four options, please refer to Appendix D.

# APPENDICES

These appendices outline additional information too detailed for the main body of the research. They include the calculation of revenue estimates for increasing existing alcohol duties, revenue estimates for a licensing-based tax approach, and a detailed comparative assessment of each tax approach discussed in this report.

## Appendix A: Revenue estimates for increasing existing alcohol duties

To estimate how much alcohol duty would have to rise by in order to raise enough to offset the foregone duty revenue under MUP, or the retailer windfall, we used two methods.

First, we used HMRC's published elasticities as per the table below, which models the impact of a 4% increase in alcohol duties, excluding draught beer and cider. We start with 2023/24 alcohol duty receipts. We then strip out revenue from draught beer and cider duty. We multiply those revenues by 4% to estimate the 'static' revenue increase. To estimate the behavioural effect, we apply the off-trade elasticities from HMRC[130] (these represent the change in consumption from a 1% increase in duty) to the new duty revenue. These numbers represent the decline in revenue due to reduced alcohol consumption in response to the tax increase. We then subtract the behavioural effect from the static increase to calculate the net increase in receipts. This shows that a 4% duty increase would raise a bit more than the target £300 million (£321 million). Running the same numbers with a 7% increase in alcohol duties leads to a net increase in receipts of £556 million – comparable to the estimated MUP windfall.

**Table 6: Estimated impact of a 4% increase in alcohol duties (excluding draught) – HMRC elasticities**

| | 2023/24 duty receipts | 2023/24 duty receipts (ex draught) | Static revenue increase | Off-trade price elasticity | Behavioural effect | Net increase in receipts |
|---|---|---|---|---|---|---|
| **Beer** | £3.6bn | £2.0bn | £80m | -0.30% | -£25m | £55m |
| **Cider** | £0.2bn | £0.2bn | £6m | -0.02% | -<£1m | £6m |
| **Wine** | £4.6bn | £4.6bn | £184m | -0.13% | -£25m | £159m |
| **Spirits** | £4.1bn | £4.1bn | £165m | -0.38% | -£65m | £100m |
| **Total** | **£12.6bn** | **£10.9bn** | **£437m** | | **-£115m** | **£321m** |

*Source: HMRC, Public Health Scotland, SMF analysis*

The second method uses the common rough rule of thumb price elasticity that is common in the literature, assuming that a 1% increase in price reduces consumption by 0.5%.[131] The table below shows how this works for a 4% increase in non-draught duty. As per Table 5, non-draught duty revenue in 2023/24 was £10.9 billion. Including VAT on this duty, takes this to £13.8 billion. Multiplying this by 4% gets us a

£552 million tax revenue increase without any behavioural response. We calculate from Public Health Scotland data that off-trade market size is around £28 billion, so this £552 million would equate to a 2% increase in retail prices. If price elasticity is -0.5, that implies volume would fall by -1%. Netting that off from the initial increase in duty revenue implies £325 million net additional duty revenue, which is reassuringly close to the £321 million on the other method.

**Table 7: Estimated impact of a 4% increase in alcohol duties (excluding draught) – broad -0.5 elasticity**

| | |
|---|---|
| **2023/24 duty receipts (ex draught)** | £10.9bn |
| **Duty + VAT** | £13.8bn |
| **Additional tax if no behavioural response** | £552m |
| **Off-trade market value** | £28.0bn |
| **Price increase** | 2.0% |
| **Volume impact** | -1.0% |
| **New duty revenue** | £11.2bn |
| **Net additional duty revenue** | £325m |

*Source: HMRC, Public Health Scotland, SMF analysis*

## Appendix B: Revenue estimates for a minimum unit tax

To calculate the revenue estimates from MUT we used Nielsen data on alcohol sales by category, strength and price level from 2021. Price levels were uprated by inflation. We then applied estimates for the sales decline from MUP which are described in Table 2 of this report. We assume that all of the fall in demand from MUP would be for products that were previously price under 65p per unit. We then used HMRC's price elasticities of demand to calculate the demand changes resulting from the changes to price from introducing MUT on top of MUP, though these were small.

**Table 8: Estimated demand changes from the introduction of a 36p MUT alongside a 65p MUP**

| | Litres of pure alcohol sold | | |
|---|---|---|---|
| | **Actual 2021 total** | **MUP total** | **MUT + MUP total** |
| **Spirits (all)** | 77,735,369 | 75,636,514 | 75,636,514 |
| **Fortified wines** | 3,980,699 | 3,932,931 | 3,932,931 |
| **Wine (all)** | 100,501,738 | 99,295,717 | 99,295,717 |
| **Beers** | 89,879,772 | 87,453,018 | 86,098,975 |
| **Cider (all)** | 21,038,069 | 19,397,100 | 18,141,998 |
| **Total** | **293,135,647** | **285,715,280** | **283,106,135** |

*Source: HMRC, Nielsen, SMF analysis*

**Table 9: Estimated demand changes from the introduction of a 36p MUT with a higher 46p rate for spirits, alongside a 65p MUP**

| | Litres of pure alcohol sold | | |
|---|---|---|---|
| | Actual 2021 total | MUP total | MUT + MUP total |
| **Spirits (all)** | 77,735,369 | 75,636,514 | 75,384,988 |
| **Fortified wines** | 3,980,699 | 3,932,931 | 3,932,931 |
| **Wine (all)** | 100,501,738 | 99,295,717 | 99,295,717 |
| **Beers** | 89,879,772 | 87,453,018 | 86,098,975 |
| **Cider (all)** | 21,038,069 | 19,397,100 | 18,141,998 |
| **Total** | **293,135,647** | **285,715,280** | **282,854,609** |

*Source: HMRC, Nielsen, SMF analysis*

Using these demand estimates we were then able to calculate our estimates for the changes in duty and VAT revenue from introducing MUT alongside MUP. This meant calculating the tax due for each product type, price band and strength level. We then compared this to the base scenario of introducing MUP on its own.

**Table 10: Estimated tax revenue changes from the introduction of a 36p MUT alongside a 65p MUP**

| | Total tax raised | | |
|---|---|---|---|
| | Current duty system | 36p minimum unit tax | Difference |
| **Spirits (all)** | £3,309,722,413 | £3,309,722,413 | £0 |
| **Fortified wines** | £173,717,563 | £173,717,563 | £0 |
| **Wine (all)** | £4,145,751,649 | £4,145,751,649 | £0 |
| **Beers** | £2,869,609,611 | £3,108,689,633 | £239,080,022 |
| **Cider (all)** | £416,899,339 | £653,111,933 | £236,212,593 |
| **Total** | **£10,915,700,576** | **£11,390,993,191** | **£475,292,615** |

*Source: HMRC, Nielsen, SMF analysis*

**Table 11: Estimated tax revenue changes from the introduction of a 36p MUT with a higher 46p rate for spirits, alongside a 65p MUP**

| | Total tax raised | | |
|---|---|---|---|
| | Current duty system | Two-rate MUT | Difference |
| **Spirits (all)** | £3,309,722,413 | £3,491,013,377 | £181,290,964 |
| **Fortified wines** | £173,717,563 | £173,717,563 | £0 |
| **Wine (all)** | £4,145,751,649 | £4,145,751,649 | £0 |
| **Beers** | £2,869,609,611 | £3,108,689,633 | £239,080,022 |
| **Cider (all)** | £416,899,339 | £653,111,933 | £236,212,593 |
| **Total** | **£10,915,700,576** | **£11,572,284,155** | **£656,583,579** |

*Source: HMRC, Nielsen, SMF analysis*

## Appendix C: Applying a levy directly to licensing fees

To estimate the potential revenue from a licensing-based levy where applied directly to licensing fees, we used Home Office data on alcohol licensing fees and the number of licensed premises in England and Wales. The annual licensing fee is based on rateable value, with charges ranging from £70 (Band A) to £1,050 (Band E with multiplier).[132] Of the 171,410 premises permitted to sell alcohol, around 31% (or 59,800) are off-trade.[133] Applying this 31% proportion to the total number of premises in each band gives us an estimated distribution of off-trade premises across the bands.

Using this breakdown, we multiplied the number of off-trade premises in each band by the corresponding licensing fee. This approach yields an estimated total of £15.63 million in licensing revenue from off-trade premises. From this, we can apply different levy scenarios to estimate the annual tax revenue generated from licensing fees and assess how close this revenue comes to meeting our target for the estimated retailer windfall.

**Table 13: Estimated licensing fee revenue from off-trade premises, England and Wales**

| | Licensing fee | Estimated no. of off-trade premises | Total revenue |
|---|---|---|---|
| **Band A** | £70 | 9,260 | £648,200 |
| **Band B** | £180 | 32,696 | £5,884,320 |
| **Band C** | £295 | 9,340 | £2,759,300 |
| **Band D** | £500 | 2,026 | £1,013,000 |
| **Band D (with multiplier)** | £625 | 101 | £63,125 |
| **Band E (no multiplier)** | £1,000 | 5,074 | £5,074,000 |
| **Band E (with multiplier)** | £1,050 | 178 | £186,900 |
| **Total** | / | **59,800** | **£15,628,845** |

*Source: Home Office; SMF analysis*

**Table 43: Illustrative levy scenarios from taxing licensing fees**

| Levy rate | Estimated annual revenue |
|---|---|
| 5% | £781,442 |
| 10% | £1,562,885 |
| 15% | £2,344,327 |
| **3,199%** | **£499,981,842 (windfall target)** |

*Source: SMF analysis*

## Appendix D: Comparative assessment of each tax approach

The following tables provide a detailed comparison of the four main taxation options examined in this report. Table 14 summarises the advantages and disadvantages of each approach, while Table 15 assesses how they perform against key criteria, including targeting, health impact, practicality, and political feasibility.

**Table 14: Comparative assessment of MUP windfall tax approaches**

| | Advantages | Disadvantages | Summary |
|---|---|---|---|
| **Increase alcohol duty** | • Uses the existing duty structrue<br>• Less complicated than intoducing new measures<br>• Carries the same public heath justication as existing taxes and targets alcohol sold | • Untargeted as it hits products unaffected by MUP<br>• It is likely to be politically sensitive – another tax on businesses, alcohol duty raised again<br>• Potentially high cost to consumers | • A straightforward approach, but may not fully capture the MUP windfall |
| **Minimum unit tax** | • Targets MUP windfall accurately, taxing the cheapest products more<br>• Has precedent in cigarette taxation | • More complex to design and implement<br>• May require an changes in Treasury administration | • Highly targeted to MUP but operationally complex |
| **New levy on alcohol sales** | • Targets alcohol sales directly<br>• More accurate than othe retailer levies in capturing MUP windfall | • Technically complex and operationally challenging<br>• Might be difficult for devolved governments due to a lack of VAT data | • The most accurate retailer levy method but also the most complex |
| **New levy based on rateable value** | • Integrates with existing business rates infrastructure<br>• Easier to administer than a sales-based levy<br>• Is a tried-and-tested method, used in the original Public Health Supplement | • RV is an imperfect proxy for alcohol sales and does not directly capture MUP windfall | • Practical but not as precise as other methods |

*Source: SMF analysis*

**Table 15: Comparative assessment of MUP windfall tax approaches on key criteria**

| | Targeting | Health impact | Practicality | Political feasibility |
|---|---|---|---|---|
| **Increase alcohol duty** | • Untargeted as it applies uniformly to all alcohol | • Maintains the same public health justification as existing taxes<br>• Could support public health goals if used to increase prices on harmful alcohol | • Simple to implement using existing duty structure<br>• No need for new infrastructure | • Politically challenging due to potential consumer cost increases.<br>• Likely opposition from retailers and consumers who may view it as unfair |
| **Minimum unit tax** | • Precisely targets alcohol sold at the minimum price<br>• Aimed at high-stength-low-cost products; business that do not sell cheap alcohol unaffected<br>• Revenue goes to Treasury, not retailers | • Directly linked to health impacts by targeting harmful alcohol consumption.<br>• Risk of cross-subsidy to offset taxes on alcohol | • Operationally complex<br>• Requires infrastructure for enforcement and monitoring | • More politically feasible than raising alcohol duty as only cheaper products affected<br>• Devolved nations do not have control of alcohol duty |
| **New levy on alcohol sales** | • Accurately captures MUP windfall but is not the most effective targetting method | • Health impact depends on how levy is implemented and hypthecation | • Requires changing of infrastructure to track sales<br>• May be difficult for devolved governments to implement | • Could be framed as a health-based measure to gain political support |
| **New levy based on rateable value** | • It applies to all businesses based on property value.<br>• Does not accurately capture MUP windfall | • It does not directly target harmful alcohol sales | • Simple to implement by leveraging existing business rates infrastructure | • Smaller businesses may oppose it, especially those not seeing significant MUP windfall |

*Source: SMF analysis*

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