

Short Briefing on Tax-Free Shopping

September 2020

1. Britain will be the only European country not offering tax free shopping

The decision was a surprise and a shock to the retail and tourist sectors, both already struggling.

The UK will now be the only country in Europe not to offer tax free shopping to international visitors.¹

2. High spending international visitors say they will abandon Britain as a shopping destination

Any savings the Treasury predicts are illusionary. They won't collect the £500 million VAT on the £2.5 bn reclaimed tax-free sales because those sales will no longer take place in the UK but go to Paris, Milan and any other European City.

France has announced it will cut its minimum spend for tax reclaim from 175 euros to 100 euros on Jan 1st.

A poll of over 4,800 non-EU international travellers from the USA, Middle East, Far East, conducted the week after the decision was announced², shows the impact:

Q1. If tax-free shopping was abolished in the UK, would you still visit? Yes 38%, No 62%

Q2 If tax-free shopping was abolished in the UK, would you still buy good there? Yes 7%, No 93%.

3. HM Treasury will lose up to £3.5 bn tax revenue and carry the cost of up to 138,000 redundancies

Tax-free shopping is a small part of all spending by international visitors. They spend £26 bn on other taxed goods and services³ (hotels, restaurants, travel, taxed shopping, culture, etc).

We believe that, because high spending visitors say they will now visit and spend in other European countries rather than the UK, abolishing the scheme will decrease international visitor spending by around £6 bn and will produce a net loss to the Treasury of up to £3.5 bn. It will result in up to 138,000 job losses⁴.

In contrast, extending the scheme to EU visitors will increase visitor numbers by 948,000, increase tourist spending by up to £890 m, create up to 20,200 jobs and give a net gain in tax revenues of up to £276 m.⁵

4. This is a final blow for an already suffering West End. Businesses are leaving

For the West End it is a final blow. Businesses are trading at just 20% of normal levels and costs far outstrip income. But they were hanging on in the anticipation of the return of international visitors. With this decision they now have little hope of a revival of international visitors

So many stores, hotels and restaurants are actively making plans to close or downsize. They need to be where the international spenders are – and that's now going to be Paris, Milan, Madrid, etc.

¹ See appendix 1 for details

² By Global Blue – will be released publicly Wednesday September 23rd along with a cost/benefit impact study

³ CEBR Report on "The Impact of Ending Tax Free Shopping in the UK" September 2020

⁴ CEBR Report *ibid*

⁵ CEBR Report *ibid*

Many of these London stores are UK shop windows. As they close or contract due to the fall in high spending customers, this puts at risk over 160,000 manufacturing jobs throughout the rest of the UK.⁶

5. Cities across the UK will lose millions, damaging the Government's levelling-up plans

This is a big blow to the regions. It sets back the Government's levelling-up agenda. Immediate losses (amount of tax-free shopping lost and jobs it supported)⁷

- Edinburgh £92 million (1,800 jobs)
- Manchester £60 million (1,200 jobs)
- Liverpool £32 million (640 jobs)
- Leeds £18 million (360 jobs)
- Birmingham £14 million (280 jobs)

This is just the loss of retail sales – it does not take account of additional losses of income and jobs in the wider visitor economy in these areas.

Most flights from regional airports are to and from Europe. Extending the tax-free shopping scheme to EU visitors would have been a great incentive to increase tourism in the regions. Stores in Birmingham and Manchester had planned for a doubling of sales to EU visitors. That will not now happen.

All across the UK, high streets will suffer from this decision. National retail chains benefit from their share of the £2.5 billion tax-free sales made in London and elsewhere and this supports their more marginal stores and jobs in high streets throughout the rest of UK. This now puts those marginal stores at even greater risk.

6. Industry will provide the capacity for increased volumes of claims

The consultation response raised genuine concerns about the ability of HMRC's existing paper-based claim-validation system to cope with the increase in claims.

Britain is the only country not to have digitalise this element, despite trying for 8 years. Every other European country has digitalised already.

Following this announcement, the key refund companies have offered to instal this system at no cost to the Government within 12 months. They have already done this successfully for over a dozen governments worldwide.

There is a 12-month window to do this as international travel is minimal due to COVID-19. If there are still concerns about lack of capacity, the temporary introduction of a £50 minimum purchase level would reduce reclaim volumes by one third of 2019 levels, providing additional capacity until digitalisation.

7. The removal of the VAT exemption for airside retailers threatens the viability of regional airports and thousands of jobs.

The Government is also planning to end tax-free shopping in airports, making Britain uncompetitive and threatening the very existence of several regional airports.

75% of airside retail sales are VAT free. In London airports this accounts for £150m sales and supports 3,000 jobs. Airside VAT-free sales generate up to 35-40% of revenue for many airports. Losing this will mean higher landing charges and drive up prices for passengers.

⁶ Walpole member information

⁷ Full list in appendix 2

The removal of VAT-free sales threatens the viability of several regional airports whose closure will impact on jobs and the wider regional economies.

8. Significant new impact evidence suggests the decision should be revisited

We ask that the Government speak again to industry and at least revisit this decision, given:

- new information on the wider impact on the inbound tourist industry;
- new cost-benefit research;
- new details of the impact on the levelling-up agenda;
- new information on international consumer response; and
- new offers to digitalise the system at no cost to the Government

Contact

Paul Barnes
Association for International Retail
pauldavoutbarnes@gmail.com
07969111619

Appendix 1

The UK is now the only country in Europe that doesn't offer tax-free shopping

European Countries offering Tax-Free Shopping	European Countries not offering Tax-Free Shopping
Austria Belgium Bulgaria Croatia Cyprus Czech Republic Denmark Estonia Finland France Germany Greece Hungary Iceland Ireland Italy Latvia Liechtenstein Lithuania Luxembourg Macedonia Malta The Netherlands Norway Poland Portugal Romania Russia Serbia Slovenia Slovakia Spain Sweden Switzerland Turkey	United Kingdom

These European countries don't offer tax free because they don't charge VAT

Ukraine
Belarus
Kazakhstan
Moldova
Armenia
Albania
Montenegro

Kosovo
Azerbaijan
Georgia
Andorra
San Marino
Monaco
Vatican City

Appendix 2

Existing tax-free shopping spending (2019)

City	Current tax-free shopping £ million per annum
Edinburgh	92
Manchester	60
Liverpool and Ellesmere Port	32
Glasgow	23
Leeds	18
Birmingham	14
Cambridge	9
Oxford	9
York	9
Milton Keynes	9
Cardiff	9
Bath	9
Southampton	5
Bristol	5
Brighton	5
Reading	5
Sheffield	5
Newcastle	5
Leicester	5

Source – Global Blue & Planet