



Institute for Fiscal Studies



Excise Duties

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@TheIFS

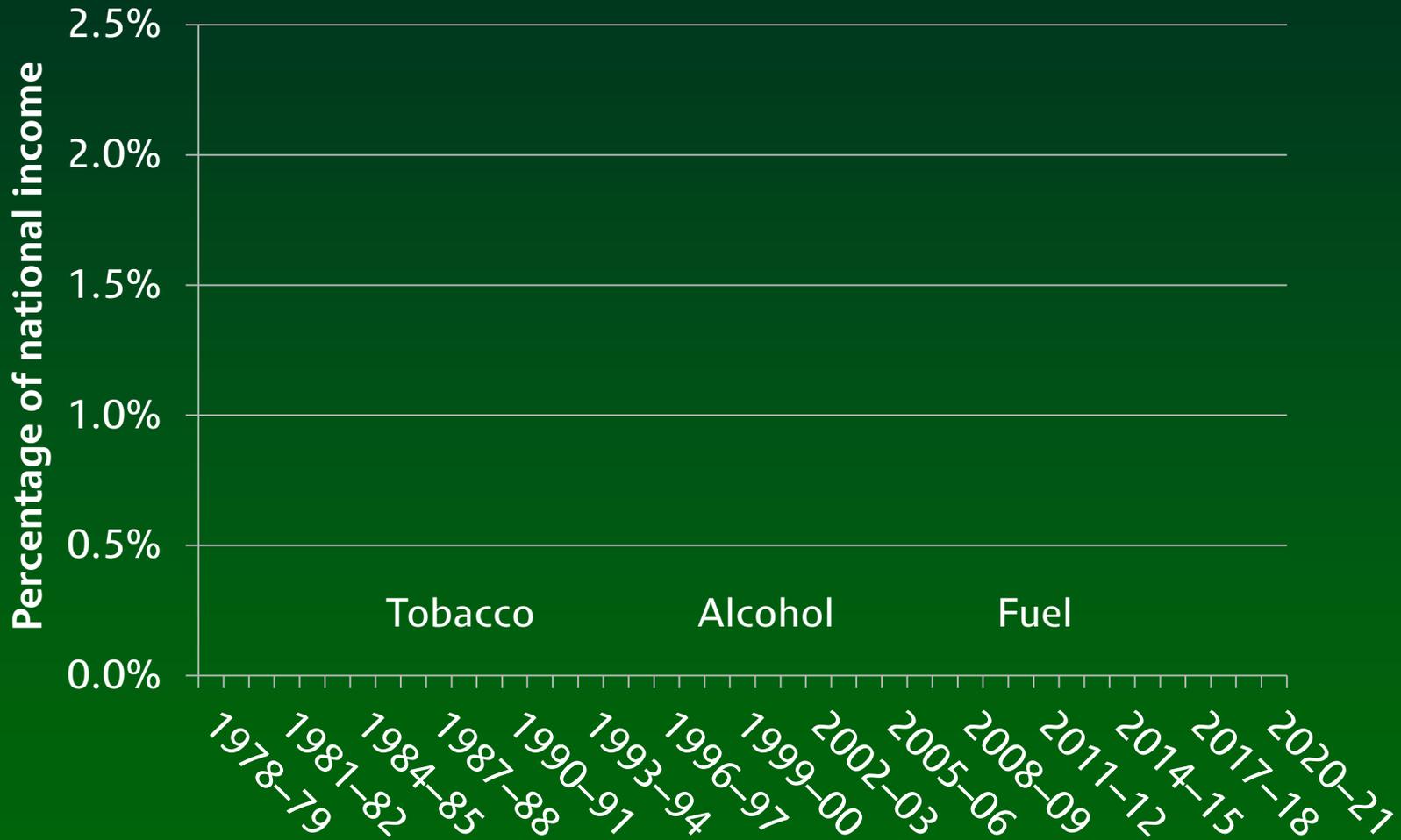
#IFSGB2016



Background

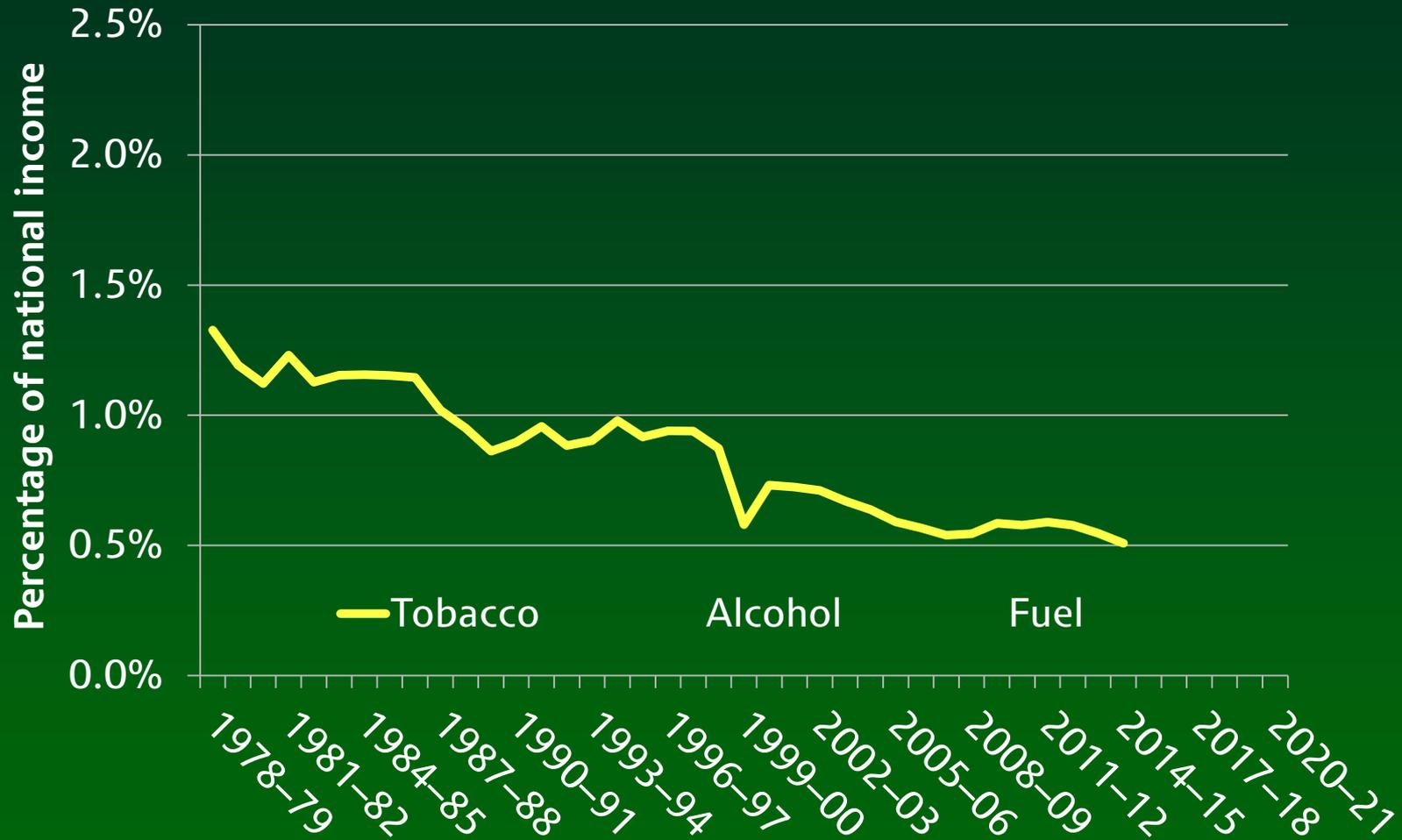
- In 2014-15 duties on fuel, tobacco and alcohol raised £47 billion, comprising 7.2% of total receipts
- Revenues from these taxes are in decline

Revenue from excise duties, 1978-9 to 2020-21



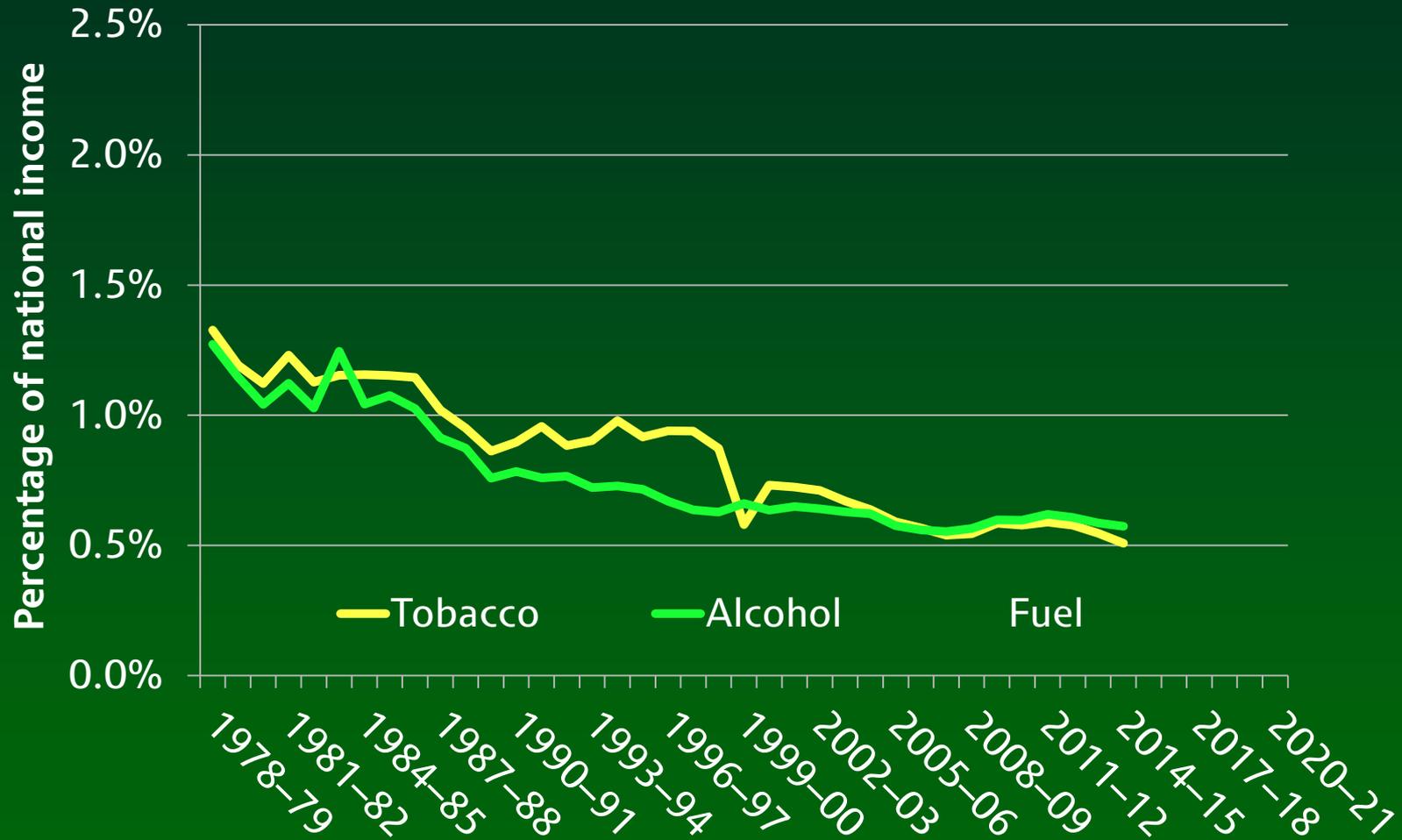
Notes and sources: see Figures 9.1 of *The IFS Green Budget: February 2016*.

Revenue from excise duties, 1978-9 to 2020-21



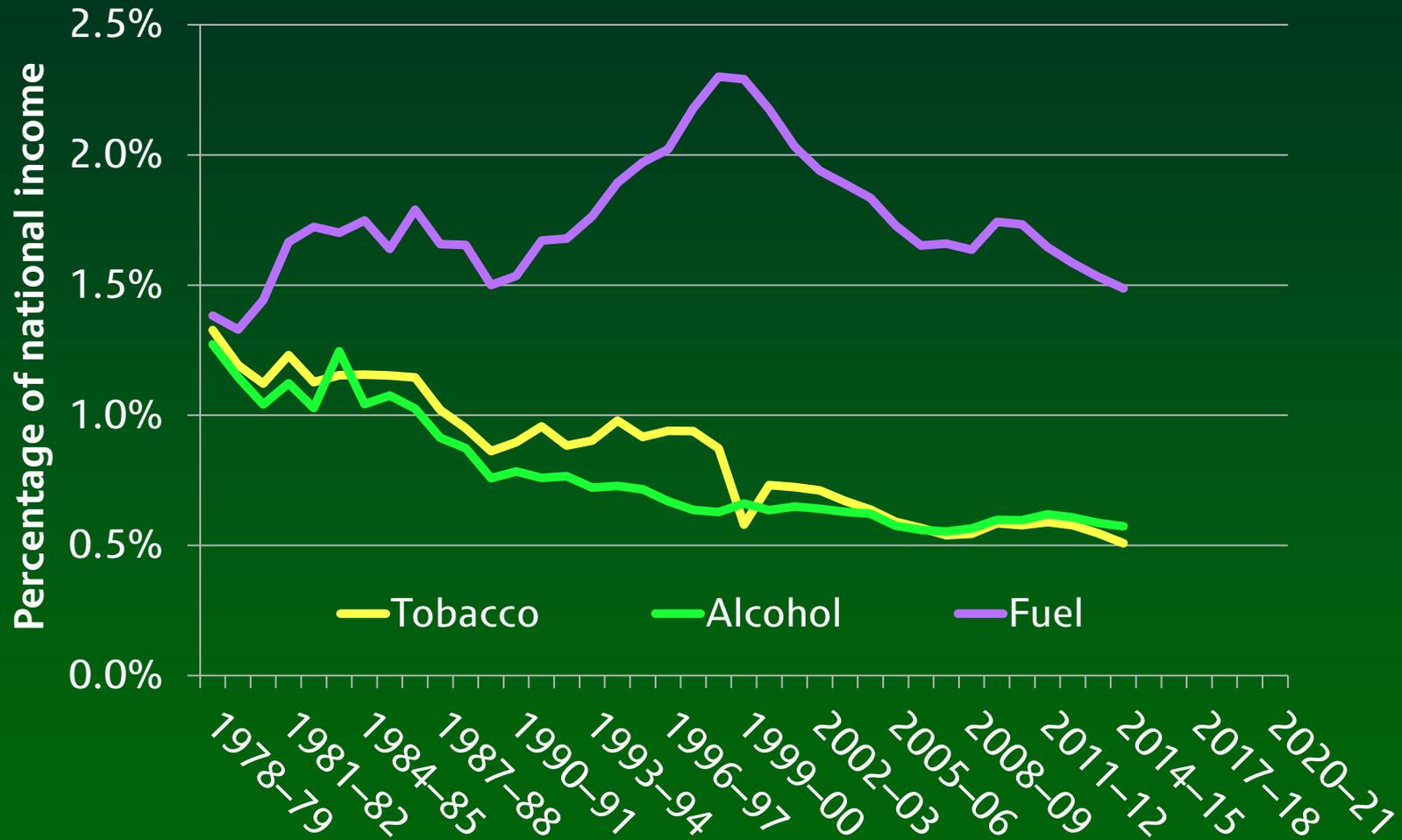
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Revenue from excise duties, 1978-9 to 2020-21



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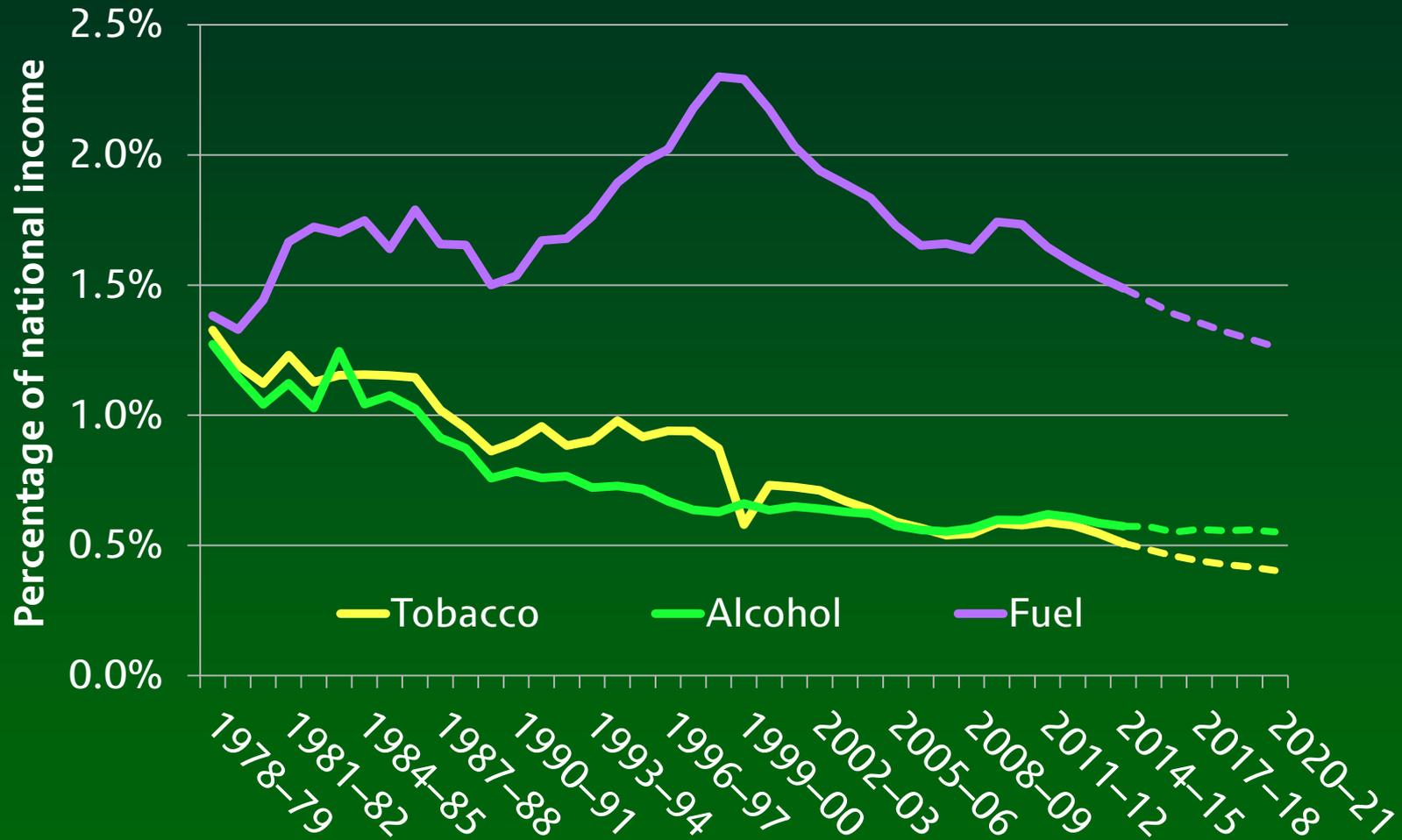
Revenue from excise duties, 1978-9 to 2020-21



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Revenue from excise duties, 1978-9 to 2020-21



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Background

- In 2014-15 duties on fuel, tobacco and alcohol raised £47 billion, comprising 7.2% of total receipts
- Revenues from these taxes are in decline
 - Opportune time to think about the structure of these taxes
- Public health bodies have proposed introducing new duties on food and drink with high sugar content

Principles of excise taxation

- Consumption of certain goods impose social costs not taken into account by the individual e.g.
 - Passive smoking
 - Alcohol-fuelled violence
 - Increased risk of disease
- ‘Corrective’ taxes can be used to reduce consumption to a socially optimal level
 - The aim is to raise the price to reflect the social cost of consumption
- Choosing the appropriate rate depends on who consumes it and how much they consume



Motoring

Social cost of motoring: emissions

- Vehicle emissions contribute to general air pollution, and CO₂ emissions contribute to climate change
- Reasonably well targeted by fuel duty
- The implied tax rates are £243 per tonne of CO₂ for petrol and £222 per tonne of CO₂ for diesel
 - This is much higher than the values placed on carbon savings (£29-£69 per tonne) and implied taxes on other forms of energy uses

Social cost of motoring: congestion

- Estimates that congestion accounts for roughly two thirds of the social costs of motoring
- Fuel duty is poorly targeted at congestion
 - As is Vehicle Excise Duty (VED)
- Increased fuel efficiency mean the cost of driving per km has fallen
 - 2000: £9.74 to drive 100km in an average new petrol car
 - 2014: £7.15 to drive 100km in an average new petrol car
- A system of road pricing would incentivise motorists to drive at less congested times and on less congested routes



Alcohol

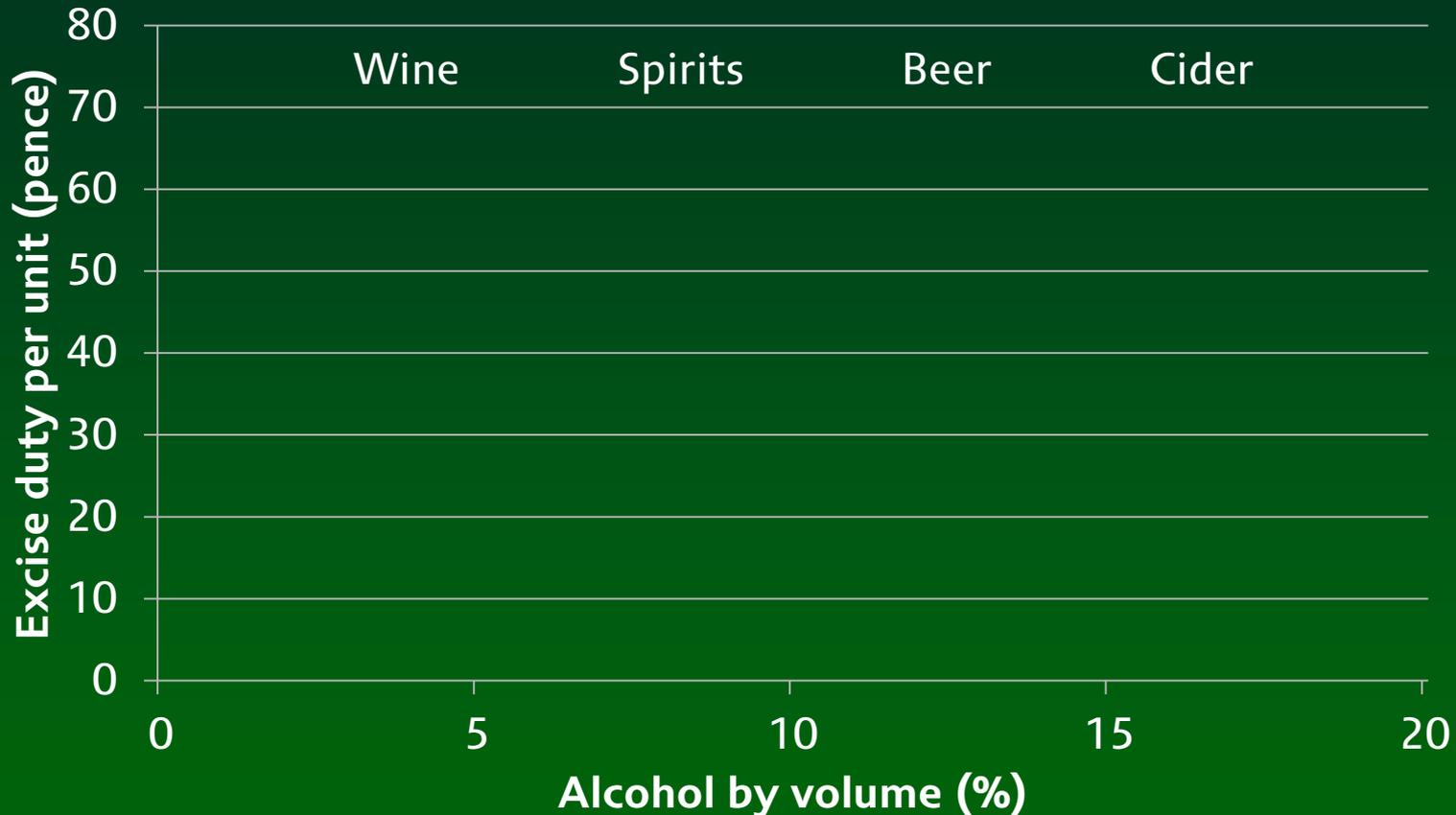
Designing an alcohol tax system

- A reasonable starting point is that taxes per unit of alcohol should be the same regardless of the form of the drink
 - Makes sense if the social cost does not vary by type of alcohol
- But the social costs of alcohol consumption are likely to vary across people and with the amount drunk
 - Heavy drinkers buy a greater proportion of their alcohol units in the form of high strength spirits
 - Suggests relatively higher taxes on high strength products

Current tax system

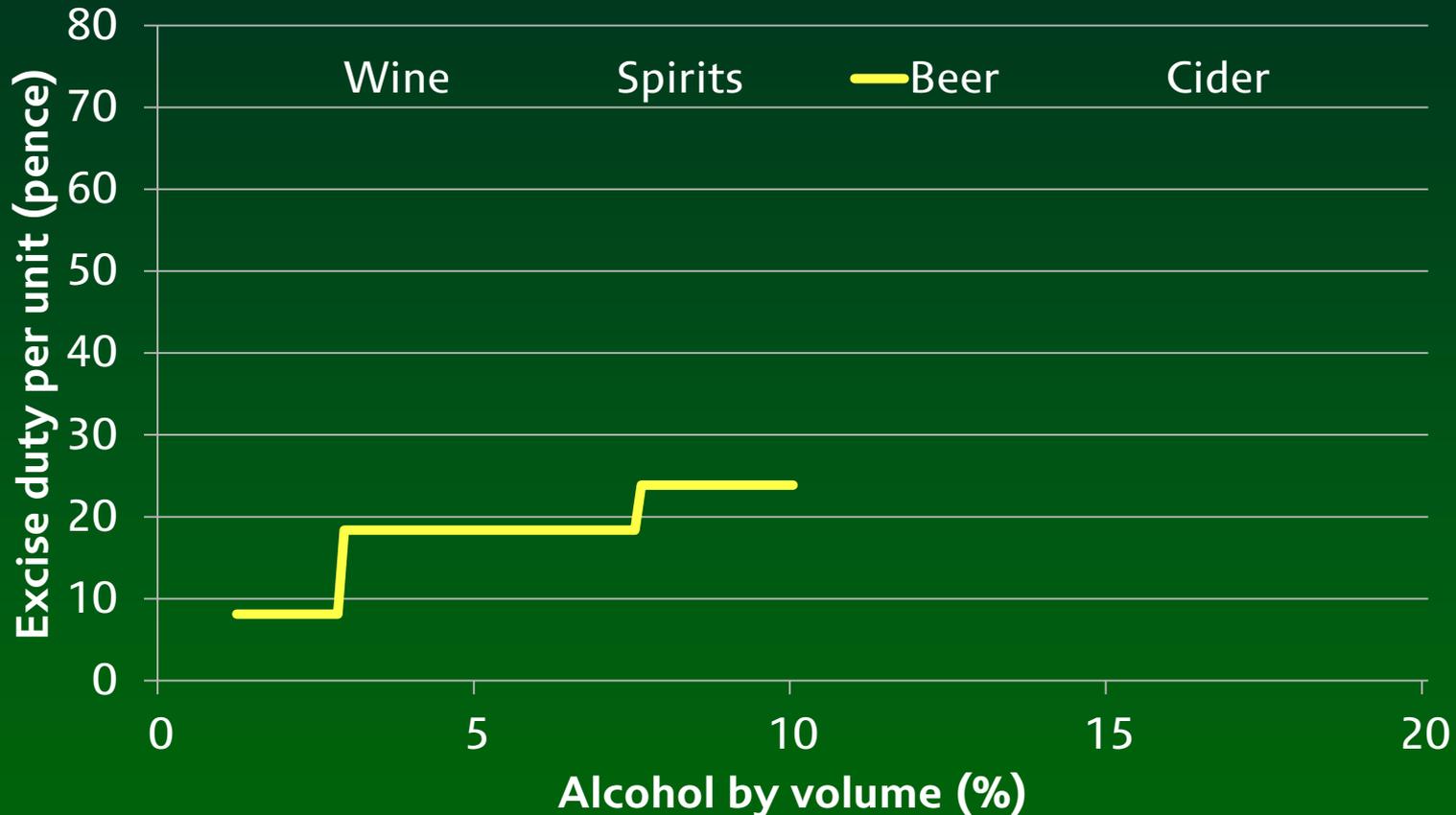
- Alcohol taxes depend on type of alcohol and its strength
 - Beer and spirits duties are levied per unit of alcohol
 - Wine and cider duties are levied per litre

Excise tax per unit of alcohol, by alcohol strength and type



Notes and sources: see Figures 9.12 of *The IFS Green Budget: February 2016*.

Excise tax per unit of alcohol, by alcohol strength and type



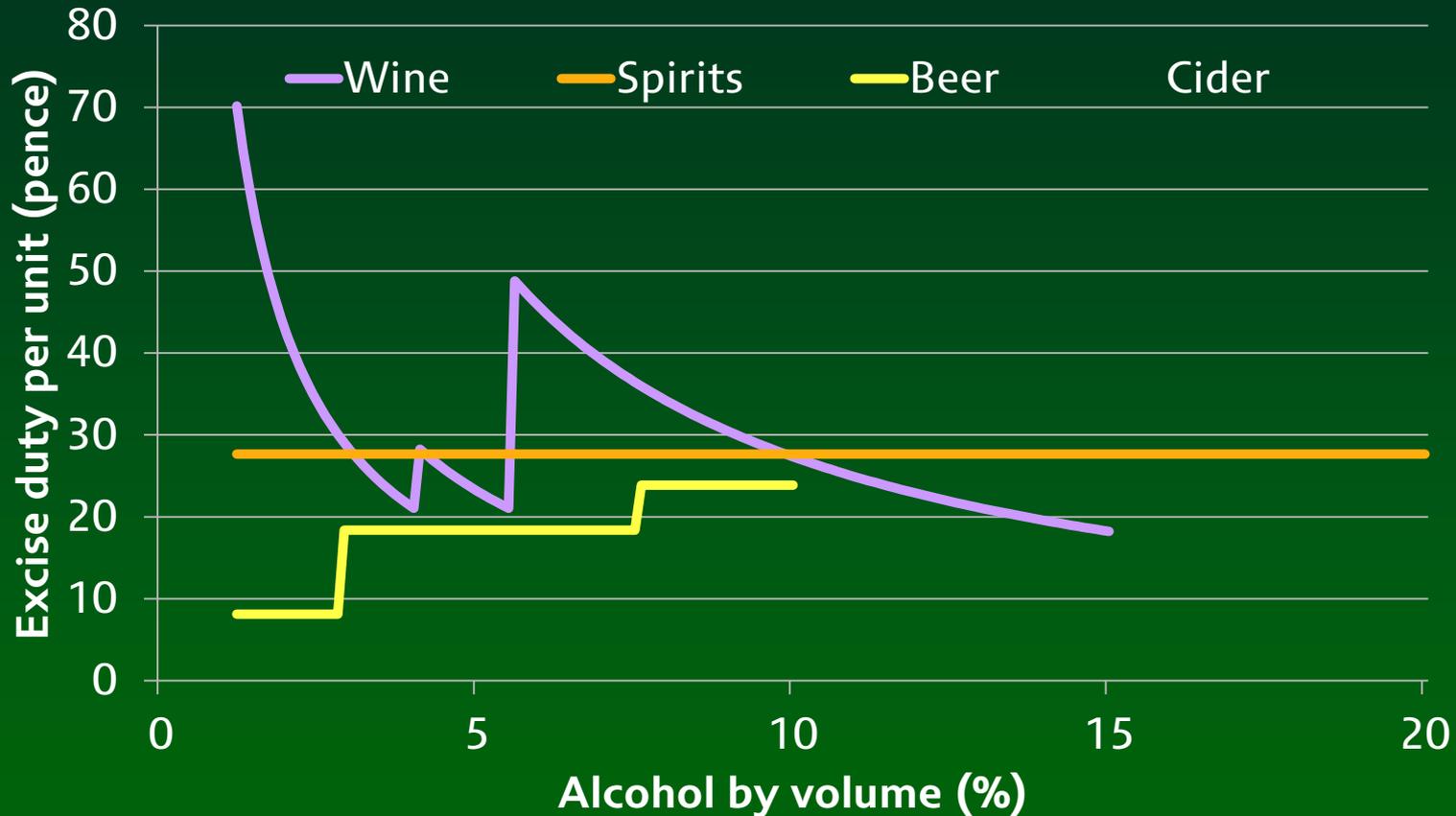
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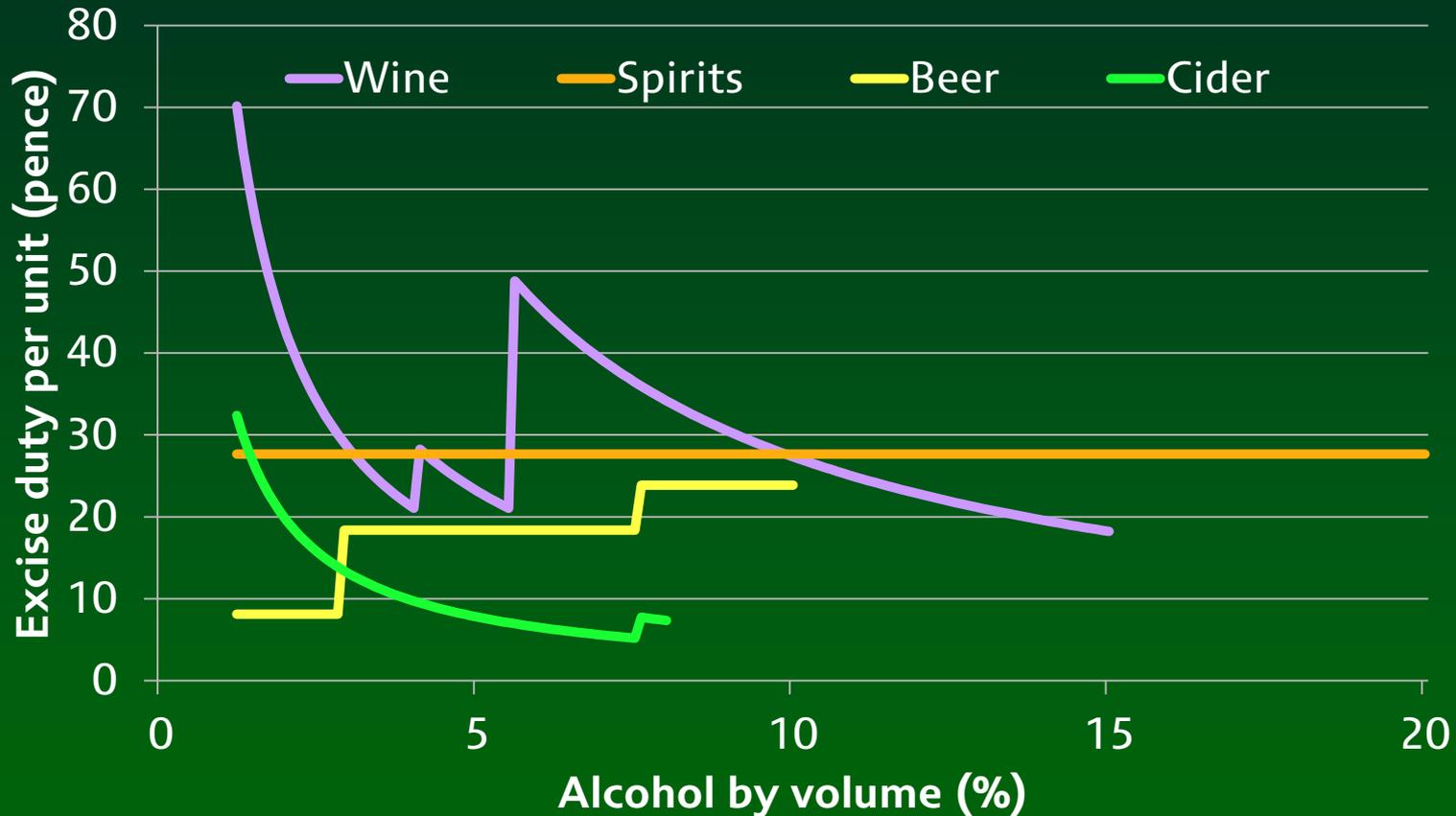
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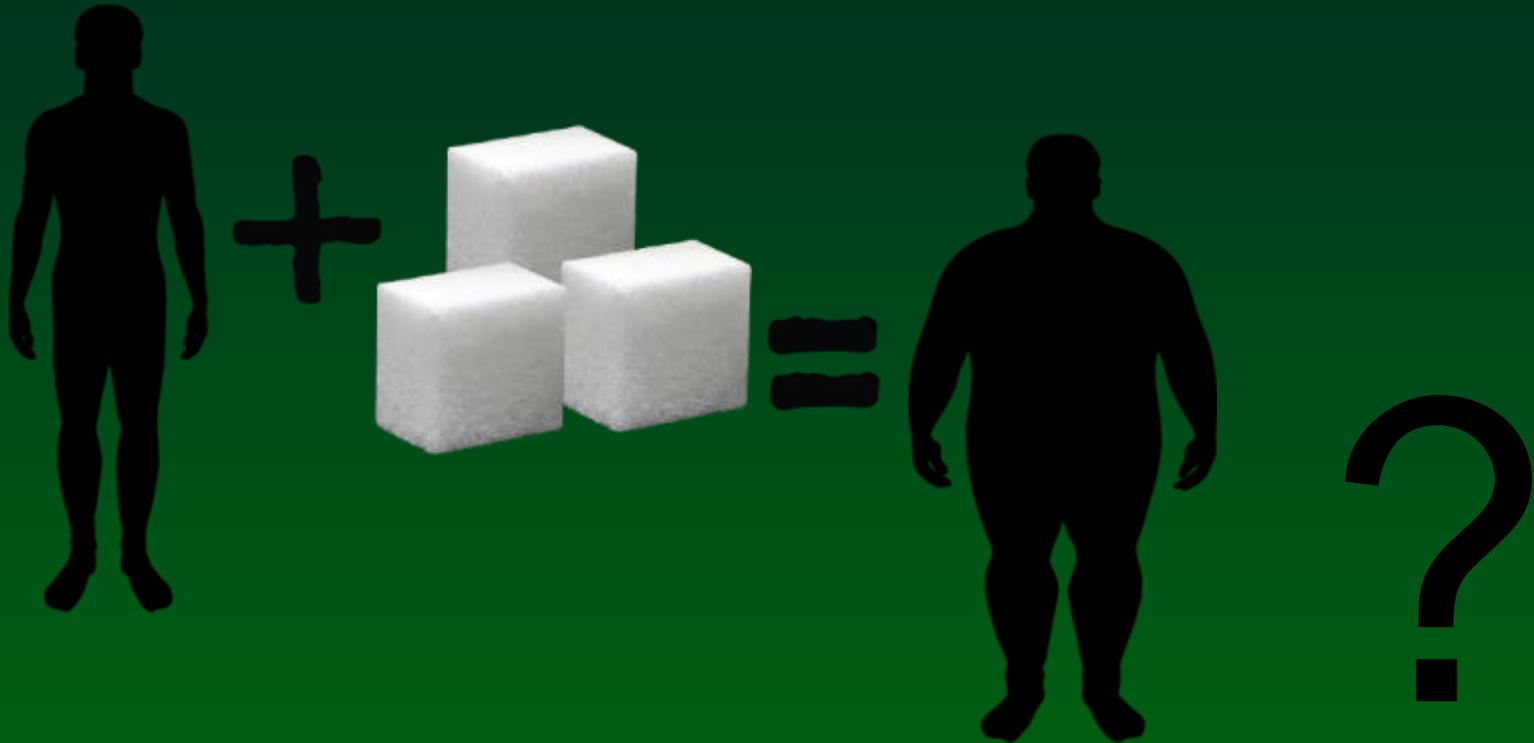
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Current tax system

- Alcohol taxes depend on type of alcohol and its strength
 - Beer and spirits duties are levied per unit of alcohol
 - Wine and cider duties are levied per litre of alcohol
- This leads to odd distortions in the tax system:
 - Litre of 7.5% ABV beer liable for 138p tax
 - Litre of 7.5% ABV cider liable for 39p tax
- Higher strength products are not systematically targeted:
 - There has been a long run decline in spirits duty
 - The real level of excise duty on spirits has fallen by 50% since 1978/9

A minimum unit price for alcohol?

- Heavier drinkers buy more alcohol in the form of cheap units
 - Suggests that a MUP might target their consumption
- But, there are two caveats to this:
 - Likely to lead to windfall profits for the alcohol industry
 - It is facing legal challenges
- An increase in spirits duty rates could be implemented without falling foul of EU law
- The effects of policies depend on consumer price responsiveness



Sugar

A tax on sugar?

- Growing concern about the costs of excess sugar consumption:
 - Linked to rising obesity levels, and tooth decay
 - Particularly among children
- We calculate that 93% of households buy in excess of the recommended 5% of their calories in the form of added sugar
- Public Health England have called for a tax on sugar in soft drinks:
 - Soft drinks do not contain other nutrients
 - But even if sugar consumed from soft drinks fell to zero, 88% of households would still purchase more than the 5% recommendation
 - Possibility of substitution to other unhealthy alternatives

A tax on sugar?

- Another policy is to consider a sugar tax that applies to a wider range of products (e.g. all food and drink)
- But this is more complex than it might appear:
 - This is likely to have a considerable effect on the consumption of other nutrients, so overall effect on diet is ambiguous
 - Firms may change prices differently to the tax imposed
 - They may also reformulate their food products e.g. could replace sugar with salt
- There are various policy options available to the government:
 - Consideration should be given to which is the most appropriate

Conclusions

- The main economic justification for the use of excise taxes is to correct socially costly behaviour not accounted for by individuals
- It is not clear that current taxes best target these social costs:
 - Congestion is poorly targeted by fuel duty and vehicle excise duty
 - Alcohol taxes do not systematically target higher strength products
- There is a clear case for reform to motoring and alcohol taxation
- The consequences of a sugar tax are complex and uncertain; further evidence of the possible effects is needed