EXPLANATORY MEMORANDUM TO

THE ALCOHOLIC PRODUCTS (REPAYMENT INTEREST RATE) (ALCOHOL DUTY) REGULATIONS 2025

2025 No. 947

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue & Customs (HMRC) and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 James Murray MP, Exchequer Secretary to the Treasury, confirms that this Explanatory Memorandum meets the required standard.

2.2 Andy Higgins, Deputy Director for Indirect Tax at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Emma Thompson at HMRC: mailbox.alcoholpolicy@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument enables HMRC to pay repayment interest to businesses in certain circumstances under Parts 2 and 3 of Schedule 3 to the Finance Act 2001 (FA 2001): namely, where alcohol duty has been paid due to an error by the Commissioners, where the Commissioners have delayed a repayment of alcohol duty that is due, and where, in relation to an assessment to alcohol duty, a person has paid, or given cash security for, the whole or any part of that duty, in respect of which a tribunal has found that the whole or any part of that duty paid or secured is not due (together, the Relevant Circumstances). This instrument makes the repayment interest rate for the purposes of alcohol duty equivalent to the rate given effect under section 102 of Finance Act 2009 (FA 2009) for certain other taxes and duties.

4.2 The repayment interest provisions in section 102 of FA 2009 are not suitable for alcohol duty, as they apply more broadly than in the above circumstances: for example, they would cover circumstances in which alcoholic product becomes unfit for use after the duty point, which has not been standard practice and is not intended to be covered now. It is therefore more suitable to rely on the Finance Act 2001 (FA 2001) provisions, which are specific to excise duty and limited to repayments in the Relevant Circumstances, than it is to rely on section 102 of FA 2009 for repayment interest under the alcohol duty regime.

4.3 This instrument enables the effect administration of alcohol duty and is part of the second stage in the delivery of the new alcohol duty system. This instrument will allow HMRC to pay repayment interest from 1 September 2025.

Where does the legislation extend to, and apply?

4.4 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.5 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 As part of the alcohol duty reforms, administrative processes for alcohol duty were aligned. Following the changes to alcohol approvals, returns and payments in February 2025, HMRC is setting the repayment interest rate under Parts 2 and 3 of Schedule 3 to the FA 2001 for the purposes of alcohol duty, bringing it into alignment with standard repayment practices across HMRC. These changes contribute to strengthened confidence in the fairness and harmony of the tax system.

5.2 Following the changes to the administration of alcohol duty and allowing time for customers to become familiar with the digital service, HMRC intends to introduce repayment for alcohol duty from 1 September 2025.

What was the previous policy, how is this different?

5.3 Previously each alcohol regime had developed independently, meaning each alcoholic product had individual and separate administrative requirements. There was no repayment interest rate set, and repayment interest would be rarely, if ever, administered. This, along with the paper-based processes in HMRC, presented an administrative challenge to the consistent application of repayment interest. For this reason, HMRC made no provision for repayment interest under the alcohol regime.

6. Legislative and Legal Context

How has the law changed?

6.1 Schedule 3 to the FA 2001 is the primary legislation ensuring the operability of repayment interest. The relevant parts of the schedule provide that repayment interest must be paid by the Commissioners in the Relevant Circumstances. Schedule 3 to the FA 2001 was brought into force for alcohol duty via Finance Act 2001 (Commencement No.2 and Saving Provision) Order 2001 (S.I. 2001/3300). Paragraphs 13 and 14 of Schedule 3 to the FA 2001 provide that the rate of interest for repayment interest (under Schedule 3 to the FA 2001) is that applicable under section 197 Finance Act 1996 (FA 1996). The power to set the rate of interest is contained in section 197(1), (2)(i) and (3)(b) and (f) of FA 1996.

6.2 This instrument sets the rate of repayment interest for alcohol duty.

6.3 Related to this instrument, a second instrument (an appointed day order) is due to be made with effect from 1 September 2025 for late payment interest. That appointed day order will commence section 101 of FA 2009 for the purposes of alcohol duty, using the power under section 104(3) and (4)(a) of FA 2009. This means from 1 September 2025 late payment interest will automatically be applied to producers who have not paid duty by the 25th day of the month. This aims to encourage prompt payment of alcohol duty and will ensure fairness for those producers who pay their duty on time.

Why was this approach taken to change the law?

6.4 The introduction of unified administrative processes accompanied by a new digital service for alcohol duty presents the appropriate opportunity to align the regime to the standard repayment practices across HMRC.

7. Consultation

Summary of consultation outcome and methodology

7.1 The Alcohol Duty Review was subject to three prior consultations.[1] These consultations covered Phase 1 (rates and reliefs) and Phase 2 (approvals, returns and payments) of the review. Interest was not explicitly mentioned in the consultations but is considered uncontroversial and favourable to industry.

7.2 A draft version of this instrument has not been consulted on because this instrument sets a straightforward rate of interest for repayment interest, which rate is standard across HMRC, under FA 2001. Instead HMRC has alerted key industry stakeholders to highlight the change to the wider alcohol industry.

8. Applicable Guidance

8.1 The Alcoholic Products Technical Guide available on gov.uk is the applicable guidance explaining the law and regulations covering the production, storage and accounting for duty on alcoholic products. This guidance will be updated by 1 September 2025 explaining that repayment interest can be paid to businesses in the Relevant Circumstances. The guidance will refer to the necessary process for claiming repayment interest.

8.2 The guidance will also explain that late payment interest will be applied to producers who do not pay alcohol duty by the 25th day of the month.[2]

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note (TIIN) covering this instrument will be published on the gov.uk website on 6 August 2025 as part of the broader package delivering the Alcohol Duty Review. It provides an accurate summary of the impacts that apply to this instrument.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities, or voluntary bodies as a result of this instrument. This instrument is expected to have an overall impact of improving customer experience by compensating businesses in the Relevant Circumstances.

9.3 There is no, or no significant, impact on the public sector as a result of this instrument.

[1] Government Consultations on the New Alcohol duty System: https://www.gov.uk/government/consultations/the-new-alcohol-duty-system-consultation

[2] The Alcoholic Products (Excise Duty) Regulations 2023 (S.I. 2023/806).

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation will be considered as part of the wider evaluation of the changes to alcohol duty. The instrument does not include a statutory review clause and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015, James Murray MP has made the following statement: a review clause is not required as the regulations make provision relating to a tax.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").