Addressing the tax revenue problems associated with MUP

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Executive summary

Background

Minimum unit pricing (MUP) seeks to reduce alcohol-related harm by preventing the sale of alcohol at very low prices. It sets a floor price for a unit of alcohol (1 unit = 8g or 10ml of pure alcohol) and bans sales to consumers for less than this price. Evidence from Scotland and elsewhere suggests that introducing MUP leads to a reduction in alcohol consumption and alcohol-related health problems, particularly among those at greatest risk of harm.

However, a common criticism of the policy is that it generates additional revenue for the alcohol industry rather than tax income for the Government. This problem has become more important in recent years because of the constraints on public finances and updated modelling by SARG that suggests introducing an MUP in England may lead to a significant reduction in alcohol tax receipts. Therefore, there is interest within and outside government in policies that can increase the price of cheap alcohol while also delivering increased tax revenue.

This discussion paper assesses policy options in this area, including those recently proposed in a report by the Social Market Foundation (SMF).

Key findings

Previous proposals

Earlier debates have focused on alternatives to MUP, including three potential changes to the UK alcohol duty system. None of these changes offer a satisfactory solution:

Raising current duties to a MUP threshold

Government could increase rates of alcohol duty to the levels required to create an effective minimum price (e.g. the rate for standard strength beer would increase from £0.22 per unit (£0.29 inc. VAT) to £0.54 per unit (£0.65 inc. VAT).[a] In 2014, the UK Government banned sales of alcohol below the cost of the duty payable and the associated VAT, which means that increasing duty rates to this much higher rate would create a *de facto* MUP. However, it would be less well-targeted than a true MUP as it would increase the duty payable on all products, not just cheap alcohol. The scale of duty increases would also be political challenging, ranging from 65% for spirits to 441% for cider.

Raising current duties to replicate the effects of MUP on alcohol consumption and harm

Government could increase alcohol duties only to the extent needed to achieve the same effects as MUP on outcomes of interest (e.g. alcohol consumption, deaths from alcohol, deaths from alcohol in low income groups). The duty increases needed to achieve these effects could be estimated through simulation modelling. However, previous research suggests this approach would still be less well-targeted than MUP and require large duty increases (e.g. between 30% and 70% depending on the outcome targeted).

Banning below cost sales

The 2014 ban on selling alcohol below the cost of the duty payable on the product and the VAT payable on that duty was almost wholly ineffective as it affected the price of less than 1% of all alcohol sold.

Recent proposals

Recent proposals have suggested more extensive changes to the alcohol duty system that could either operate independent of an MUP or alongside one. These proposals appear more likely to be effective in targeting cheap alcohol but have a number of features that need to be understood when assessing their strengths and limitations.

Tobacco minimum excise tax (MET)

The tobacco MET specifies a minimum level of excise duty and tobacco *ad valorem* tax that producers must pay on products. As the *ad valorem* tax is based on a of percentage the recommended retail price (RRP) for the product, cheaper products attract more additional tax under the MET and more expensive products attract less.

Tobacco control advocates view the MET as a largely successful policy but a key limitation is that it does not prevent companies from selling tobacco at low prices; it

[a] The duty rates used throughout this report are based on those in place on 1st January 2025. Subsequent increases in duty rates will change some of the figures reported here but not the general conclusions.

simply requires them to pay more tax if they do so. Conversely, if companies do raise their prices, they will pay less tax as they get closer to the MET threshold.

A MET for alcohol

The Government could adapt the MET for alcohol and use it to target tax increases on the lowest cost products. This would mean setting the minimum tax threshold based on the total duty and VAT paid on the product.[b] As producers and importers pay alcohol taxes at the point of distribution for sale, this would also mean introducing taxation based on the RRP into the alcohol duty system and a system for reporting the RRP.

As with the tobacco MET, this policy would not prevent the sale of cheap alcohol, but it would impose extra taxes on cheaper products. A MET could be introduced alongside an MUP, but this would force the price of all products above a minimum level. The MET would only deliver additional tax revenue if its minimum tax threshold was above that level. Therefore, the MET would not be recovering the additional revenue by MUP forcing prices to rise but instead generating new revenue by imposing additional taxes on products priced a little above the MUP threshold after the price rise has taken place. Crucially, it would not differentiate between products that were originally priced above the MUP threshold and those that were forced above the threshold by the introduction of MUP.

Policies proposed by the Social Market Foundation

A report by the SMF proposed two policies that are similar to the MET to recover as tax the additional revenue generated by an MUP. First, it proposed a minimum unit tax (MUT) based on the duty and VAT payable on the RRP of a product. This is a straightforward translation of the tobacco MET. Second, it proposed an inverse *ad valorem* tax (IAV) whereby products would pay additional tax the further the RRP falls below a given price per unit threshold. The IAV uses a different mechanisms to the MUT but our analyses show it operates in a very similar way.

As with the MET, both policies do not prevent the sale of cheap alcohol unless introduced alongside an MUP. If they are introduced alongside an MUP, both the MUT and the IAV can recover as tax the additional revenue generated on products that were originally priced below the MUP. However, they do this by imposing new taxes on all lower-cost products that are priced above the MUP threshold after its implementation, with no regard to the pre-MUP price. Moreover, they will often generate surplus tax beyond that needed to recover the additional revenue, and this is more likely to occur for products that were additionally priced close to the MUP threshold than those that were originally priced substantially below it.

[b] This would include all of the VAT payable not just the VAT payable on the duty itself as with the current ban on below cost sales.

Conclusions

The minimum unit tax and inverse *ad valorem* taxes proposed by the SMF could increase the price of cheap alcohol and generate additional tax revenue while doing so. However, they would **require** substantial changes to the UK alcohol duty system, including the introduction of taxation based on recommended retail prices with its associated administrative challenges and burdens. These policies can operate successfully without an MUP, but they would only discourage rather prohibit the sale of cheap alcohol. When introduced alongside an MUP, they would only generate additional revenue by taxing all lower-cost products sold above the MUP threshold irrespective of their original price and would often impose more tax on products than what is necessary to recover the additional revenue created by the MUP.

Given this, one way to think about the MUP alongside the SMF's proposal is as a traffic light system with prices separated into three zones. The MUP prohibits the sale of products at prices within the red zone, the MUT or IAV discourages the sale of products at prices within the orange zone, and products at prices within the green zone face only current rates of duty and VAT. In the absence of a straightforward solution to the problem of MUP generating additional profits for the alcohol industry, these proposals offer a new way to think about targeting taxation on lower-cost alcohol, albeit at the expense of a more complicated alcohol duty system.

1. Background

Minimum unit pricing (MUP) seeks to reduce alcohol-related harm by preventing the sale of alcohol at very low prices. It sets a floor price for a unit of alcohol (1 unit = 8g or 10ml of pure alcohol) and bans sales to consumers for less than this price. Evaluations of MUP in Scotland and elsewhere suggest that targeting price increases on cheap alcohol in this way leads to a reduction in alcohol consumption and alcohol-related health problems, particularly among those at greatest risk of harm.[1,2] This is because it prevents sales of alcohol at the lower prices that are favoured by heavier drinkers.[3] It also has no direct impact on the price of more expensive products that are favoured by moderate drinkers, including those on lower incomes. Other benefits include a low administrative burden that leads to few challenges with implementation,[4] and equal treatment of all beverage types (e.g. beers, wines, spirits) as the floor price is determined by the alcohol content of drinks rather than other characteristics of the product.

However, a common criticism of MUP is that the additional revenue generated from imposing higher prices is mostly retained by the alcohol industry.[5-7] There are three strands to this criticism: (i) it is a lost opportunity to raise tax revenue that could be used to address the costs of alcohol-related harm, (ii) it is objectionable in principle as it delivers higher profits to the commercial actors that drive such harm and (iii) it is questionable in practice as alcohol producers and retailers may use the additional revenue to counteract the effects of MUP (e.g. by increasing their investment in alcohol marketing).

Separately, the current constraints on UK public finances mean policies that impact tax revenues are closely scrutinised by policy makers. SARG research has consistently shown that MUP reduces tax revenue because the reduction in duty receipts from lower alcohol sales is only partially offset by the increase in VAT revenue from charging higher prices on the remaining sales.[3] Previously the estimated loss in tax revenue was small at approximately £50m, but more recent unpublished analyses suggest it has risen to approximately £500m (i.e. 2-3% of total duty and VAT revenue from alcohol). This increase is partly due to changes to SARG's modelling and partly due to real-world changes in alcohol pricing, purchasing and consumption that are reflected in the data used by the model.

Given the above, there is interest within and outside government in policies that can target price increases on cheap alcohol while also delivering increased tax revenues. In particular, the Social Market Foundation (SMF) published a report in 2025 that briefly examined several policy options in this area.[8] This discussion paper assesses those policy options in greater detail alongside others proposed in earlier debates on the topic.

2. Policy options

2.1 Previous proposals

Earlier debates have focused on making changes to the alcohol duty system as an alternative to introducing an MUP, with two main options considered.

2.1.1 Raising current duties to a MUP threshold

One option is for Government to raise rates of alcohol duty to the levels required to create an effective minimum price. For example, it could raise the duty rate for standard strength beer from its current level of £0.22 per unit (or £0.29 after including VAT) to £0.54 per unit (or £0.65 including VAT).[c]

Historically, this would not have created a robust MUP as industry actors could choose not to pass the full cost of the duty increase onto retail prices. However, the UK Government introduced a ban on the sale of alcohol below the cost of duty and the VAT payable on that duty in 2014 [9]. Following the shift to strength-based taxation in 2022, this effectively means the UK already has an MUP, but it is set at a very low level given current duty rates.

There are however several major drawbacks to raising current duties to create a more effective MUP. The most obvious is the political challenge of imposing very large increases in alcohol taxes. Currently the duty plus VAT payable on alcoholic drinks ranges from £0.12 for low-strength cider through to £0.26 for drinks over 22% ABV.[d] To raise duty rates to £0.65 per unit would require increases ranging from 65% for spirits to 441% for cider. Moreover, these increases would be poorly targeted compared to MUP, with all alcoholic drinks affected and, due to typical patterns of tax passthrough and the higher VAT paid on more expensive products, the largest price increases would likely be seen on the more expensive products that are preferred by lower risk drinkers.[10,11] The Government could choose to protect draught beer and cider from duty increases by extending the 'draught relief' for draught beer sold in pubs, which was introduced alongside the 2022 alcohol duty reforms, but this would only partially mitigate the political challenges of imposing very large tax increases on other products.

2.1.2 Raising current duties to replicate the effects of MUP on alcohol consumption and harm

An alternative approach explored during the legal challenge to Scotland's MUP policy is to increase current duty rates to the level required for them to have the same

[c] The duty rates used throughout this report are based on those in place on 1st January 2026. Subsequent increases in duty rates will change some of the figures reported here but not the general conclusions.
[d] Lower duty rates are available for draught beer and cider in the on-trade.

impact on key outcomes as MUP. These outcomes might include alcohol consumption, alcohol consumption in higher risk groups or alcohol-related deaths.

SARG examined this policy option in 2016 and focused on uniform duty increases across all beverage types.[12] We found it would still require large duty increases of 30-70% depending on the outcome selected. These increases could be calibrated to target the beverage types favoured by particular population subgroups rather than applying a uniform approach. The strength-based duty system introduced in the 2022 reforms may also make this approach more effective. However, basing overall duty rates or duty rates for particularly beverage types on desired outcomes would introduce substantial complexity into the duty system that would be difficult to maintain over time. Furthermore, the tax increases required would still be large and would still affect both cheaper and more expensive products within each beverage type, meaning they would be less well-targeted on higher-risk groups than under an MUP.

2.1.3 Ban on below cost sales

As noted above, the UK Government introduced a ban on the sale of alcohol below the cost of duty and the VAT payable on that duty in 2014. This was sometimes presented as a ban on 'below cost' sales as part of attempts to frame the problem of cheap alcohol as solely one of loss-leaders in supermarkets.[e] However, this label is a misnomer as defining 'cost' with reference only to duty and the associated VAT does not account for the significant costs associated with production, supply, retail or marketing. More importantly, the policy was almost wholly ineffective as it affected the price of less than 1% of alcohol sales at the time of implementation.[9]

2.1.4 Summary of previous proposals

The proposals above have gained little traction with policymakers or public health advocates as alternatives to MUP due to their political difficulties, poor targeting and, in the case of the 'below cost' ban, ineffectiveness when compared to MUP. There had been no focused debate on further alternatives to MUP until recently.

2.2 Recent proposals

Recent proposals for alternatives to MUP have come from tobacco researchers, who have proposed translation of the UK's tobacco minimum excise tax (MET) into alcohol policy, and from the aforementioned report by the SMF. Below we set out the tobacco MET before considering the SMF proposals, the first of which draws on similar principles.

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[e] Ireland introduced an actual ban on below costs sales in 1987 but withdrew the policy in 2005. This was because it struggled to identify the true cost of the product to retailers as payments to their suppliers often covered multiple years, multiple products and various other considerations (e.g. promotional deals).

2.2.1 Tobacco minimum excise tax

The tobacco MET is best understood in the context of the full UK tobacco taxation system. Our explanation focuses only on cigarettes for the sake of simplicity.

Cigarettes are subject to four taxes:

An *ad valorem* tax set at 16.5% of the recommended retail price (RRP);

A unitary tax of £6.69 per packet of 20 cigarettes;

The MET then specifies a minimum level of excise duty that must be paid on all packs of cigarettes and requires additional payments if this level is not met through the *ad valorem* and unitary components above.[f]

VAT at the standard rate of 20% of the actual retail price.

The first two components form the excise duty component of cigarette taxes. The third component, the MET, effectively introduces a form of minimum pricing for cigarettes by ensuring all products attract at least a minimum level of duty. Cheaper products attract additional duty to raise their prices while more expensive products are unaffected.

Importantly, the MET is only a quasi-minimum price and is not directly comparable to MUP. This is because there is no requirement for retailers to pass-through the additional costs of the MET onto the retail price of cigarettes. Instead, the MET allows tobacco producers to follow one of three broad strategies.

1. **Pay the tax and increase prices:** Maintain the RRP at the level it would be in the absence of the MET, pay the additional duty required by the MET and then pass on the additional costs to retailers and ultimately to prices. However, the following alternative strategies suggest this would be economically irrational if the aim of producers is to maximise profits.
2. **Minimise the tax, increase prices and maximise profits:** Producers can circumvent the MET by voluntarily raising the RRP of their products to a level that would not require them to pay the MET. They would then receive additional profit from charging higher prices while not having to pay any extra duty.
3. **Pay the tax and maintain low prices for their marketing value:** Producers can maintain the RRP and pay additional duty via the MET, but not raise actual retail prices to ensure at least some cheap cigarettes remain on the market.

In practice, producers have adopted a mixture of the second and third options. Their willingness to use the third strategy and pay additional duty to continue selling cheap cigarettes suggests price remains an important marketing tool. Researchers suggest it

[f] The MET is not added to the sales price and therefore does not attract additional VAT.

allows the tobacco industry to attract younger consumers and to differentiate between lower and higher quality products.

Overall, the MET is regarded as having been effective at raising the price of cigarettes, despite evidence that tobacco producers are setting RRPs at below the threshold that the MET would be incurred. Nonetheless, tobacco control advocates have sought to identify further policy options. These include a minimum price for tobacco, as introduced in some counties of the USA, as this would eliminate the problem of cheap tobacco. However, as with MUP for alcohol, this would not be a tax and would therefore increase revenues for the tobacco industry. A further proposal is to introduce a *maximum* price in the wholesale market alongside a large increase in excise duty. This would constrain the range of prices that can be charged for cigarettes and limit producers' ability to use price as a marketing tool.

2.2.2 A MET for alcohol?

Implementing an analogue of the MET for alcohol would be challenging for several reasons:

The active ingredient in the MET is the *ad valorem* component of tobacco excise duty, which uses the RRP as a basis for taxation. Neither *ad valorem* duty nor RRPs play a role in the current alcohol duty system.

Alcohol products are more numerous, more varied and have more diverse pricing structures than tobacco products, creating greater potential for unanticipated or unintended outcomes.

The tobacco market operates on low profit margins and tobacco producers exert tight control over actual retail prices (ensuring a close relation to RRPs). Neither of these features are present to a consistent degree in the alcohol market and create greater potential for industry responses that impact the effectiveness of the policy.

Although these challenges are surmountable in theory, they illustrate the practical difficulties and complexities that would arise in any effort to adapt the MET to the UK alcohol duty system. They also point towards potential increases in administrative burdens for government and industry actors.

The alternative policies proposed by the SMF adapt various features of the MET and combine them with other policies, including VAT and MUP. Therefore, we briefly discuss more basic versions of an alcohol MET to help readers understand some key principles before examining the SMF's policies in detail.

2.2.2.1 Alcohol MET based only on excise duty

The most basic alcohol MET would be to require all products to at least a certain level of excise duty, such as £0.30 per unit. All products currently paying less duty would pay the MET rate while all products currently paying more would see no change.

While straightforward, this approach is equivalent to simply raising the duty rate for products <8.5% ABV to £0.30 per unit and leaving the rate for stronger products unchanged as it already exceeds £0.30 per unit. As such, it simply changes the existing 'MET' (i.e. the lowest duty rates in the current system) rather than introducing a new approach. This is beneficial for public health in a general sense as it raises alcohol duties, but it does not target the specific problem of cheap alcohol in a way akin to MUP.

An alternative MET based only on excise duty would require all products to pay a certain absolute level of excise duty irrespective of their alcohol content, such as £1.00 per litre of product. However, this is effectively a less well-targeted version of the duty per unit proposal. It still increases the duty rate for lower taxed products without specifically targeting cheap alcohol within that category, and it now also imposes tax increases on low-strength products that attract little tax because they contain little alcohol.

2.2.2.2 Alcohol MET based on excise duty and VAT

A more effective but more complex MET would require products to pay a minimum level of overall tax, including both excise duty and VAT. This would better target cheap alcohol as lower-priced products that attract less VAT would have to pay more duty while an equivalent product sold at a higher price would attract more VAT and have to pay no additional duty. In line with the examples in the previous section, the MET would need to be based on the amount of tax paid per unit of alcohol to avoid penalising cheaper low-strength products that attract little duty because they contain little alcohol.

One way to achieve this would be to set a MET at £0.35 per unit of alcohol minus the VAT payable on the product. This would mean a mid-strength beer containing two units of alcohol and costing £1.00 would:

- Attract £0.20 of VAT
- Face a MET of £0.35 x 2 units – £0.20 VAT = £0.50
- Attract current standard strength beer duty of £0.22 per unit x 2 units = £0.44
- Pay additional duty under the MET of £0.50 - £0.44 = £0.06

This approach appears to meet the basic aim of emulating the tobacco MET. However, there are two problems.

First, calculating the VAT payable means knowing the actual or recommended retail price at the point of taxation. Currently, producers or importers pay alcohol duty when they release products from their warehouses for sale, so the actual retail price is unknown. They could report the RRP alongside their tax payment but this would be a new addition and potentially complex addition to the duty system. We return to this point later in this paper.

Second, as with the tobacco MET, this approach allows producers to choose between either (i) paying no additional tax and raising prices to maximise profits or (ii) paying the additional tax but keeping prices low. Neither of these scenarios meet the original goals of eliminating cheap alcohol and securing additional tax revenue for the Government. Therefore, we consider a final approach.

2.2.2.3 Alcohol MET based on excise duty and VAT and combined with MUP

This approach uses the same MET as in the previous section but combines it with a MUP. Initially, it may seem this meets the goals set out above by forcing the price of cheap alcohol to increase while returning the additional revenue from higher prices to the Government rather than industry actors. However, this is not what happens in practice.

Returning to the example discussed in the previous example. With an additional MUP of £0.65, this beer would:

- Face an automatic price from MUP of £0.65 x 2 units - £1.00 = £0.30
- At the new price of £1.30 attract £0.26 of VAT
- Face a MET of £0.35 x 2 units – £0.26 VAT = £0.44
- Attract current standard strength beer duty of £0.22 per unit x 2 units = £0.44
- Pay additional duty under the MET of £0.44 - £0.44 = £0.00

Therefore, although the price of the beer increases under the MUP, there is no additional revenue to the Government. This is because the tax payable under the MET is calculated using the post-MUP price. It cannot be based on the original pre-MUP price because this is unknown after the MUP is in place. In theory, the Government could require producers to report a RRP as it would have been pre-MUP, but this would be impractical to verify, particularly in the longer-term.

A solution to this would be to set the MET at a higher rate so it delivers additional tax revenue based on the post-MUP price. However, this would be a different policy that is not targeting cheap alcohol per se and is not delivering the additional revenue created by an MUP to government. Instead, it is imposing an additional tax on the lowest priced alcohol after implementation of an MUP (e.g. alcohol priced between £0.65 and £0.80 per unit). Moreover, this additional tax is payable irrespective of whether the product was initially priced above or below the MUP. The policy would also be subject to the same limitations as the tobacco MET and the alcohol MET discussed in the previous section – industry actors could choose whether to pay the MET and keep lower cost alcohol available for its marketing value or raise prices to secure additional profit. This approach is therefore not a means of recovering for Government the additional revenue from MUP. Instead, it can be thought of as a two-tier policy with the cheapest alcohol eliminated by MUP and the remaining low-price alcohol subject to a MET that allows industry actors to choose a preferred business strategy.

The following sections use the SMF's proposed policies to explore some of the issues raised above in more depth and across a wider range of example products.

2.2.3 SMF proposal #1: Minimum unit tax with MUP

The SMF proposes introducing an analogue of the tobacco MET for alcohol, with the tax based on duty, VAT and MUP. It refers to this as a minimum unit tax (MUT) and we will use the same terminology to differentiate it from the tobacco MET and to acknowledge the role of alcohol 'units' and MUP in its mechanisms.

In line with the example policies discussed above, the MUT is designed to work in conjunction with MUP and ensures that the total tax (i.e. duty plus VAT) payable on alcohol after the introduction of MUP does not fall below a specified threshold.[g] The SMF proposes this threshold might be £0.36 per unit based on their preliminary analyses.

Under this MUT, producers or importers would pay the higher of:

- Duty and VAT payable under the current system;
- £0.36 per unit minus the VAT payable on the RRP for the product after MUP.

This is essentially the same as the policy described in Section 2.2.2.3 above, albeit with a higher threshold. As noted above, one way to understand this MUT is as a two-tier policy that eliminates the cheapest alcohol via the MUP and then imposes additional taxation on the remaining lower-cost alcohol. In effect, it creates a second MUP threshold below which products must pay additional tax and we refer to this threshold as the MUT-MUP. This threshold varies across products and is a function of the VAT rate and the duty rate per unit for the product.[h] As standard strength products of each beverage type face the same duty rate, we can identify a single MUT-MUP for each beverage type, although this will vary for products that fall into non-standard tax bands. There is also a minimum level at which the MUT must be set to deliver any additional revenue. This 'Minimum Effective MUT' again varies across products and is a function of the MUP threshold and the duty rate per unit for the product.[i] As with the MUT-MUP, we can identify a single Minimum Effective MUT for standard strength products of each beverage type.

Table 1 presents the Minimum Effective MUT and the associated MUT-MUP (i.e. the price above which products attract no additional tax) under a £0.65 MUP for the four main beverage types. It then presents the MUT-MUP under the SMF's suggested MUT threshold of £0.36 per unit. The table demonstrates that this threshold would be

[g] Unlike the ban on below cost sales described above, the MUT considers tax to include the duty and full VAT payable on the price, not just the VAT payable on the duty.
[h] Specifically: Threshold price = (1+1/(%VAT)) * (MUT threshold – Duty per unit for product)
[i] Specifically: Minimum Effective MUT = Duty per unit for beverage type + MUP threshold/(1+1/(%VAT))

below the Minimum Effective MUT for wine and spirits, meaning no wine or spirits would pay any additional tax. The table therefore includes an additional MUT threshold of £0.46. In line with their view that the MUT is recovering the additional revenue generated by MUP, the SMF propose this higher threshold for spirits but not wine as they argue that wine is largely unaffected by MUP so policymakers may not wish to subject it to additional duty.

Table 1 demonstrates that the MUT threshold needs to be at least 0.44 to affect all beverage types. The MUT-MUP values also demonstrate that a MUT of £0.36 would impose additional duty costs on products priced up to £1.58 per unit for cider and £0.85 per unit for beer while leaving wines and spirits unaffected as £0.36 is below the Minimum Effective MUT threshold. Similarly, a MUT of £0.46 would impose additional duty costs on all beverage types (e.g. on beers costing up to £1.45 per unit and spirits costing up to £0.79 per unit). As discussed above, this targeting of products priced substantially above the MUP is the mechanism by which it delivers additional tax revenue and therefore a necessary feature of the policy.

Table 1: Threshold values for standard-strength products of each beverage type under a Minimum Unit Tax (MUT).[j]

	Cider	Beer	Wine	Spirits
Current duty per unit	£0.10	£0.22	£0.30	£0.33
Minimum VAT per unit under £0.65 MUP[k]	£0.11	£0.11	£0.11	£0.11
Minimum effective MUT threshold	£0.21	£0.33	£0.40	£0.44
MUT-MUP under minimum effective MUT[l]	£0.65	£0.65	£0.65	£0.65
MUT-MUP under £0.36 MUT	£1.58	£0.85	£0.39	£0.19
MUT-MUP under £0.46 MUT	£2.18	£1.45	£0.99	£0.79

Table 2 further explores the impacts of the SMF's MUT policy using a set of example products. This highlights three key points which we describe for beers but which operate in similar ways for all beverage types.

First, a £0.36 MUT could recover as tax significant proportions of the additional revenue that is generated by the MUP causing alcohol to be sold at higher prices. For

[j] All figures based on duty rates on 1st January 2026.
[k] One-sixth of £0.65, in line with the VAT rate of 20%.
[l] The minimum effective MUT is defined as the MUT necessary to affect only the cheapest products on the market (i.e. those priced at the MUP threshold). Therefore, by definition, the MUT-MUP for this minimum effective MUT is also the MUP threshold.

the example beers, this proportion is between 20% and 100%. However, as expected, beers originally priced above the MUP threshold but below the MUT-MUP of £0.85 per unit would also face additional duty costs.

Second, increasing the MUT to £0.46 increases the recovery of additional revenue to between 72% and 100% but some products originally priced below the MUP threshold are now taxed substantially above the value of the additional revenue. In other words, the policy generates surplus tax.

Third, as described in the previous section, the MUT does not account for how far below the MUP the original product was priced. If the MUT recovers less than 100% of the additional revenue, a product originally priced £0.01 per unit below the MUP threshold will face the same increased duty costs as a product originally priced £0.20 per unit below the threshold. As a result, almost all of the additional tax on the product originally priced £0.01 per unit below the MUP threshold is surplus as this product generated minimal additional revenue. Moreover, if the additional tax is passed through to the product's retail price, it will then increase the VAT that is payable, further increasing the surplus tax. In practice, this means that the product that was originally more expensive will ultimately face a larger tax increase than the product that was originally cheaper (because the cheaper product can absorb the tax increase without raising the retail price due to the artificial inflation of price created by MUP). This pattern of effects can be seen for the 18x440ml beers in the third and fifth columns of Table 2.[m]

The broad patterns that emerge from this analysis of the impacts of MUT are listed below. We label them as positive, neutral or negative based on the assumed policy goals of recovering additional revenue from MUP as tax, targeting price increases on cheaper alcohol and raising the price of alcohol in general:

- **Positive:** The MUT can recover the additional revenue from introducing an MUP and the proportion of this revenue recovered rises with the MUT threshold.
- **Negative:** The proportion of additional revenue recovered is lower for products with lower prices per unit before MUP.
- **Neutral:** The proportion of additional revenue recovered is lowest for beverage types that have higher excise duty rates per unit.
- **Negative:** As the MUT rises it generates surplus tax, and higher levels of surplus tax, from products that were originally priced below the MUP

[m] A theoretical solution to this problem would be to limit tax increases to the price increase caused by MUP. This would additionally allow policymakers to set the MUT at a threshold that ensures 100% recovery of excess profit. However, this is simply imposing a tax equivalent to the difference between the pre- and post-MUP price of the product and is likely to be infeasible given the pre-MUP price is unknown after implementation of the policy.

threshold. This occurs first for the products originally priced close to the MUP threshold and then moves down the price distribution as the MUT rises.

- **Positive:** As the MUT rises it also generates surplus tax by impacting products priced above the MUP threshold but below the MUP-MUT threshold. This occurs first for, and the surplus tax is larger on, products priced further below the MUP-MUT threshold.

Table 2: Tax revenue generated by Minimum Unit Tax (MUT) under alternative thresholds for different products.[n]

	Beer					Cider				Wine		Spirits		
Volume (ml)	12x330	4x440	18x440	10x440	18x440	500	4x440	18x440	2000	750	750	700	700	700
ABV	5.0%	4.6%	4.6%	4.6%	4.6%	4.5%	4.0%	4.5%	7.5%	12.5%	11.0%	37.5%	40.0%	37.5%
Original price	£18.50	£5.50	£23.00	£9.95	£16.95	£2.65	£5.75	£13.99	£5.25	£8.50	£5.95	£18.25	£18.00	£12.49
Original price per unit	£0.93	£0.68	£0.63	£0.49	£0.47	£1.18	£0.82	£0.39	£0.35	£0.91	£0.72	£0.70	£0.64	£0.48
£0.65 MUP														
Post-MUP price	£18.50	£5.50	£23.68	£13.16	£23.68	£2.65	£5.75	£23.17	£9.75	£8.50	£5.95	£18.25	£18.20	£17.06
Increase in price[a]	N/A	N/A	£0.68	£3.21	£6.73	N/A	N/A	£9.18	£4.50	N/A	N/A	N/A	£0.20	£4.57
MUP + £0.26 MUT														
Extra tax payable[b]	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.19	£1.83	£0.77	£0.00	£0.00	£0.00	£0.00	£0.00
% profit recovered	N/A	N/A	N/A	N/A	N/A	N/A	N/A	20%	17%	N/A	N/A	N/A	N/A	N/A
Surplus tax[b]	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.19	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
MUP + £0.36 MUT														
Extra tax payable[b]	£0.00	£0.27	£1.33	£0.69	£1.23	£0.17	£1.02	£5.40	£2.27	£0.00	£0.00	£0.00	£0.00	£0.00
% profit recovered	N/A	N/A	100%	21%	18%	N/A	N/A	59%	50%	N/A	N/A	N/A	N/A	N/A
Surplus tax[b]	£0.00	£0.27	£0.65	£0.00	£0.00	£0.17	£1.02	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
MUP + £0.46 MUT														
Extra tax payable[b]	£2.00	£1.22	£5.58	£2.71	£4.88	£0.43	£1.84	£8.96	£3.77	£0.15	£0.43	£0.50	£0.74	£0.62
% profit recovered	N/A	N/A	100%	85%	72%	N/A	N/A	98%	84%	N/A	N/A	N/A	100%	14%
Surplus tax[b]	£2.00	£1.22	£4.90	£0.00	£0.00	£0.43	£1.84	£0.00	£0.00	£0.15	£0.43	£0.50	£0.54	£0.00

[a] Increase in price is equivalent to the excess profit that the MUT is attempting to recover. [b] Extra and surplus tax includes both duty and VAT arising from the MUT.

[n] All figures based on duty rates on 1st January 2026.

2.2.3.1 Limitations of the MUT

The relative complexity of the MUT compared to the existing alcohol duty system and the need to introduce a system of reporting RRPs raises some concerns about enforcement.

For example, industry actors may choose to misreport their RRPs to pay less tax. Although this problem theoretically exists for the tobacco MET, there is little evidence of substantial problems with compliance in that sector. However, the alcohol market is more complicated, with a much larger range and diversity of products and product prices, which makes monitoring compliance with accurate reporting of RRPs more challenging. That said, it seems likely that the presence of MUP and the design of the MUT would reduce the risk of company's misreporting RRPs. Specifically, the MUP prevents producers from reporting RRPs below the MUP threshold and the incentive to report an RRP substantially above the threshold is constrained by price competition from other products. Retailers may choose to sell products at a higher price than the RRP reported by producers or importers, but these prices would risk being either uncompetitive compared to other retailers or unsustainable in the long-term as producers and importers would likely increase their RRP rather than allowing retailers to claim additional profit while they pay additional tax. Alternatively, products may artificially inflate their RRP to reduce their MUP payments while retailers continue to sell products at a lower price. However, the incentives to do this are also limited as each £1.00 increase in the RRP only reduces the tax burden by £0.19 and any significant discrepancy between RRPs and actual retail prices would risk prosecution for tax evasion.

The basic mechanism of the MUT is also relatively technical from a mathematical perspective. This may lead to challenges with accidental non-compliance, introduce complex constraints on business behaviour, and pose particular challenges for smaller businesses. Consequently, it is likely that the policy would generate resistance from industry that goes beyond general concerns about additional taxation or regulation.

Finally, it is worth noting that the RRP informs the amount of additional tax payable under the MUT, but this additional tax will in turn affect the RRP. This circularity is not a problem, however, as company's should report the RRP in light of the expected tax burden associated with that RRP.

2.2.3.2. Summary of MUT

In summary, the MUT is analogous to the tobacco MET but may avoid some of its major limitations when introduced alongside an MUP. Ostensibly, it can recover excess profits from MUP as tax revenue while still preventing the sale of cheap alcohol. However, it does this by imposing additional tax on lower-cost products after the introduction of MUP, irrespective of the product's original price. As a result, it is prone to imposing two surplus taxes: (i) those beyond what is needed to recover the

additional revenue from MUP and (ii) those on products that were originally priced above the MUP threshold. Further, to affect all beverage types in an equitable way, it needs to be implemented in a more complicated form with different MUT thresholds for each beverage type.

2.2.4 SMF proposal #2: Inverse ad valorem tax

The second SMF proposal is more novel. They suggest an inverse *ad valorem* (IAV) tax whereby cheaper products pay an incrementally higher rate of duty rather than a minimum amount of duty. In the SMF's example, producers would pay an additional £0.01 per unit in duty for every £0.03 per unit the RRP falls below £1.00 per unit.

The SMF makes a number of claims about IAV that explain why the MUT is its preferred policy option. However, we are unconvinced by those claims as we explain below.

2.2.4.1 Claim 1: Incompatibility with MUP

The SMF argues:

"*[The IAV] makes most sense as an alternative to MUP…If an MUP is in place, we no longer observe the very cheap prices than an IAV 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…or to assume that products that are cheap following MUP were below it beforehand.*"

It is unclear why any of these argument would not apply equally to the MUT, which also cannot observe pre-MUP prices. Indeed, implementing an IAV alongside MUP would operate in a very similar way to the MUT. The additional tax revenue would arise from the difference between the RRP after the implementation of MUP and a second higher threshold (i.e. the £1.00 per unit suggested by the SMF). The only meaningful difference in the basic operation of the policies is the formula for calculating the tax payable, as shown below:

- MUT duty = MUT threshold - Current duty per unit - VAT per unit after MUP
- IAV duty = (IAV threshold – RRP/Distance parameter) * IAV rate

Where the 'Distance parameter' is the metric used when calculating the difference between the IAV threshold and the RRP (i.e. £0.03 per unit in the SMF example) and the IAV rate is the additional duty payable on that distance (i.e. £0.01 per unit in the SMF example).

Although the two policies generate additional tax using quite different formulae, they are essentially both comparing the RRP after implementing MUP to a threshold and then imposing additional duty based on the difference. It is therefore difficult to see why IAV cannot work alongside MUP assuming that appropriate parameters are chosen.

2.2.4.2 Claim 2: Challenges in the absence of MUP

The SMF also argues that, in the absence of MUP:

"[The IAV is unlikely to increase tax rates] 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 IAV would be absorbed by retailers keen to maintain low prices as a 'loss leader'. Moreover, as discussed below, shifting the 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.

The three arguments here (i.e. insufficient effect, incomplete pass-through and implementation challenges) seem equally applicable to MUT when implemented in the absence of MUP. Improving effectiveness is simply a matter of adjusting the parameters and then assessing whether the policy remains sufficiently targeted. Incomplete passthrough is just as much of a problem for the MUT and indeed appears to be a fundamental problem for all tax-based alternative to MUP (see also the tobacco MET). However, this can be addressed partly by designing policies that deliver greater or lesser reductions in tax for voluntarily raising prices. Ultimately, this problem is why the IAV benefits from MUP in exactly the same way as the MUT; the MUP forces up the price of cheap alcohol. Finally, given the discussions above, it is hard to argue that the MUT does not also tax products based on their price and entail significant shifts in the current tax system that would be equally challenging to implement. The MUT is also, in our view, a more challenging policy to implement than IAV because the use of VAT makes calculating the correct duty rate and analysing policy effects more complicated.

2.2.4.3 The impact of IAV

Given our scepticism about claims that the MUP and IAV are incompatible, we analyse the impact of IAV with and without an MUP. As with the MUT, the IAV essentially operates as a second MUP threshold but, unlike the MUT-MUP, this threshold is an explicit parameter (i.e. £1.00 per unit in the SMF's example). This means all products priced below £1.00 per unit will face additional taxation. Given the simplicity of this threshold, we move straight to the comparison of impacts on different products in Table 3. Specifically, we examine three versions of the IAV:

1. SMF proposal: Additional duty of £0.01 per unit for every £0.03 per unit the RRP falls below £1.00 per unit.
2. IAV at MUP rate: Additional duty of £0.01 per unit for every £0.01 per unit the RRP falls below £0.65 per unit.
3. MUP + SMF proposal: A £0.65 MUP plus the SMF IAV in Version 1 above.

The price changes in Table 3 suggest impacts that are similar to the MUT, in line with our argument that the mechanisms are similar. In the absence of an MUP, the SMF's

proposal imposes price increases that are much larger than those imposed by an MUP, except for cider where they are a little smaller. This includes price increases on products that would not be affected by an MUP, and particularly large price increases on spirits that would not be affected by the MUP. If the IAV is considered as an alternative to MUP that allows the additional revenue from higher prices to be converted into tax revenue, then the IAV appears similar to MUT in that it generates significant surplus tax beyond that additional revenue.

Table 3: Price increases implied by Minimum Unit Pricing (MUP) and an Inverse Ad Valorem (IAV) tax for different products.[o]

	Beer					Cider				Wine		Spirits		
Volume (ml)	12x330	4x440	18x440	10x440	18x440	500	4x440	18x440	2000	750	750	700	700	700
ABV	5.0%	4.6%	4.6%	4.6%	4.6%	4.5%	4.0%	4.5%	7.5%	12.5%	11.0%	37.5%	40.0%	37.5%
Original price	£18.50	£5.50	£23.00	£9.95	£16.95	£2.65	£5.75	£13.99	£5.25	£8.50	£5.95	£18.25	£18.00	£12.49
Original price per unit	£0.93	£0.68	£0.63	£0.49	£0.47	£1.18	£0.82	£0.39	£0.35	£0.91	£0.72	£0.70	£0.64	£0.48
£0.65 MUP														
Post-MUP price	£18.50	£5.50	£23.68	£13.16	£23.68	£2.65	£5.75	£23.17	£9.75	£8.50	£5.95	£18.25	£18.20	£17.06
Increase in price	N/A	N/A	£0.68	£3.21	£6.73	N/A	N/A	£9.18	£4.50	N/A	N/A	N/A	£0.20	£4.57
IAV at SMF rate[a]														
Post-IAV price[b]	£19.02	£6.54	£28.37	£14.07	£24.74	£2.65	£6.27	£22.65	£9.15	£8.85	£6.87	£21.45	£22.00	£17.99
Increase in price	£0.52	£1.04	£5.37	£4.12	£7.79	N/A	£0.52	£8.66	£3.90	£0.35	£0.92	£3.20	£4.00	£5.50
Diff. from MUP price	£0.52	£1.04	£4.69	£0.91	£1.06	N/A	£0.52	-£0.52	-£0.60	£0.35	£0.92	£3.20	£3.80	£0.93
IAV at MUP rate[c]														
Post-IAV price[b]	£18.50	£5.50	£23.82	£13.80	£25.03	£2.65	£5.75	£25.00	£10.65	£8.50	£5.95	£18.25	£18.24	£17.98
Increase in price	N/A	N/A	£0.82	£3.85	£8.08	N/A	N/A	£11.01	£5.40	N/A	N/A	N/A	£0.24	£5.49
Diff. from MUP price	N/A	N/A	£0.14	£0.64	£1.35	N/A	N/A	£1.84	£0.90	N/A	N/A	N/A	0.04	£0.91
MUP + IAV at SMF rate[d]														
Extra tax payable[e]	£1.22	£1.30	£6.17	£2.96	£5.16	£0.04	£0.62	£4.16	£1.75	£0.80	£1.30	£4.55	£5.31	£4.25
% profit recovered	N/A	N/A	100%	92%	77%	N/A	N/A	45%	39%	N/A	N/A	N/A	100%	93%
Surplus tax[e]	£1.22	£1.30	£5.49	£0.00	£0.00	£0.04	£0.62	£0.00	£0.00	£0.80	£1.30	£4.55	£5.11	£0.00

[a] £0.01 per unit in additional duty for every £0.03 per unit the recommended retail price is below £1.00 per unit. In this analysis, we assume the recommended retail price matches the pre-MUP sales price. [b] Assumes full tax pass-through and accounts for the VAT payable on the additional duty from IAV. [c] £0.01 per unit in additional duty for every £0.01 per unit the recommended retail price is below £0.65 per unit. [d]MUP at £0.65. [e] Extra and surplus tax includes both duty and VAT arising from the IAV.

[o] All figures based on duty rates on 1st January 2026.

Using the IAV at MUP rate parameters brings the price increases more in line with an MUP, thus reducing but not eliminating this surplus tax, and also avoids impacting products that are not affected by MUP.

The MUP + SMF proposal produces a pattern of impacts that is similar to the MUT and we compare these outcomes in Table 4. The only substantial difference in this pattern is on a neutral point – the proportion of additional revenue recovered under the IAV is not directly related to the current duty rate per unit of different beverage types.

Table 4: Comparison of pattern of effects for the Minimum Unit Tax (MUT) and Inverse Ad Valorem (IAV) tax.

Minimum Unit Tax (MUT)	***Inverse Ad Valorem (IAV) tax***
Positive: The MUT can recover as tax the additional revenue from introducing an MUP and the proportion of additional revenue recovered can be increased by raising the MUT threshold.	**Positive:** The IAV can recover as tax the additional revenue from introducing an MUP and the proportion of additional revenue recovered can be increased by manipulating the IAV parameters.
Negative: The proportion of additional revenue recovered is lower for products with lower prices per unit before MUP. [No difference]	**Negative:** The proportion of additional revenue recovered is lower for products with lower prices per unit before MUP. [No difference]
Neutral: The proportion of additional revenue recovered is lowest for beverage types that have higher current duty rates per unit.	**Neutral:** The proportion of excess profits recovered is not directly related to the current duty rate per unit of different beverage types. However, it is indirectly related as products facing a lower current duty rate will tend to have a lower price per unit before MUP.
Negative: As the MUT rises it generates surplus tax, and higher levels of surplus tax, from products that were originally priced below the MUP threshold. This occurs first for the products originally priced close to the MUP threshold and then moves down the price distribution. [No difference]	**Negative:** As the IAV threshold rises it generates surplus tax, and higher levels of surplus tax, from products that were originally priced below the MUP threshold. This occurs first for the products originally priced close to the MUP threshold and then moves down the price distribution. [No difference]

Positive (assuming imposing further price increases beyond MUP are desirable): As the MUT rises it also generates surplus tax by impacting products priced above the MUP threshold but below the MUP-MUT threshold. This occurs first for, and the surplus tax is larger on, products priced further below the MUP-MUT threshold. [No difference]	**Positive (assuming imposing further price increases beyond MUP are desirable):** As the IAV threshold rises it also generates surplus tax by impacting products priced above the MUP threshold but below the IAV threshold. This occurs first for, and the surplus tax is larger on, products priced further below the IAV threshold. [No difference]

2.2.4.4 Limitations of the IAV

The IAV shares the same basic limitations as the MUT in that it relies on accurate reporting of the RRP, whether implemented with or without an MUP. As noted above, we share the SMF's concern about the effectiveness of tax-based alternatives that are not implemented alongside MUP. However, this appears to be a lesser consideration when implemented with an MUP as the incentive to raise prices voluntarily to avoid tax and increase profits is limited. The IAV does offer greater incentives to take this approach, with a tax reduction of £0.39 for every £1.00 increase in RRP compared to £0.19 for the MUT, and this is an important consideration when comparing the policies.

However, in our view the IAV is a simpler policy that should impose fewer unintended costs on businesses beyond the additional duty itself. This is not to suggest it is straightforward as both policies require the introduction of systems to report RRPs for HMRC and businesses, and efforts to ensure compliance and enforcement around those systems. Nonetheless, the IAV appears more straightforward to work with for business when seeking to make strategic decisions.

2.2.5 Summary of recent proposals

The tobacco MET and the SMF's proposals for MUT and IAV all provide taxation mechanisms that target cheap alcohol more effectively than earlier proposals. They also, in principle, allow the Government to either recover as tax the additional revenue created by MUP or provide a tax-based alternatives to MUP.

In our view, the tobacco MET is not a desirable alternative to MUP, nor are the MUT or IAV when implemented without an MUP. In all cases, these policies are unlikely to eliminate cheap alcohol or raise additional revenue to the desired extent. This is because industry actors can choose to pay the additional tax costs without raising prices to keep cheap alcohol on the market or voluntarily raise prices to increase profits rather than pay extra tax to government. The experience of the tobacco MET suggests both of these responses occur.

Introducing a MUT or IAV alongside MUP may be a more effective solution that can recover additional revenue as tax. The proposals therefore move the debate forward, but they raise a number of further questions that require further consideration before making firm policy recommendations.

3 Further considerations

3.1 Protecting the on-trade and the role of draught relief

UK Governments have historically been motivated to protect the on-trade, and specifically pubs, from the impacts of alcohol duty increases for both economic and political reasons. The introduction of 'draught relief' for cider and beer in the 2022

alcohol duty reforms facilitates protecting pubs while simultaneously increasing alcohol duties for alcohol sold in other outlets. It also creates a principle that could be applied to new alcohol tax policies. Therefore, in addition to pubs generally selling alcohol at prices significantly above those affected by MUP, the impact on pubs does not seem to be a significant problem for the present debate.

3.2 Equalisation of beer and cider tax

The uneven impact of the MUT and IAV across beverage types arises partly from the different duty rates currently charged on different beverage types. This is partly a desirable scenario to ensure that stronger drinks face particularly high duty rates as these products allow people to reach high levels of intoxication more easily. However, the much lower duty rate levied on cider than beer is a legacy of much earlier policies, antithetical to the stated intention of the duty system to protect public health, and widely believed to persist to protect politically sensitive businesses in South-West England. Equalising the duty rates on cider and beer would immediately ensure a larger proportion of additional revenue on cider under an MUP was recovered as tax.

3.3 Applying taxes at the point of distribution vs. point of sale

In compiling this paper, our team repeatedly returned to the question of whether any new taxes should be applied at the point of distribution (cf. excise duty) or point of sale (cf. VAT). Applying taxes at the point of sale would remove the need for reporting of RRPs as the new tax could be paid on the actual retail price. However, this would impose additional burdens on retailers. This would particularly affect small retailers that often lack the necessary infrastructure to update pricing automatically. This is also true of MUP and the Scottish and Welsh evaluation programmes identified few long-term problems with non-compliance, whether accidental or deliberate, particularly after the respective Governments introduced web-tools for calculating prices. However, MUP is a simpler policy than the MUT and IAV policies described here.

We are not tax administration experts and do not have a full understanding of the processes involved in the policy options in this area, but we believe that shifting to taxation at the point of sale merits consideration if the administrative and implementation burden is lower than that required to tax products based on their RRP.

3.4 The necessity of generating surplus tax to recover additional revenue from MUP

A clear finding from the analysis of the impacts of MUT and IAV is that these policies recover excess profits from MUP only in proportion to the extent they impose surplus taxes on products priced between the MUP and MUP-MUT or IAV thresholds. Moreover, for products affected by the MUP, they impose the largest surplus taxes on products with the highest pre-MUP prices and the smallest surplus taxes on products

with the lowest pre-MUP prices. These appear undesirable but essential features of the policy as they are embedded in the basic mechanisms for calculating the tax payable.

Put simply, the MUT and IAV are not taxing products priced below the MUP. Instead, they are taxing products priced between the MUP and MUP-MUT or IAV thresholds and are entirely agnostic as to whether or to what extent those products were ever priced below the MUP threshold. It is therefore important to avoid thinking of these policies as purely mechanisms for recovering additional revenue from MUP. They are necessarily additional taxes on products priced at the lower end of the post-MUP price distribution.

3.5 IAV, MUT and MUP as a traffic light system

Given the above, one way to think about the surplus tax generated by the MUT or IAV is to draw on the idea of these policies operating as a second MUP. While the original MUP prohibits the sale of cheap alcohol, the MUT and IAV introduce an additional tax on alcohol sold below the MUP-MUT or IAV thresholds, with products that have a lower price per unit paying more tax than those with a higher price per unit.[16] Under this framing, policymakers can remove the cheapest part of the price distribution and then incentivise further price increases in the middle of the distribution while leaving more expensive products unaffected. However, it is unclear whether the structure of the MUT and IAV would make this an attractive incentive as each £1.00 increase in price above the MUP threshold would only deliver a £0.19 reduction in tax for the MUT and only a £0.39 reduction under the IAV. Policymakers may wish to consider more in-depth analyses to calibrate the MUP and MUT thresholds to maximise recovery of additional revenue while minimising surplus tax above their preferred point in the price distribution.

The Government could also consider implementing a lower MUP than currently proposed (e.g. £0.50 per unit) to eliminate the cheapest alcohol and use the MUT or IAV to impose additional tax on the remaining cheaper products. This would create additional scope for recovering additional revenue without imposing surplus tax on products too far up the price distribution. However, it would also allow greater scope for industry actors to pay additional duty while keeping cheaper products on the market. Ultimately, this balance between removing cheap alcohol and reducing surplus profit is a decision for policymakers.

[16] This statement applies only to the portion of tax arising from the difference between the RRP and the MUT-MUP or IAV threshold. The remaining portion arises from a more complicated relationship between the RRP and the MUT or IAV as set out in the previous sections.

4 Conclusions

The minimum unit tax and inverse *ad valorem* taxes proposed by the SMF could increase the price of cheap alcohol and generate additional tax revenue while doing so. However, they would require substantial changes to the UK alcohol duty system, including the introduction of taxation based on recommended retail prices with its associated administrative challenges and burdens. These policies can operate successfully without an MUP, but they would only discourage rather prohibit the sale of cheap alcohol. When introduced alongside an MUP, they would only generate additional revenue by taxing all lower-cost products sold above the MUP threshold irrespective of their original price and would often impose more tax on products than what is necessary to recover the additional revenue created by the MUP.

Given this, one way to think about the MUP alongside the SMF's proposal is as a traffic light system with prices separated into three zones. The MUP prohibits the sale of products at prices within the red zone, the MUT or IAV discourages the sale of products at prices within the orange zone, and products at prices within the green zone face only current rates of duty and VAT. In the absence of a straightforward solution to the problem of MUP generating additional profits for the alcohol industry, these proposals offer a new way to think about targeting taxation on lower-cost alcohol, albeit at the expense of a more complicated alcohol duty system.

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