



## **TACKLING ALCOHOL FRAUD: SPIRITS TAX STAMPS**

**January 2004**

- The Government's Pre-Budget Report published in December announced the Government's intention to introduce tax stamps for spirits in 2006, subject to further consultation. This briefing note provides an overview of the proposals and set out the implications for retailers.

### ***Background***

- The idea of tax stamps for spirits was first mooted in 2001 following evidence of widespread duty evasion within bonded warehouses highlighted in the Roques Report. The diversion of product produced for export to the home market without payment of duty in full is of particular concern. The tax stamps proposal enables duty paid produce to be immediately identified.
- The proposal was shelved in 2002 following strong lobbying by the industry, including *ALMR* about the cost implications of the proposal. It has been revisited following an increase in the market share of illicit spirits to 16% in 2001/02. The Government estimates that the introduction of tax stamps would reduce fraud by £160 million in the first full year of implementation.

### ***The Proposal***

- If adopted, the proposal would see all spirits products having to carry a tax stamp from a particular date. The stamp would be applied at the point at which the product leaves duty suspended storage.
- The stamp would take the form of a thin strip of security paper fixed over the bottle top. It would be purchased from HMC&E by producers and distributors at a rate which is equivalent to the rate of duty to be applied. The stamp would also contain information on bottle size and alcohol content.
- The Government recognises that spirits producers have concerns about compliance costs and has therefore stated that it will only press ahead with this proposal if the industry cannot suggest a workable alternative which will reduce duty fraud by a comparable amount.
- In the absence of any alternatives being identified, legislation to effect the change will be introduced as part of the Budget in April 2004 to take effect in early 2006.

### ***Impact on Retailers***

- The costs and obligations of the scheme will principally fall on spirits producers and distributors, but these costs may be passed down the supply chain.
- In addition, however, retailers would have a specific obligation to make sure that they only held or sold stamped product. It is expected that the new regulations will include a date by which unmarked stock must be removed from shelves, display or storage. This will require careful planning in respect of purchases and new due diligence checks.



- A new offence of handling or dealing in unstamped product would be introduced. Similar offences in relation to tobacco carry a £5,000 fine or 6 month custodial sentence and are relevant offences under the new Licensing Regime.
- When the issue was under discussion in 2001, HMC&E considered visiting retailers to apply a tax stamp to unopened product or requiring product to be returned to producers for destruction. The *ALMR* was asked to provide information on supply chain dynamics, purchasing and selling patterns.
- A survey of members carried out at the time found that the majority of spirits lines sold through the business in 90 days. However, the value of stock held for more than 90 days was considerable. We also found that only a small proportion of spirits stock was in the bar – that is, in use and therefore outside the tax stamps rules. On average less than 25% was in use although this fell to 60% in tenanted estate.
- In light of the above we recommended that a lead in time of at least a year was required to ensure that almost all spirits stock was sold through the business. We also suggested that this timeframe cover two Christmas trading periods so as to ensure slow moving seasonal lines were sold through.
- If legislation is introduced in Spring 2004 for introduction in early 2006, this should provide sufficient time to enable retailers to plan their purchasing patterns and avoid having a large stockholding of unstamped product. If, as is assumed product which is already opened and in use will be exempt from the scheme, the impact on retailers should be minimal.

#### ***ALMR Action***

- The current consultation relates only to the consideration of alternative means of reducing spirits fraud and this is essential a producer issue. The *ALMR's* sole concern is to ensure that any system which is introduced takes account of retailer needs and concerns. We have previously argued that a stamp indicating a product is for export only would be more effective and less disruptive to the legitimate trade.
- We will therefore write to the Treasury and HMC&E reiterating the need to provide retailers with advance warning to sell through stock and strongly resisting suggestions that the supply chain should be reversed to collect unstamped product for disposal.
- We will also highlight the need to ensure that cases are marked to signify that product is stamped to avoid retailers having to make a due diligence check before taking delivery. The status of spirits based bottled drinks will also need to be clarified as the method of calculating their duty has recently been changed from wine-based to spirits-based.
- *ALMR* activity will concentrate on ensuring retailers are advised of any new obligations and given frequent reminders of the need to plan purchasing decisions carefully.