

OXFORD ECONOMICS

The average British Pub's costs and tax contribution: sectoral comparisons

**A report for the British Beer and
Pub Association:
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INTRODUCTION

In September 2015 the British Beer and Pub Association commissioned Oxford Economics to undertake an analysis of business costs faced by the pub industry. This study estimates tax revenues generated by the industry, in addition to other costs associated with its highly regulated business environment. A sectoral comparison is then provided to illustrate the relative tax burden supported by the UK's pub industry.

THE SIGNIFICANT OVERALL CONTRIBUTION OF THE PUB SECTOR

Pubs in the UK number over 50,000 and make a significant contribution to the UK economy. We previously estimated that the pub sector in 2013 directly and indirectly supported¹:

- 768,000 jobs;
- £8.7bn in wages; and
- £17.1bn in GVA.

In addition to the above benefits, the activities of the pub sector and its supply chain lead to significant revenues for the public purse, including:

- £1bn raised in corporation tax;
- £1.4bn in income tax and national insurance contributions; and
- £3.7bn in Value Added Tax.

TAX AND OTHER BUSINESS COSTS DIRECTLY ASSOCIATED WITH THE PUB INDUSTRY

The pub sector has a sizeable footprint throughout the UK economy, which only gets larger as a result of its supply chain and the associated multiplier effects. However throughout the remainder of this report we shall concentrate on the **direct** taxes and costs associated with the pub industry in order to facilitate direct comparison against other sectors in the economy.

Figure 1 shows the scale of tax and business costs associated with pubs in 2013. VAT and excise duty were the largest burden on the sector – however pub specific regulatory costs of £114m were also significant². In total, estimated costs for the industry equaled £7.3bn. The equivalent of:

- 34p in every pound of total turnover (including VAT); or
- £139,600 for every pub.

768,000 jobs
Total sustained in 2013

Pubs offer substantial employment opportunities and contribute significantly towards the public purse

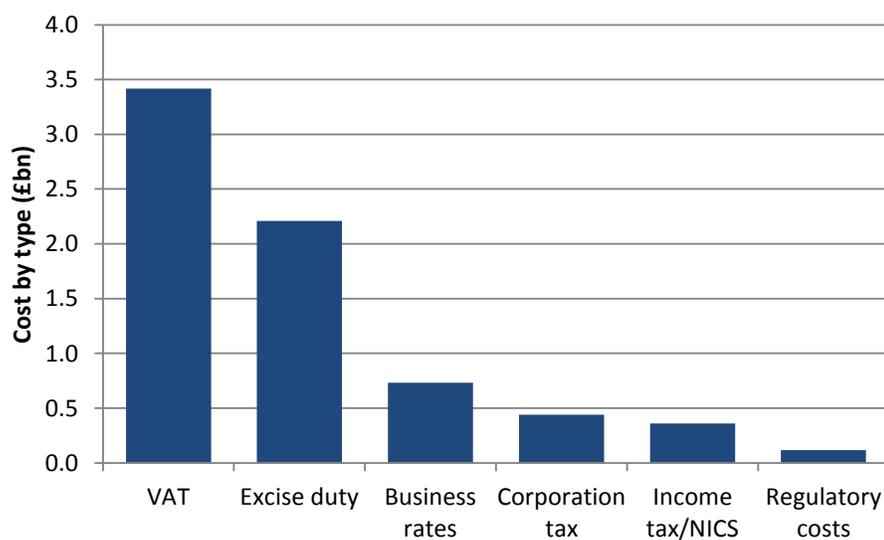
¹Oxford Economics, *British Beer and Pub Association, Local impact of the beer and pub sector, 2015*

² For the purpose of this report pub 'regulatory costs' are defined as costs over and above that paid by the majority of other sectors in the economy (i.e. licencing, food safety compliance etc.). See Appendix B.

£7.3bn in tax
Pub sector tax burden

It is estimated that the sector's cost of doing business equates to 34p in every pound of total turnover...

Fig. 1: Costs associated with the activity of pubs, 2013



Source: Annual Business Survey (ONS), NI Census of Employment (DETI), BBPA and Oxford Economics

Note: Strictly speaking excise duty is a tax on the brewery component of the supply chain but is included in the comparison due to its indirect impact on pub costings

The pub industry belongs to the SIC2007 classified 2 digit sector of 'food and beverage service activities'. The pub sector is found to shoulder a larger proportion of the 'food and beverage service activities' sector costs than its relative size would otherwise dictate. Table 1 shows that despite pubs accounting for only a quarter of all those employed within the 'food and beverage service activities' sector, the industry is over-represented in a number of taxation categories.

Table 1: The pub industry's presence in the 'food and beverage service activities' sector, 2013

Employees	Turnover	VAT	Business rates	Other duties and levies
26%	32%	36%	41%	63%

Source: Annual Business Survey (ONS), NI Census of Employment (DETI), HRMC and Oxford Economics

Note: Pub specific regulatory costs are not included in 'Other duties and levies'

A SECTORAL COMPARISON: INDUSTRY COSTS

We have already demonstrated how significant taxes and levies are within the pub industry. By comparing a range of these costs against that of other sectors in the economy we are able to make a more objective evaluation of their relative scale. The following analysis compares the pub sector's tax burden

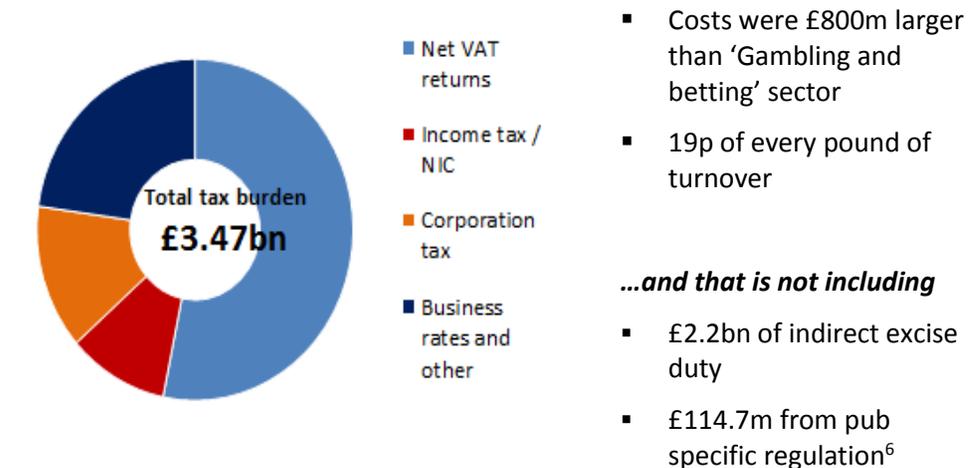
against that of a number of other prominent industry sectors (see Appendix A)³. However by definition they are generally much larger than the pub sector. To control for this we have provided findings both in absolute and per pound of turnover (excluding VAT) terms⁴.

Specifically, we look at the combination of net VAT returns, income tax /NICs estimates, corporation tax estimates, business rates and other taxes, duties and levies (excluding industry specific regulatory costs and excise duties). For the purpose of this report these common taxes form the 'comparative' tax burden across industries.

Overall 'comparative' tax burden

The pub sectors total relative tax burden using this comparative measure was estimated at £3.47bn in 2013. It is again worthy of note that there exists a number of additional costs to the pub sector which are not included in this figure but are significant given the industries regulatory environment. These include indirect revenues paid to the Exchequer via excise duty and annual licensing and compliance fees unique to the industry⁵.

Fig. 2: Comparative tax burden in the pub industry, 2013



Source: HRMC, Inter Departmental Business Register (ONS), Annual Business Survey (ONS) and Oxford Economics

£3.47bn

Comparative tax burden

This conservative estimate places the pub sector's tax contribution above a number of key sectors in the economy. This 'comparative' tax burden corresponds to 19p in every pound of turnover within the industry...

³ Sectors and tax variables chosen for comparison were selected due to the availability of data and are not an exhaustive list. The sample is reduced to 67 sectors in the 'overall' comparative analysis due to suppression of business rates related data.

⁴ Due to data availability, sectoral turnover excluding VAT was used during the sectoral cost comparisons

⁵ See Appendix B for a breakdown of these costs.

⁶ British Beer and Pub Association licencing and compliance annual estimates

Based on this defined measure of common taxes, we estimate the pub sector's tax burden was the 26th largest among the compared sectors - despite being only the 41st largest sector in turnover terms. This absolute figure is similar to that contributed by the entire 'other professional, scientific and technical activities' sector. It is also the equivalent of the combined tax burden of the 'Scientific research and development' and 'Information service activities' sectors.

Table 2: Comparative tax burden in the pub sector versus selected sectors, 2013

Sector	Tax burden (£bn)
Civil engineering	4.4
Other professional, scientific and technical activities	3.7
Public houses and bars	3.5
Advertising and market research	3.3
Manufacture of computer, electronic and optical products	2.5
Scientific research and development	2.1
Information service activities	1.4

Source: HRMC, Inter Departmental Business Register (ONS), Annual Business Survey (ONS) and Oxford Economics

The pub sector's comparative tax burden per pound of turnover was the 16th largest at 19p per pound, higher than the likes of the retail sector (7p per pound of turnover). If we were to include excise duty related tax and pub specific regulatory costs this ranking would increase to the 5th highest amongst the industries studied⁷.

“When excise duty related tax and pub specific regulatory costs are additionally allocated to the pub sector - its ‘comparative’ tax burden increases to the 5th highest amongst the industries studied”

Table 3: Pub sector comparative tax burden comparisons, 2013

Comparative tax burden only:		Rank	Similar to that of...
Total tax (£bn)	£3.47	26 / 67	Other professional, scientific and technical activities
<i>per £1 of turnover (excl. VAT):</i>	£0.19	16 / 67	Accommodation
Including pub specific excise duty and regulation...		Rank	Similar to that of...
Total tax (£bn)	£5.79	17 / 67	Land transport and transport via pipelines
<i>per £1 of turnover (excl. VAT):</i>	£0.32	5 / 67	Computer programming, consultancy and related activities

Source: HRMC, Inter Departmental Business Register (ONS), Annual Business Survey (ONS) and Oxford Economics

Note: Estimates including 'pub specific excise duty and regulation' are not directly comparable to the comparative sectors. They are included to illustrate their size relative to the comparative tax estimates.

The relative size of the specific taxes which impact the pub sector vary considerably. The analysis below deals with each in turn.

⁷ This comparison is not 'like for like' but is an illustration of the impact of other pub specific costs.

£1,849m

Net VAT returns

In comparison to the retail sector - the pub industry contributes an additional 8p in every pound of turnover as VAT...

Net Value added Tax returns

Net VAT declared in sectoral returns are analysed in order to better identify the VAT contribution among different sectors of the economy⁸. The pub sector's VAT amounted to £1,849m in the 2013-14 tax year. This was the 17th largest net VAT figure recorded among the 76 broad sectors available. This VAT contribution was larger than the combination of both the 'manufacture of motor vehicles' and the 'information service activities' sectors over the course of the year. For every pound of turnover the pub industry was found to have amongst the highest net VAT return recorded, the equivalent of 10p in every pound - significantly higher than the retail sector's offering of 2p in every pound.

Table 4: Pub sector net VAT returns, 2013-14

	£m	Rank	Similar to that of...
Total VAT	£1,849	17 / 76	Manufacture of tobacco products
	£	Rank	Similar to that of...
<i>per £1 of turnover (excl. VAT):</i>	£0.10	4 / 76	Legal and accounting services

Source: HMRC, Inter Departmental Business Register (ONS), Annual Business Survey (ONS) and Oxford Economics

£792m

Paid in business rates, other taxes, duties and levies

Per pound of turnover, business rates and other taxes paid by the pub industry were found to be the 2nd highest amongst sectors studied...

Business rates and other amounts paid for taxes, duties and levies

Business rates and other taxes, duties and levies payable by the pub industry equaled £792m in 2013⁹. This value was higher than all but 11 other sectors in the economy that year. These costs correspond to 4p in every pound of pub turnover, a burden second only to the 'water collection, treatment and supply' sector and twice that of the retail sector.

Table 5: Pub sector business rates, other taxes, duties and levies, 2013

	£m	Rank	Similar to that of...
Business rates and other amounts paid for taxes, duties and levies	£792	12 / 67	Accommodation
	£	Rank	Similar to that of...
<i>per £1 of turnover (excl. VAT):</i>	£0.04	2 / 67	Food and beverage service activities

Source: Inter Departmental Business Register (ONS), Annual Business Survey (ONS) and Oxford Economics

⁸ Net VAT returns relate to the net tax declared by businesses on VAT returns processed by HMRC. This relates to Home VAT only, as import VAT is recorded differently. The net tax declared on VAT returns will not be the same as total VAT receipts (the payments and repayments made by a business).

⁹ 'Other taxes, duties and levies' are defined as stamp duties, council tax, export levies, statutory amounts paid to either Environment Agency (EA), Office of Gas and Electricity Markets (OFGEM) or the Water Regulators, Consumer and Credit Act fees and franchise payments.

£476m

Corporation tax paid

Despite pub profit per business being relatively low, corporation tax per pound of turnover was similar to that of the 'legal and accounting services' sector...

Corporation tax

The pub sector directly generated £476m in corporation tax in 2013. This was a larger contribution than over half the sectors (2 digit level) in the economy. Corporation tax per pub on the other hand was found to be relatively low in comparison to other sectors. The pub sector's relatively high number of local establishments has meant that the sector's profits are spread more thinly. Corporation tax per pound of turnover was found to be broadly similar to that of the 'programming and broadcasting activities' sector and 1p per pound larger than the retail sector's offering.

Table 6: Pub sector corporation tax estimates, 2013

	£m	Rank	Similar to that of...
Total Corporation tax	£476	33 / 76	Manufacture of other transport equipment
	£	Rank	Similar to that of...
<i>per £1 of turnover (excl. VAT):</i>	£0.03	31 / 76	Programming and broadcasting activities

Source: HRMC, Inter Departmental Business Register (ONS), Annual Business Survey (ONS) and Oxford Economics

Income tax / NIC

Due in part to the pub sector's high incidence of part time work and high proportion of younger people within its workforce – total income tax and national insurance contributions (NIC) equaled £351m, the 15th lowest of the 76 available sectors. Pub sector income tax / NIC contributions per pound of turnover was also amongst the lowest in the economy - broadly in line with the pub industry's parent sector 'food and beverage service activities' and the retail sector. This finding is not unexpected given the high proportion of SME and single proprietor businesses within the pub industry. Sectors such as that of the pub sector will invariably encounter a notable increase in this cost base as the national living wage is implemented nationwide.

Table 7: Pub sector income tax / NIC estimates, 2013

	£m	Rank	Similar to that of...
Total Income tax / NIC	£351	62 / 76	Manufacture of beverages
	£	Rank	Similar to that of...
<i>per £1 of turnover (excl. VAT):</i>	£0.02	65 / 76	Wholesale and retail trade and repair of motor vehicles and motorcycles

Source: Annual Survey of Hours and Earnings (ONS), Inter Departmental Business Register (ONS), Annual Business Survey (ONS) and Oxford Economics

CONCLUSION

The pub sector has a significant impact on the UK economy, creating and sustaining indirectly substantial numbers of jobs, wages and GVA. It also makes a major contribution to public revenues. A comparison of the collective tax payments made by 67 sectors of the economy highlights the relative scale of the pub sector's tax burden. The pub industry was found to have a tax burden which was larger than a large proportion of the sectors studied in this report. This relative tax burden was found to increase further when translated into per pound of turnover terms.

While private services are often looked to for job growth in the UK economy, the pub sector regularly contributes tax revenue that is of a similar magnitude to the 'other professional, scientific and technical activities' sector or the equivalent of the combined tax burden of the 'Scientific research and development' and 'Information service activities' sectors. After the inclusion of excise duties and pub specific regulatory costs - the relative tax burden is found to increase well beyond these, and many other sectors in the economy.

FURTHER INFORMATION

All data shown in tables and charts is supplied by the British Beer and Pub Association or is Oxford Economics' own data, based on ONS historical data, except where otherwise stated and cited in footnotes.

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APPENDIX A: SECTORS INCLUDED IN COMPARATIVE ANALYSIS

SIC2007 Industry Sectors
Forestry and logging
Fishing and aquaculture
Mining of coal and lignite
Extraction of crude petroleum and natural gas
Mining of metal ores
Other mining and quarrying
Mining and support service activities
Manufacture of food products
Manufacture of beverages
Manufacture of tobacco products
Manufacture of textiles
Manufacture of wearing apparel
Manufacture of leather and related products
Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
Manufacture of paper and paper products
Printing and reproduction of recorded media
Manufacture of coke and refined petroleum products
Manufacture of chemicals and chemical products
Manufacture of basic pharmaceutical products and pharmaceutical preparations
Manufacture of rubber and rubber products
Manufacture of other non-metallic mineral products
Manufacture of basic metals
Manufacture of fabricated metal products, except machinery and equipment
Manufacture of computer, electronic and optical products
Manufacture of electrical equipment
Manufacture of machinery and equipment n.e.c
Manufacture of motor vehicles, trailers and semi-trailers
Manufacture of other transport equipment
Manufacture of furniture
Other manufacturing
Repair and installation of machinery and equipment
Water collection, treatment and supply
Sewerage
Waste collection, treatment and disposal activities; materials recovery
Construction of buildings
Civil engineering
Specialised construction activities
Wholesale and retail trade and repair of motor vehicles and motorcycles
Wholesale trade, except of motor vehicles and motorcycles
Retail trade except of motor vehicles and motorcycles
Land transport and transport via pipelines
Water transport
Air transport
Warehousing and support activities for transportation
Postal and courier activities
Accommodation
Food and beverage service activities
Public houses and bars
Publishing activities
Motion picture, video and television programme production, sound recording and music publishing activities
Programming and broadcasting activities
Telecommunications
Computer programming, consultancy and related activities
Information service activities
Real estate activities
Legal and accounting services
Activities of head offices; management consultancy services
Architectural and engineering activities; technical testing and analysis
Scientific research and development
Advertising and market research
Other professional, scientific and technical activities
Veterinary activities
Rental and leasing activities
Employment activities
Travel agency, tour operator and other reservation service and related activities
Security and investigation activities
Services to buildings and landscape activities
Office administrative, office support and other business support activities
Residential care activities
Social work activities without accommodation
Creative, arts and entertainment activities
Gambling and betting activities
Sports activities and amusement and recreation activities
Activities of membership organisations
Repair of computers and personal and household goods
Other personal service activities

APPENDIX B: PUB SECTOR REGULATORY COST BREAKDOWN

Type	Estimated cost (£m)
Licensing	55.7
Gambling	0.5
Food law compliance	58.5

Source: BBPA (excluding generic business regulatory costs)