



The Importance of Tax-Free Shopping to the UK Economy, Jobs and Tax Revenues

The case for retaining and expanding the VAT RES and airside tax-free shopping

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Executive Summary

Tax-Free Shopping is important to the growth of Britain's visitor economy

The international visitor sector is vital for UK jobs and growth. Visitor numbers grew in the past 10 years by 32% to 40.9 million and spending grew by 61% to £28.43 billion. The sector employs 450,000 people. (2.1-2.6)

Shopping is a key draw for international visitors. 70% of tourist visits include shopping accounting for 25% of all spending by international visitors. (2.7-2.10) (2.12-2.13)

Shopping is the number one attraction for Chinese visitors, already the world's top spending with massive potential for growth. (2.11)

Chinese visitor numbers to the UK have grown 400% (200,000 to 800,00) since 2012. Chinese shoppers account for 32% of all UK tax free shopping event though currently only 4% on non-EU visitors. (2.11)

Tax-free shopping (the VAT RES) is a vital part of the UK's shopping appeal. HMRC says "The VAT Retail Export Scheme plays a key part in the shopping experience for our visitors and positively influences their views on Britain as a value for money shopping destination." (2.14-2.19)

The VAT RES is used by 4.8 million people, 30% of non-EU visitors. Note this is three times more than the HMT estimate of users. (2.20-2.22)

Regional economies and jobs are boosted by large levels of tax-free spending. Although 80% of the £3.5 billion tax free shopping takes place in London and Bicester Village cities around the UK benefit directly from tax-free shopping (e.g. Edinburgh £92 million, Manchester £60 million, Liverpool £32 million) and indirectly by additional spending in the local tourist economy, including hotels, restaurants, tourist and cultural attractions, and in manufacturing. (2.233-2.27)

Airside tax-free shopping (ESC) is a vital part of airport's economic model accounting for up to 40% of total airport revenue, particularly supporting regional airports. (2.28-2.30)

Ending the VAT RES and airside tax-free shopping (ESC) will damage Britain's economy

The industry believes that the decision to end the VAT RES and airside tax free shopping (ESC) rather than to extend them to EU visitors is wrong because:

- The cost of extending the scheme to EU visitors is only one third of the Government's estimate (£294 million, not £900 million) (3.7-3.10)
- The scheme supports economies and jobs through the whole of the UK, not just London (3.11-3.13)
- The industry's offer to digitalise the VAST RES system at no cost to the government addresses concerns about capacity, cost and most fraud issues (3.14)
- The number of people using the VAT RES is nearly 5 million (30%) not HMT's estimate of 1.2 million (less than 10%) (3.16-3.17)

- Evidence of price elasticity shows that ending the VAT RES will change visitor behaviour, both in choosing to visit the UK and their level of spending (3.19-3.25)
- The Shop and Ship scheme is not a popular alternative (3.26-3.27)
- At a conservative estimate, ending VAT RES will see 609,000 fewer visitors, £1.36 billion less spending, £6m less more revenue (not the HMT expected £500 m) and 20,000 additional (non-COVID-19) redundancies (3.34-3.36)
- Ending the airside tax free scheme (ESC) will lower revenues, reduce investment and create 5,000 job losses in London airports alone (3.37-3.42)

Extending the VAT RES and airside tax-free shopping scheme (ESC) to EU visitors will generate more visitors, more income and more jobs

At a conservative estimate, extending the scheme to non-EU visitors is predicted to increase visitor numbers by 730,000, increase spending by £569 million, increase jobs by 8,500 at a loss of just £96 million tax revenue (4.6)

We believe that the predicted low numbers of international visitor throughout 2021 provide the short-term additional capacity to extend the scheme to EU visitors and the opportunity to install the digital scheme. Alternatively, we believe the WTO will allow a transitional period to manage the change. (4.13).

The Importance of Tax-Free Shopping to the UK Economy, Jobs and Tax Revenues

The case for retaining and expanding the VAT RES and airside tax-free shopping

1. Introduction and context

- 1.1 On September 11th 2020 the Government announced that it would be ending the VAT Retail Export Scheme (VAT RERS) for non-EU visitors and the Extra Statutory Concession (ESC) that allows VAT-free shopping airside sales of goods to passengers travelling outside the EU.
- 1.2 This followed “A consultation on the potential approach to duty-free and tax-free goods arising from the UK’s new relationship with the EU” that ran from March 11th to May 20th 2020.
- 1.3 The decision was taken as an alternative to extending the schemes to visitors from EU member states at the end of the transition period on December 31st 2020. Britain will become the only European Country that charges VAT and does not offer tax-free shopping.
- 1.4 Throughout this report we point out a series of errors made by HM Treasury, based on its Technical Note, where misunderstanding of the international visitor economy and the operation of the tax-free shopping system has resulted in the Treasury underestimating the impact of ending tax-free shopping and overestimating the cost of extending it to EU visitors which calls into doubt the rationale behind these decisions.¹
- 1.5 The decisions will harm Britain’s international competitiveness, damaging our £28bn international visitor economy, hit retailers and their suppliers throughout the UK as international visitors reduce their visits to the UK and others spend less when they are here.
- 1.6 As this report will show, this will lead to a fall in sales of both goods and services, job losses and negative tax revenues. During normal times, removing this incentive to visit and spend in the UK would be harmful to our economy. But as the economy struggles with the ongoing effects of COVID-19, hitting particularly hard the retail, hospitality and tourism industries, this decision at this time is a body blow to companies already struggling and for some will be the last straw.
- 1.7 This report has four sections
 - The importance of tax-free shopping to the international visitor sector
 - The impact of the decision to end the schemes
 - The impact of extending the schemes to visitors from EU countries
 - Conclusions and recommendations
- 1.8 Our analysis is based on pre-COVID-19 figures. The impact of COVID-19 is addressed separately.

What Business Thinks

Major Global Brand

“50% of our UK sales are tourist driven. Ending tax-free shopping will result in the UK losing sales to other destinations, such as Paris or Milan. While we, as a global business, are likely to see these sales shift to our other markets, these sales will be lost for our UK business.”

¹ On October 26th HMT released a Mythbuster note – this is discussed in a separate rebuttal note.

Edinburgh Tourism Action Group

“Losing tax-free shopping will damage Edinburgh’s reputation as a destination, mean fewer visits and lower spending. It will redirect Chinese visitors to visit and to spend in other destinations across Europe and put the tourism industry in Edinburgh in an even more vulnerable position for tourism recovery.”

TASAKI

“If international shoppers decided not to shop in London, the knock on downward spiral affect would continue through restaurants, hotels, distribution, factories and many more. It would slow the whole supply chain resulting in redundancies across the UK.”

Samsonite

“While London is a key part of our business, a substantial part of our non-EU sales are outside of London, namely Bicester, Cheshire and Portsmouth. With the loss of tax-free shopping, which will hit luggage hard, we will struggle to keep some of these stores open, and indeed have had to put capex plans on hold for reopening stores post-COVID.”

Faure Le Page

“This new law will make the UK less attractive as a shopping destination. It will force us to reconsider our investment and stop our project in the UK. We had planned to open two additional stores in London (Selfridge and Harrods) within 5 years so it means 10 additional recruitments. Without tax-free shopping, this will not happen.”

Johnstons of Elgin

“We will close our stores in London, Edinburgh and St Andrews. We will lose manufacturing jobs. We will lose international visibility which harms our growth.”

Turnbull & Asser Ltd

“We are treading water at the moment in the belief that business will return to pre pandemic levels at some point in the near future. Ending Tax Free shopping fundamentally changes the future trading landscape, undermining the confidence we have of when our business can return to pre-pandemic levels of trade. This fall in confidence will inevitably negatively impact any investment decisions we make.”

2. Tax-Free Shopping is important to the growth of UK's visitor economy

The international visitor sector is a major and growing element of the to the UK economy²

- 2.1 The international visitor sector is a growing part of Britain's economy. In the ten years from 2009-2019 visitor numbers grew from 31 million to 40.9 million (+32%) and spending grew from £17.6bn to £28.4bn (+61%).
- 2.2 In 2019 24.8 million visitors were from EU countries, spending £10.6bn. The 16 million non-EU visitors spent £17.8bn. So, while non-EU visitors were just 39% of international visitors, they account for 63% of all international spending.
- 2.3 Based on VisitBritain assessment of jobs supported by the tourism industry, international tourism supports around 452,000 jobs in the UK.³
- 2.4 Inbound tourism will continue to be the fastest growing tourism sector – with spend by international visitors forecast to grow by over 6% a year in comparison with domestic spending by UK residents at just over 3%. The value of inbound tourism is forecast to grow to £57bn by 2025 (note – this was a pre-COVID-19 forecast).
- 2.5 In 2018 the UK was:
- ranked eighth in the UNWTO international tourist arrivals, accounting for 2.7% of global arrivals
 - ranked 11th place in the international tourism earnings league, accounting for 2.4% of international tourism receipts
- 2.6 In 2019, London accounted for 55% of all inbound visitor spend, the rest of England 32%, Scotland 9% and Wales 2%.

Shopping is an important motivator for visiting Britain

- 2.7 Shopping is a key draw for international visitors, in particular for tourists, who account for 41% of all international visitors (of the rest, 30% are visiting friends and relatives and 21% are on business).⁴ 57% of all international visits involve shopping, with this rising to 70% for tourists.⁵
- 2.8 The UK is a world shopping destination with world renowned International Centres (London's West End and Knightsbridge), Bicester Village and growing international shopping in Manchester and Edinburgh (built on recent routes to China) together with Leeds, Liverpool, and Glasgow.
- 2.9 VisitBritain estimate that 25% of all international visitor spending is on shopping, more than any other single item (such as accommodation, dining, or travel). Based on 2019 total spending this suggests that international visitors spend £6.5 bn on shopping.

² Unless otherwise referenced, all fact are from VisitBritain – "Britain's visitor economy facts" and "2019 snapshot"

³ VisitBritain/ Deloitte "Tourism Jobs and Growth: the economic value of tourism to the UK economy" calculated that the marginal cost of a job in the tourism industry in 2013 was £54,000, or £63,000 in 2020.

⁴ VisitBritain – 2019 snapshot

⁵ VisitBritain – Inbound shopping research

- 2.10 In London shopping is the biggest part of visitor spending accounting for over 46% of all spending, more than accommodation (30%) and everything else (24% on travel, eating, culture and entertainment cost).⁶
- 2.11 For Chinese visitors in particular, who are now the world's highest spending tourists,⁷ shopping is the main element of their spending and a major reason for their visit. Two thirds of luxury purchases by Chinese people are made outside China, both because of a 30%-40% price differential and to ensure authenticity.

Chinese shoppers represent a huge opportunity to support UK recovery and future growth

VisitBritain's states that "going shopping is the number one activity which most Chinese visits will feature, followed by dining in restaurants, visiting parks or gardens, museums or galleries, and castles or historic houses".⁸ Chinese visitors are biggest spenders on UK tax free shopping (30%), over four times more than the second,⁹ even though they account for only 4% of non-EU visitors (600,00 out of 16 million).

Two thirds of luxury purchases by Chinese people are made outside China, both because of a 30%-40% price differential and to ensure authenticity.

Chinese visitors are the largest growing visitor group in the UK with the number of visitor visas issued increasing from 210,000 in 2012 to over 800,000 in 2019, a growth of over 400%.¹⁰ The potential for growth is strong, with just 9% of Chinese people having a passport, compared with over 70% in the UK (and 54% average of 6 developed countries). In 2000 there were 10.5 million Chinese visitors worldwide. This grew to 149.7 million in 2018 and is predicted to rise to 400 million by 2030.¹¹

The number of airports in China is set to rise from 235 in 2018/19 to 450 by 2034. The number of Chinese airlines with international routes grew from 15 in 2014/15 to 29 in 2018/19.

Outside London, Edinburgh and Manchester have established direct flights from China and growing Chinese visitor numbers and spend is a vital part of their long-term economic growth plans.

- 2.12 In response to a Lords Question by Lord Vaizey, on October 20th 2020, Baroness Penn, a Government Whip, stated that research by VisitBritain showed that culture was the main motivation for visiting the UK and that tax-free shopping did not appear as a reason to visit the UK. This is because VisitBritain's Foresight Report 150¹² provided respondents with 30 options to choose from and shopping or tax-free shopping was not included as an option.
- 2.13 But the same report, two pages later, cited the International Passenger Survey which included a motivational question, 23% of holiday visitors said that they were motivated by shopping (this

⁶ London&Partners

⁷ UNWTO Global barometer 2018 records Chinese visitors as the World's largest travel spenders at \$258 billion in 2018, nearly twice as much as the second biggest spenders (USA at \$135 bn)

⁸ VisitBritain "Market and Trade Profile China" November 2019

⁹ Global Blue tax-free shopping sales figures

¹⁰ Home Office figures for visitor visas issues, compiled annually by AIR. For a series of practical reasons, the IPS tends to underestimate Chinese visitor numbers and AIR finds the Home Office actual figures more realistic

¹¹ China Outbound Tourism Research Institute

¹² VisitBritain Foresight pages 29-30

included EU visitors who could not use the VAT RES and was at a time when Chinese visitor numbers were only 2/3 of 2019 totals). Importantly shopping was seen as motivational factor for 51% of visitors from Saudi Arabia and 41% of visitors from the UAE.

VAT RES tax-free shopping is an important motivator for international visitors

- 2.14 The VAT RES is an integral part of the UK's shopping attraction for non-EU tourists. The VAT RES scheme is aimed at encouraging non-EU international tourists to choose to visit the UK. For those who come to shop, the VAT RES is an additional incentive both to visit the UK and to spend more on shopping when they are here. It allows the UK to be competitive with all those European countries that offer tax free shopping.
- 2.15 The VAT RES entitles visitors to an EU member state from outside the EU, in certain circumstances, to reclaim VAT paid on goods purchased within the EU. The scheme is restricted to eligible persons; to particular goods (not services); and to those following the appropriate procedures. Details are given in appendix 1.
- 2.16 Given the importance of shopping to non-EU visitor, the VAT RES plays an important part in the growth of Britain's international visitor sector. Indeed, in its review of the VAT RES in 2013 HMRC said:
- “Inbound tourism makes a vital contribution to the UK economy, earning £18 billion in foreign exchange for the UK each year. When they come here, most visitors love to shop.”
- “The VAT Retail Export Scheme – also known as Tax Free Shopping – plays a key part in the shopping experience for our visitors and positively influences their views on Britain as a value for money shopping destination.”
- “The Government is encouraging more visitors to the UKThis will contribute to sustaining jobs and supporting economic growth across the UK. By 2020, the Government hopes to welcome more than 40 million visitors a year. This review of tax-free shopping in the UK supports this objective and aims to put the scheme in the best possible position to deal with the increase in visitors.”¹³
- 2.17 Logically HMRC should then believe that ending the VAT RES will damage the shopping experience for our visitors and negatively influence their views on Britain as a value for money shopping destination, particularly as our European neighbours will still be offering tax free shopping as an alternative.
- 2.18 Many countries see the benefit of tax free shopping to their international tourist sector .All European VAT charging countries offer tax free shopping as do most global visitor destination, such as Japan, China, Mexico, Korea, Singapore, Thailand, Australia. America has no federal sales tax but many states that have local sales taxes offer tax free shopping for international visitors. Canada abolished the Visitor Rebate Programme for its General Sales Tax in 2007 but individual provinces, such as Ontario, offer rebates on their Provincial Sales Tax.
- 2.19 In 2018 Russia launched tax -free shopping to maximise the economic benefits of hosting The World Cup. The UAE has recently launched tax free shopping to support its emerging international visitor sector. In October 2020 France announced that from January 1st 2021 it will reduce its minimum purchase level from 175 euro to 100 euro, positioning it to be more

¹³ HMRC “VAT: Retail Export Scheme Summary of Responses December 2013”

appealing to shoppers they expect to gain when the UK ends its VAT RES and top attract British visitors who, from that date, will be able to shop tax free in the EU.

- 2.20 The VAT RES is used by around 4.8 million visitors and their families. In its Technical Note, HM Treasury mistakenly states that the scheme is used by 1.2 million visitors less than 10% of non-EU visitors. This is wrong, first because the Treasury mistakes VAT RES refunds for VAT RES users and secondly because HM Treasury wrongly assumes that users of the VAT RES travel alone.
- 2.21 First, the number of reclaims is not the number of users. Only around 75% of registered VAT RES sales are actually reclaimed (due mainly to administrative difficulties at Heathrow because HMRC operates a paper-based system for validating claims, causing long queues at peak times). The actual number of users is therefore around 1.6 million, 400,000 more than HMT estimates.
- 2.22 Secondly, most visitors travel in family or friend groups of between three and four people group. Assuming an average group size of three, this means that the number of users is 3 x 1.6 million = 4.8 million, so not “less than 10% of non-EU visitors”, but 30% of all non-EU visitors, making the scheme far more important than HM Treasury believes.
- 2.23 Based on HMRC estimation of £500 million refunds, the level of reclaimed tax-free sales is around £3.5 billion.¹⁴ Around 95% of this is spent in central London and Bicester Village, a world-renowned shopping destination for international visitors. The other 5% is spent across the rest of the UK¹⁵. Outside London, Edinburgh is the largest City for tax free sales (£92 million), followed by Manchester (£60 million), Liverpool and Ellesmere Port (£32 million), Glasgow (£23 million) Leeds (£18 million) and Birmingham (£14 million). Many other cities such as Cambridge, York, Cardiff, Bath, Southampton, Brighton, Sheffield and Newcastle also register tax-free sales of between £5-10 million.¹⁶ For many retailers, international shoppers contribute between 30% and 60%+ of their UK revenues.
- 2.24 Tax-free shoppers in the UK are a concentrated group in terms of nationalities:
- China: 32% of spend
 - Rest of Asia: 12% of spend.
 - GCC: 26% of spend.
 - Rest of the world: 30% of spend.
- 2.25 Not all tax-free shoppers spend the same. A small percentage of tax-free shoppers in the UK are responsible for a disproportionately large amount of spending
- high spenders (elite & frequent) are 15% of customers but 42% spending
 - other consumers are 85% customers but 58% of spending.
- 2.26 Based on BRC employment figures (£50,000 spending supports one retail job supported) tax free shopping directly supports 70,000 jobs across the whole of the UK. Thousand more jobs in hotels, restaurants, culture and tourists attractions are supported by shoppers other spending. In addition the luxury brands, such as Burberry, Mulberry and Church use London as their international shop window for their goods which are manufactured all over the UK, employing around 160,000 people in the South West, the Midlands, the North East and Scotland.

¹⁴ HM Treasury Technical Note

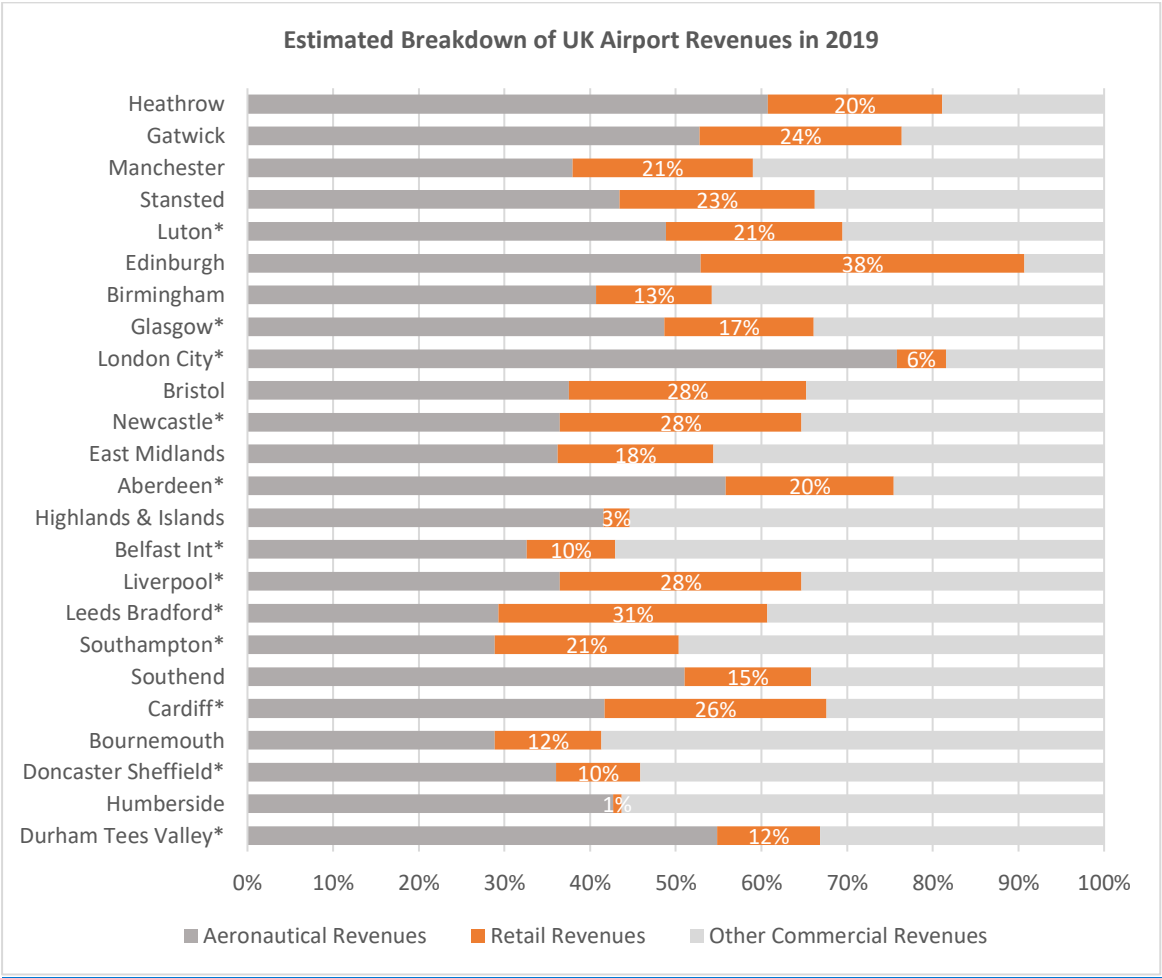
¹⁵ Global Blue and Planet figures

¹⁶ Global Blue and Planet figures

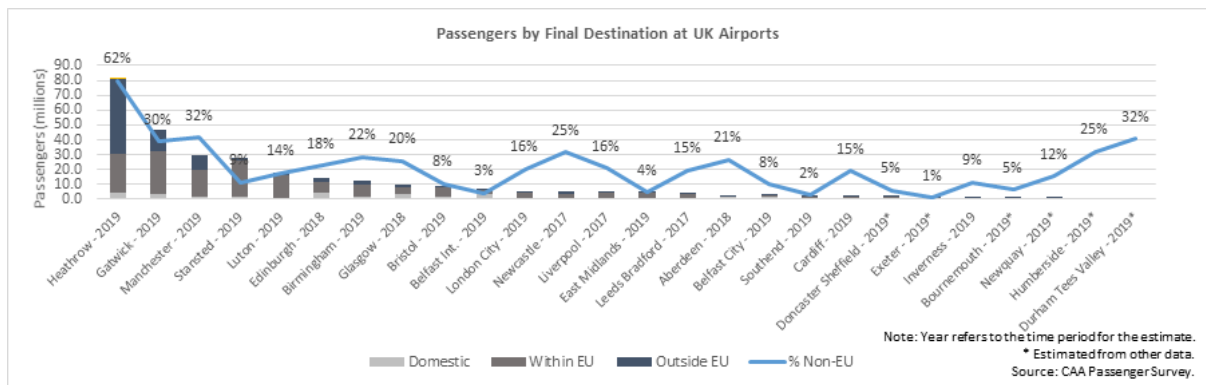
2.27 Most (90%) tax-free refunds are recycled back into the UK economy rather than taken abroad. 15% of refunds are made in towns and cities to be spent there. 75% are made at airports with most spent in bars, restaurants and airside shopping. Only 10% of refunds are made outside the UK.

The importance of airside tax-free shopping (ESC)

2.28 Tax-free sales have been a major feature of UK airports and travel retailers since 1960. Over 60 years, tax free shopping has become an integral part of the UK traveller’s journey, and a key driver in the economic development of UK airports. The airport operator model prevalent throughout much of the Western world, including the UK and Europe, is heavily reliant on strong non-aeronautical revenues supporting lower landing fees and sustainable ticket prices for passengers. Duty- and tax-free shopping is a key driver of those non-aeronautical revenues, often accounting for up to 40 per cent of total airport revenue. This is particularly the case in smaller regional airports, where non-aeronautical revenues can be used to drive reinvestment in infrastructure, attracting new routes, and securing additional services.



2.29 Smaller regional airports also have sizeable non-EU traffic. The removal of the Airside VAT ESC would deal a significant blow to them, especially where retail revenue is a great percentage of overall revenue.



2.30 Previous independent economic analysis has concluded the full return of duty free and tax-free sales after Brexit would contribute up to £1.1bn in additional GDP to the economy, as well as supporting over 10,000 additional jobs, mostly outside of London.

VAT RES tax-free shopping is important for the retail sector across the UK

2.31 While the tax-free shopping is a relatively small element of the total non-essential retail sector, its importance is high. International shoppers tend to be higher value than domestic shoppers. In London’s West End, international shoppers account for 25% of visits but over 50% of all spending.¹⁷

2.32 The VAT RES enables stores to identify international shoppers allowing them to upsell through the provision of targeted services (such as staff who speak their language) and marketing as well as introducing them to the store’s web-based sales so that international shoppers continue to shop when they return home.

2.33 The £3.5 billion sales directly help high street across the UK (as shown in section 2.23). But in addition, national chains with stores in central London, where most tax-free sales take place, gain through these sales, reducing pressure to cut costs in their more marginal stores, most of which are outside London.

COVID-19 impact and implications

2.34 COVID-19 has severely damaged the tourism, retail and hospitality sectors. More than most sectors they have been hit by the lack of visitors and the restrictions of social distancing. Around retail 125,000 jobs have been lost already (in the eight months to August)¹⁸ with many more expected as the furlough scheme evolves.

2.35 London’s West End is forecasting sales to fall by 80% in the twelve months from March 2020, from £10 billion to around £2 billion, with up to 50,000 jobs lost by the end of the year. Many brands are retaining their costly presence in the anticipation of the eventual return of international visitors. With the decision to end the VAT RES an increasing number are now planning either to leave the West End or downsize to reflect the anticipated fall in international visitor spending.

¹⁷ New West End Company visitor and sales figures

¹⁸ Centre for Retail Research September 2020

What Business Thinks

LINLEY

“Tax-free status is a lifeline and its loss will render us uncompetitive. Shareholders are utterly alarmed and with their international reach, we would expect their investment to go elsewhere in the world.”

National Museums Scotland shops

“We have a significant number of East Asian customers, many of whom are sensitive to price and value. That custom is threatened by the removal of the tax-free scheme.”

Cobbs Group

“The impact is going to be catastrophic, not just for retail but for manufacturing of product. This new law will have a domino effect on unemployment and will encourage the foreign visitor, especially cruise ship passengers to purchase on mainland Europe instead of the UK.”

Garrard

“This decision effectively says we are closed for business and will push the spending power of visitors to other European countries. The UK will suffer as a direct result.”

Kathryn Sargent – Bespoke Tailor

“Part of the experience of having a tailored garment made is collecting it in London. The majority of my customers plan a trip to collect it as part of a holiday where they might bring their partner or family, stay in hotels in the area, dine in restaurants, visit museums, galleries, theatres and explore other parts of the UK at the same time bringing additional spend into the UK and supporting jobs.”

Boodles

“Many of our customers are Asians who will travel to whichever part of the world is most sympathetic to them in terms of pricing, and tax is a big part of this. So instead of coming to London, they will travel to Geneva, Paris, Milan, etc.”

Pragnal’s Jewellery

“Our company would need to look to direct our future investments overseas.”

3. Ending the VAT RES and airside tax-free shopping (ESC) will damage Britain's economy

3.1 Following a consultation (March 11th - May 20th 2020) HM Treasury decided to end both the VAT RES and airside tax-free shopping. Industry has concerns about the operation of the consultation and question the Government's rationale for arriving at this decision

Consultation process

3.2 Industry has expressed a number of concerns over the consultation process. The main issues are:

- There was no mention in the consultation of WTO rules (other than to state that the existing VAT RES scheme is consistent with international tax principles) and yet HM Treasury states that the resulting decision is based on WTO rules.
- The consultation document contained just two sentences that referred to the potential for abolition in a 22 page document
- The consultation document stated that "the UK is minded to extend airside tax-free sales to those travelling to the EU by air, sea and rail".
- Of the 43 respondents to the consultation, only two supported abolition of the VAT RES
- The Treasury does not appear to have discussed its decision to end the schemes with interested parties both within government (e.g. retail and tourism) and outside (e.g. the Scottish Executive)

The Government's decision

3.3 The Government as given a number of reasons for its decision to end the VAT RES and airside tax-free shopping, in its formal response to the consultation, its subsequent Technical Note and in discussions with politicians and businesses.

3.4 The main reasons given are:

- Under WTO rules the Government has no option but to treat all countries equally, meaning that on January 1st it would have to offer tax-free shopping to EU visitors
- This extension of the scheme will be costly – estimated to add £900m to the £500m cost to the existing VAT RES for non-EU visitors.
- This £1.4 bn relief was too expensive and the Treasury could not afford it, especially when it was seeking ways to rebuild the country's finances
- Add air-side reasons
- The relief is focussed on London and did little for the regions
- There is an element of fraud which would increase if the scheme was expanded
- The current system could not cope with the increased volume of claims without substantial investment in digitalisation

3.5 Based on the HM Treasury Technical Note and Consultation Response the Government's prediction of the impact of abolishing the VAT RES is that:

- It will have little impact on international visitor behaviour on choosing to visit the UK and on spending because:
 - Most non-EU visitors don't use VAT RES (less than 10%)

- The majority of refunds are low value so will not alter the behaviour of those shoppers
- Those claiming larger refunds have to pay import taxes when they return home so there will be no change in their decision to visit UK
- The “Shop and Ship” VAT-free scheme is an alternative
- So, ending the VAT RES will have little impact on visitor numbers, visitor spending, jobs

Industry’s response to the Government’s reasons for ending the schemes

3.6 The tourism and retail industries have a different view based on their experience of the VAT RES scheme and customer behaviour. We believe that the Government’s rationale is wrong in a number of key areas.

We believe the Government has miscalculated the cost of extending the scheme to visitors from EU member states.

3.7 The HM Technical Note states that “in 2019 the ONS estimate there were 1.7 EU passengers for every non-EU passenger to the UK. This implies an extension to the EU could significantly increase the cost of the scheme by up to an estimated £0.9bn.”

3.8 But this is only valid if EU visitors spend the same amount as non-EU visitors. They don’t. In 2019, 24.8 million visitors were from EU countries, spending £10.6bn. The 16 million non-EU visitors spent £17.8bn.¹⁹ The average spend by EU visitors is £427 while that of non-EU visitors is £1,112, nearly three times more

3.9 So, including relative spending, the assessment of the cost of extending the VAT RES to EU visitors will be:

- Current cost x relative visitor numbers (24.8/16=1.55) x relative spending (427/1112 = 0.38)
- £500 million x 1.55 x 0.38 = £294 million

3.10 However, industry figures show that only a small amount of EU spending is on shopping. Major stores report that 90% of sales to international visitors is to non-EU visitors and only 10% is to EU visitors. Using the relative spending on shopping, rather than total spend, would reduce the direct cost of extending the scheme to EU visitors to around £50 million, far less than HMT’s £900 million figure.

We believe the Government is wrong to say that that the relief is focussed on London, not the regions.

3.11 While the majority of tax-free sales take place in the International Centres in London, 20% of tax-free sales are in the regions. As we have shown in 2.24, hundreds of millions of pounds of tax-free shopping takes place outside London. Edinburgh, Manchester, Liverpool, Glasgow and Leeds together account for £225 million tax free sales. We believe that Ministers should listen to the people in the regions who understand the importance of the tax-free shopping to their regions:

- Marketing Manchester - “The visitor economy of Greater Manchester, which secures over 100,000 jobs, will be dealt a hammer-blow by this decision.”
- Birmingham Chamber of Commerce - “The abolition of the VAT Retail Scheme would be a major blow to our visitor economy. The proposal to remove the tax-free shopping scheme

¹⁹ Visit Britain – “2019 snapshot” and Statistica “Inbound visits from the EU to the UK 2011-2019”

undermines a central pillar of Government policy – notably the desire to ‘level up’ the country and bring prosperity to all four corners of the country.”

- The North West Business Leadership Team - “Tax free shopping is not just a stimulus for us as an international retail destination. It is a crucial part of our visitor economy offer.”
- Essential Edinburgh - “Tax-free shopping is fundamentally crucial for Edinburgh city centre. On top of the existing challenges, the loss of tax-free shopping would be catastrophic for the city”

3.12 The ending of airside tax-free shopping hits airports throughout the UK. Many regional airports rely on the income from their retail operations to keep airport fees low and, for some, it is the difference between survival and closure. The loss of vital transport infrastructure will be a blow to regional economies.

3.13 Importantly, London is the global shop window for British brands that manufacture their goods all around the country. Burberry, for example, manufactures its products in the North East. Mulberry manufactures in the South West. There are around 160,000 manufacturing jobs all over the UK that make luxury goods to sell to international visitors in London stores. Ending VAT RES puts many of these jobs at risk.

Concerns about fraud and capacity can be alleviated by digitalising the validation element of the VAT RES

3.14 The majority of fraud issues are a direct result of HMRC operating a paper-based validation system, which is too cumbersome to spot fraud. This problem will be solved if the validation element was digitalised. While most countries have digitalised within 18-24 months of deciding to do so, HMRC have been examining this since 2012 and has still not agreed a solution. The industry has made an offer to Government that it would digitalise the validation element, linking it to existing retailer digital infrastructure, at no cost to the Government within 6-12 months. This would address problems with queues at Heathrow and reduce dramatically any fraud.

Industry’s response to the Government’s prediction of the impact of abolishing the VAT RES

3.15 The industry believes that the Government’s predictions of the impact of abolishing the VAT RES are wrong because they are based on a misunderstanding of the VAT RES system and market and an underestimation of the level of behaviour change of international visitors.

We believe the Government is wrong to claim that less than 10% of international visitors use the VAT RES

3.16 The Government implies that, because it believes that less than 10% of international visitors use the VAT RES, the decision will have no impact on most international visitors. This is a misunderstanding of the VAT RES process and market by HMT.

3.17 HMT mistakes the number of VAT refunds for the number of users. As shown in 2.20 – 2.22, the number of users is 4.8 million, or around 30% of non-EU visitors.

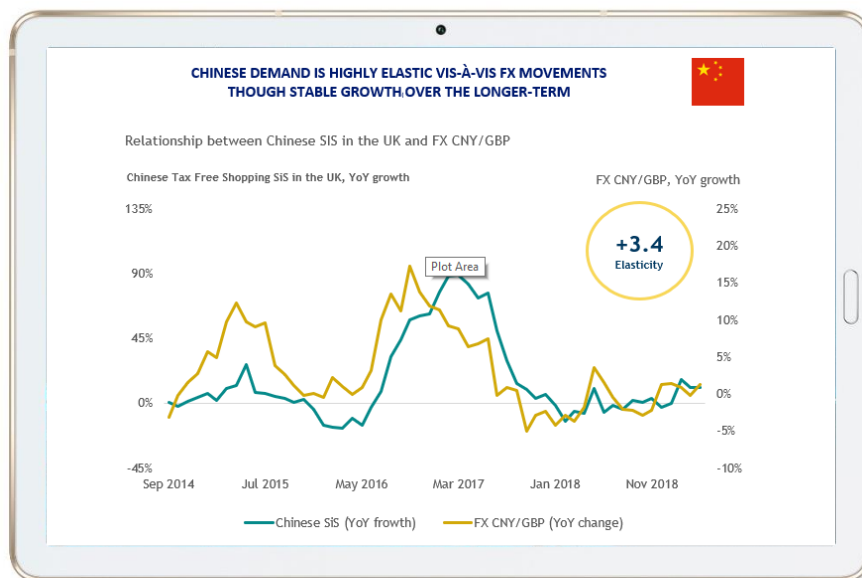
We believe the Government is wrong to claim that the majority of users will not change their behaviour because the value of their refunds is low

3.18 International Shoppers are extremely sensitive to price and decide their destinations for shopping based and their level of spending on price: The 90% + correlation between the FX movement of major currencies against the £ and the evolution of Tax Free Spend suggest an Elasticity ratio over the last 5 years of 1,8 times with some major difference between countries:

- Chinese are the most sensitive to price 3.4 elasticity of 3.4

- Russian are the least sensitive to price elasticity of 1.1²⁰

- 3.19 As HMT states in its Technical Note, the majority of refunds are relatively low. Global Blue customer data shows that 85% of tax-free shopping refunds are made to what they term “infrequent shoppers” who spend on average 910 euros. This means that their average refund is 182 euros. While losing this discount is unlikely change their decision to chose to visit the UK, it will change their spending behaviour. HM Treasury itself believes that small discounts change spending behaviour. Its “Eat Out to Help Out” scheme, offering a maximum £10 discount, resulted in significant behaviour change, with takings on August Bank Holiday rising by 200% compared with the previous year. HM Treasury has extended its scheme to cut VAT on certain hospitality services from 20% to 5% because it believes that this discount (smaller than the VAT RES) will alter consumer behaviour.
- 3.20 But for a minority of visitors the refunds are larger and will impact on both their decision to chose to visit the UK and the amount they spend when they are here. Around 15% of VAT RES users account for 42% of the total amount spent.
- 3.21 In particular, Chinese visitors, for whom shopping is the main draw and who are the greatest source of future visitor growth, are very sensitive to price changes. Historical data shows a direct correlation between the movement in FX (price) and the amount Chinese visitors spend, suggesting a price elasticity of 3.4.



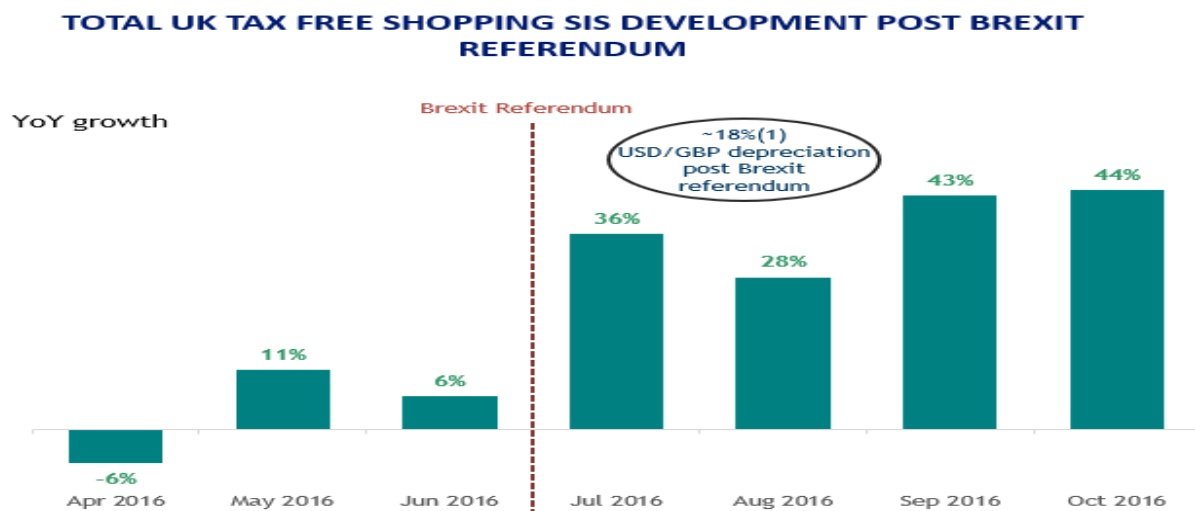
- 3.22 Many Chinese visitors make multi-country tours of Europe. Including the UK on these tours is already difficult (because of the need to apply for both a Schengen and UK visa). If the VAT RES is removed, some will choose not to include the UK on their itinerary and those that do are likely to save their spending on shopping until they visit another European country. KPMG has said “Chinese tourists are prolific shoppers but they are highly price sensitive. Eliminating tax and duty free shopping in the UK would be a massive own goal and would prevent the UK from capturing the significant pent up-spend of Chinese visitors”²¹
- 3.23 For one group, the elite spenders, ending the VAT RES will cause a significant behaviour change, both in choosing to visit the UK and on their spending when they are here. Less than 1% of VAT

²⁰ Based on tracking actual sales data and FX over 5 years by Global Blue.

²¹ KPMG Asia

RES users account for 20% of all tax-free sales. This important group spend on average £60,000 on tax-free shopping each year, resulting in an average refund of £12,000. This is a significant difference and enough to make these high spenders chose to visit other countries. High Spending Middle Eastern visitors, for example are more likely to fly to Paris than London or Manchester (which they visit for football), particularly since the Schengen visa offer for Middle Eastern visitors is more attractive than the UK visa.

- 3.24 The impact on price of the fall in the value of the pound following the 2016 referendum result shows how sensitive international visitors are to price change. A drop of 18% in the value of the pound in June 2016 led to a 36% increase in tax-free shopping the following month.



- 3.25 Not only will the UK lose the retail sales from these high spenders, but it will also lose their disproportionately high spending on hotels, restaurants, travel and culture. Tax-free shopping accounts for £3.5 billion of the £17.8 billion sales to non-EU visitors, around 20%. The remaining 80% of spending is not tax-free and delivers £2.8 billion of VAT.

We believe the Government's Spend and Ship VAT-free system is not and attractive or equivalent alternative to tax-free shopping

- 3.26 The existing VAT-free scheme is no substitute for the VAT-RES. It is hardly used by international visitors. The Vice-Chairman of Value Retail said, "of the 7 million visitors to Bicester Village last year, not one asked for goods to be sent home".
- 3.27 The whole shopping experience is about taking the goods with you and showing them to family and friend while you are on holiday. If visitors wanted goods shipped, they would just go on the internet. Those buying high value goods, such as watches or jewellery, are not comfortable having them posted. And customers know that they will incur postage charges and large import and consumer taxes when they arrive at home, wiping out their VAT refund. For example, a Chinese traveller buying abroad and shipping goods to China will pay a tax called "personal postal articles tax" which includes customs duties, import value-added tax and consumption tax. This ranges from 25-50% on most goods. In practice, most visitors will save their retail spending for the far more attractive tax-free shopping schemes offered by all other European Countries where they can carry good home in their luggage.

We believe that changes in international visitor behaviour will have knock-on effects on the wider economy

3.28 The inevitable fall in visitor numbers and spending, particularly the high spenders and the growing Chinese market, has an effect beyond the retail and hospitality sectors. These are just a few examples:

Reducing national and international investment – businesses want to be where their customers are. The diversion of high spending, highly mobile international visitors from Britain to France and Italy will affect investment decisions. Businesses of all sizes have said they will reduce the scale of their current presence in Britain. Others have said they will cut back planned future investment programmes.

Damaging British Heritage Brands – global brands tell us they will reduce their presence in the UK and divert resources to their stores in European countries that will benefit from Britain's loss of international customers. But many British heritage brands are based in the UK and do not have the resources to open stores in Paris, or Rome. So British brands and fashion will be the big losers as their exposure and access to international customers falls.

Damaging arts and culture – international visitors are vital to support Britain's theatres, galleries and museums both in London throughout the UK. High spending international visitors, those most likely to divert their trips away from the UK, are particularly important. Responding to the decision to end the VAT RES, The Royal Opera House urged this decision to be reversed, saying "the big issue is encouraging overseas city centre tourism after the collapse of that market during the pandemic, which for us represents 10% of the audience but 14% of our box office income and absolutely essential to our financial model"

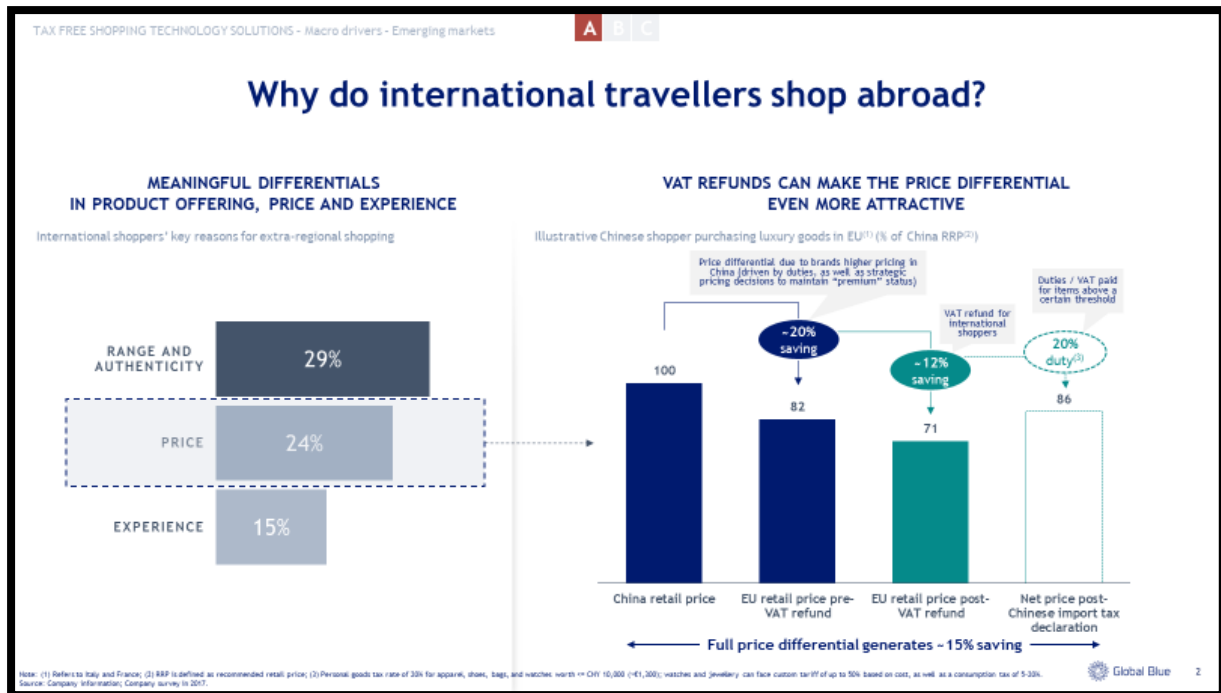
Diminishing London's West End as an international centre – The West End is Europe's top International Centre. With over 250 national and European flagship stores it is the place for worldwide retailers and investors to do business. It's the quantity, quality and mix of retail, combined with world class theatre, hotels, restaurants and galleries that make London attractive to global visitors, investors, businesses, talent and students. Already struggling with the effects of COVID-19 (with sales down 80%), it was the anticipation of the return of international visitors that encouraged many businesses to stay on and see out this period. The ending of the VAT RES and the impact that will have on high spending international visitor numbers is already making businesses reconsider their presence in the West End. The downgrading on this International Centre will have a detrimental impact on the UK's attractiveness to the international world.

Sending the wrong signal about post EU Global Britain – as Britain leaves the EU the Government is projecting a Global Britain to attract international trade and investment. But the Government's first move, on January 1st, 2021 will be to remove tax-free shopping and send out the signal that Britain is a less attractive place for international visitors.

Reducing international student numbers – over one third of the 300,000+ overseas students in Britain's Universities are Chinese. Applications by Chinese students were up 23% in 2020, a new record. With the high cost of living and studying abroad, these students come from relatively wealthy families. They attend universities all around the UK, bringing wealth across all of Britain. Tax-free shopping is a strong motivator for Chinese people, both to choose the UK as a destination and to spend when they and their parents are here. Ending tax-free shopping will diminish the appeal to them of UK universities.

We believe the Government is wrong to be concerned about international visitors paying duties when they return home with tax-free goods.

- 3.29 HM Treasury's Technical Note says that high spenders are liable to pay relevant import taxes and this means that tax free shopping is not a draw. In fact, in most instances, this is not the case as demonstrated by the following slide.



- 3.30 In practice, this is not a consideration for tax-free shoppers. But, in any case, this is a concern for the tax authorities in the shoppers' home countries, not for HM Treasury. HM Treasury should only be concerned about ensuring that UK visitors returning home with tax free shopping pay the import duties. But in practice, Border Force do not stop the majority of returning UK visitors to check on tax-free shopping items. If this was a big concern for HM Treasury then we would see an increase in Border Force resources to check for goods bought by British visitors to EU countries, all of whom will be entitled to shop tax-free from January 1st 2021. We have seen no evidence of any increase in Border Force resources for these checks which leads us to believe that, in practice, this is not a major issue for HM Treasury.

Consumers say that ending the VAT RES will change their behaviour

- 3.31 When the Government announced that it was ending the VAT RES, Global Blue surveyed tax-free shoppers worldwide to see how this would affect their behaviour. Of the 4,843 respondents, 62% said they were less likely to visit the UK; 95% said they were likely to spend less in the UK; 93% said they would change where they do their overseas shopping; 41% said they were more likely to shop in France; and 29% said they were more likely to shop in Italy. Of the super-spenders, 80% said they would now be less likely to visit the UK. The results can be seen as appendix 3.

Industry's economic modelling on the impact of ending the VAT RES

- 3.32 Because the ending of the VAT RES will clearly change consumer behaviour, the industry commissioned Cebr to undertake an economic analysis to quantify the impact on visitor numbers, spending, GVA, tax revenue and job numbers.

- 3.33 The Cebr report examined the impact of ending the VAT RES and extending it to EU visitors using standard modelling based on a range of elasticities. As a separate exercise it used the consumer survey to suggest that the impact would be higher than traditional modelling would suggest. It is the first part of the report, based on orthodox economic modelling, that we have used in this report.
- 3.34 We know from discussions with HM Treasury that they have doubts about the finding in the Cebr report. Partly this is due to Treasury misunderstanding of the VAT RES market. As an example, Baroness Penn, in response to Lord Vazey's Lords Question (October 20th 2020), said that HMT disbelieved the Cebr report because it predicted an unrealistic loss of 1,168,000 non-EU visitors if the VAT RES is ended when the total number of users was just 1.2 million. As we have shown in 2.20 – 2.22, above, we believe that this is an error by HM Treasury. The actual number on non-EU visitors who use the VAT RES is at least 4.8 million, making the CEBR estimate credible.
- 3.35 However, given HM Treasury's scepticism of the Cebr report, we commissioned Flint Strategy, a consultancy that employs former Treasury officials, to stress test the Cebr Report.²² They modelled Cebr's findings with more conservative estimates of elasticity and concluded that the impact of ending the VAT RES will be:
- International visitor numbers will fall by 609,00
 - International visitor spending will fall by £1.356 billion
 - Tax revenue will rise by £6 million (versus HMT expectation of £500 million)
 - Job losses will be 20,000.
- 3.36 So, even with a more conservative approach, abolishing the VAT RES does have a significant impact on visitor numbers, sales, tax revenue and job losses. To believe these effects will not happen, you need to believe a combination of:
- The removal of a tax break worth £500 million to visitors has no effect on their decision to come, despite this benefit being available for trips to very similar countries.
 - The removal of hundreds of millions in spending from the UK will have no economic effect.
 - The economy deprived of this source of external demand will smoothly readjust to find other sources of demand and use its resources of capital and labour there instead

Predicted impact of ending airside tax-free shopping scheme

- 3.37 The removal of the VAT exemption for airside retailers will threaten the viability of some regional airports and cost jobs and livelihoods. Sales of product categories such as perfume, cosmetics, confectionery, electronics and luxury goods can account for up to 75% of total airside sales at airports. In turn, airside sales can generate up to 35-40% of total revenue for some airports. These airside sales would be greatly reduced by removal of VAT exemption airside, due to customer behaviour and sensitivity to price (57% of passengers shopping in premium categories at Heathrow listed price as the #1 factor when purchasing, 35% for Beauty and Fragrance categories). The reduction in sales in turn will lead to retailers having to either absorb VAT into margins, which for many will be unsustainable and hence closure will be inevitable or maintain higher prices and thus lose sales volume.
- 3.38 With substantially reduced non-aeronautical revenue sources, airports will be forced to raise landing charges on aeronautical revenue – driving up airline prices for consumers and forcing

²² Flint modelling is outlined in accompanying document

airports to run at a loss and curtail infrastructure investment. For example – many smaller airports rely heavily on non-aeronautical revenue to support efforts to attract new routes. Without the capacity to invest in this activity it will be more difficult for regional airports to attract a diversity of route and carriers for their region, hampering the UK's ability to grow regional connectivity.

- 3.39 Furthermore, with reduced non-EU visitors to the UK due to the ending of the VAT RES scheme, this will have a knock on impact not only on airside retail but also on Air Passenger Duty (APD) charges and other taxed goods and services for HMT. At a charge of £176 for Economy passengers and £528 for Business passengers per long haul departing passenger (rising to £180 / £541 on 1st April 2021), this loss in APD is a significant hit to the Exchequer.
- 3.40 Broadly, the effect on the regions outside of London will be profound– many regional airports already require support from the Government in order to operate and greatly value the revenue derived from VAT-free sales.
- 3.41 This move also completely undermines the forthcoming government policy paper to support the UK's aviation industry and plunges us into a much deeper crisis from which certain airports and their retail partners might not emerge.
- 3.42 It is a certainty that this change in government policy will cost thousands of UK jobs. In London airports alone the potential job losses could extend to over 5,000 roles.

Conclusions

- 3.43 Given what we believe are errors and misunderstandings in HM Treasury's rationale and the evidence of behaviour change which will damage the UK's economy, harm tax revenues and lead to job losses, as well as undermining the UK's global positioning, we recommend that the Government reverse its decision to end the VAT RES and airside tax-free shopping.
- 3.44 We understand that this will require the Government to extend the scheme to visitors from EU member states. But we believe that the Government has overestimated the cost of this by around 300% and has underestimated the benefits to the UK economy, tax revenues and job creation.

What Business Thinks

KWANPEN

“Without tax-free shopping, there is a high probability of closing all our UK shops and focus on e-commerce. Landlords in Mayfair will take a big hit, rental prices will crash, jobs will be lost and some brands will operate e-commerce from their home country, totally abandoning UK as a market for a physical presence.”

Chopard

“For 2021 we had planned to open a new store in London targeting international travellers. This project has been put on hold given the potential removal of the Tax-free Shopping.”

Birmingham Chamber of Commerce

“The abolition of the VAT Retail Scheme would be a major blow to a visitor economy still suffering from the fallout of Covid-19 and would simply add to the problems that an anchor institution such as Birmingham Airport (which employs over six thousand staff in the region and creates £1.5bn in GVA) are currently enduring. Ultimately, the proposal to remove the tax-free shopping scheme undermines a central pillar of Government policy – notably the desire to ‘level up’ the country and bring prosperity to all four corners of the country.”

Marketing Manchester

“High-spending potential visitors to Greater Manchester are now likely to travel to other European destinations. This will have a significant negative effect on the economic impact of hotel and restaurant bookings, and visitor numbers at cultural attractions.

The visitor economy of Greater Manchester, which secures over 100,000 jobs, will be dealt a hammer-blow by this decision.”

North West Business Leadership Team

“The North West is a region with global reach - and ambitions to continue to grow our international links further. Tax free shopping is not just a stimulus for us as an international retail destination. It is a crucial part of our visitor economy offer. This in turn helps us to attract international students and highly skilled workers who can choose to locate anywhere in the world.”

4. Extending the VAT RES and airside tax-free shopping scheme (ESC) to EU visitors generates more visitors, more income and more jobs

The Government's position

4.1 The Government has stated that:

- WTO rules give the Government no option but to extend both schemes to EU visitors
- The cost of extending VAT RES is too expensive— £900 m based on visitor numbers (1.7 EU visitors for every 1 non-EU visitor)
- Extending the scheme risks losing the VAT already collected on sales to EU visitors
- There is a lack of capacity to manage increased volume
- There is concern about possible increase in fraud

Industry response to Government position

4.2 The industry has campaigned for the VAT RES and airside tax-free shopping scheme to be extended to EU visitors after the UK leaves the EU. We have argued that this will provide an additional incentive for EU citizens to visit the UK and increase their spending. Growing the international visitor market is good for the British economy, creates jobs and generates tax revenue. It will particularly help regional economies since most routes from their airports are to and from Europe.

4.3 Moreover, from January 1st 2021 British shoppers will be able to shop tax-free in all EU countries giving them an incentive to divert spending (particularly on high value items) outside the UK. Without reciprocating, Britain will lose out as Europe gains a tax-free shopping market of 66 million. If the UK extended tax-free shopping to EU visitors, we would gain a market of 380 million. The French government has already installed tax refund kiosks at Gard Du Nord to enable British shoppers to reclaim their tax. From January 1st 2021 the French Government will reduce the minimum tax-free shopping spending level from 175 euro to 100 euro.

4.4 As shown in 3.7-3.10, above, we believe that the cost of extending scheme to non-EU visitors will not be £900 million, but under £300 million when you factor in the relatively low spending levels of EU visitors compared with non-EU visitors (just one third of non-EU spending). It could be as low as £50 million.

4.5 By retaining the scheme, Britain will be able to benefit from the forecast growth in international tourists, led by Chinese tourists, for whom shopping is the major motivator and who are very price sensitive. Without tax free shopping the UK will miss out on the 300% predicted growth in Chinese visitor by 2030.

4.6 Digitalising the validation element, as the industry has offered to do at no cost to the Government, will manage both the capacity issue and much of the fraud concerns.

Benefits of extending schemes to EU visitors – the VAT RES

4.7 The Cebr report looked into the likely impact of extending the VAT Res to EU visitors, including the possible loss of VAT currently paid on goods bought by EU visitors. Once again, we asked Flint Strategy to stress test the report. Using more conservative assumptions on elasticity, the conclusions are:

- EU visitor numbers will increase by 730,00

- Spending will increase by £569 million
- Tax will fall by £96 million
- Jobs will increase by 8,500

4.8 Comparing, and taking a conservative view, the impact of abolishing the VAT RES and the cost of extending the scheme to EU visitors shows

Element	End Vat Res	Extend VAT RES to EU
Visitor numbers	-609,000	+730,000
Spending	-£1.356 billion	+£569 million
Tax revenue	+ £6 million	-£96 million
Jobs	- 20,000	+8,500

Benefits of extending schemes to EU visitors – airside tax-free shopping

- 4.9 The UKTRF's preferred position – the extension of duty-free and VAT-free sales for international passengers travelling to all destinations – would made a material economic contribution to UK plc.
- 4.10 Because the Extra Statutory Concession for VAT is applied at point of sale, no additional resources are required in order for HMRC to support it.
- 4.11 Our research indicated that such a system could contribute up to £1.1 billion in GVA, and support over 10,000 new jobs mostly outside of London.
- 4.12 When the Government issued its consultation on duty free and VAT free sales earlier this year the industry engaged with the process in good faith and was pleased to provide robust data demonstrating the potential benefits of a liberalised duty and VAT free system post-Brexit. Indeed, in the Government's request for evidence document earlier this year there was no indication the Airside ESC was in danger of being removed on 1 January 2021, but rather that Government was minded to extend VAT free sales after Brexit.
- 4.13 In the original Consultation paper and the subsequent Governmental response, the UK Government identified three specific areas in which they felt the Extra Statutory Concession was either being used wrongly or that it did not achieve its stated aims. The UK Travel Retail Forum has recently submitted a proposed alternative course of action for the Airside ESC to address these.

Timing and transition

- 4.14 Should the Government decide to retain the VAT RES and airside tax-free shopping it may have concerns about capacity and preparedness in extending the scheme to EU visitors. We believe that there are three ways to alleviate any concerns while the industry installs the digital element required to provide the extra capacity. These are:
- High levels of international visitors are not expected for much of 2021 so that there will be spare capacity
 - The Government could reduce reclaim numbers temporarily by introducing a minimum spend level. A level set at £50 would lead to a reduction of around one third of claims
 - Legal advice to the Industry suggests that the WTO would be prepared to offer a transitional arrangement for one or two years to retain the status quo and restrict the VAT RES and airside tax-free shopping scheme to non-EU visitors.

What Business Thinks

Dugdale Brothers – British cloth manufacture in South Yorkshire

“Orders placed with us will decrease in number which will have a repercussive effect on every aspect of cloth production, from yarn spinning, to weaving and the final finishing industry.”

Mackage

“Our plans to open 10 more retail stores in the UK and throughout Europe would inevitably be put on hold or sadly ended altogether. In the UK, for example, with Bicester not receiving the tourists they are used to seeing we are now looking at another European outlet strategy, taking sales away from the UK.”

Church & Co

“29% of our sales are tax-free. We expect to lose up to 80% of this business worth £6.5 million. Future growth is expected from China, Middle East and USA. Ending tax free will stop that growth and lead to job losses.”

Piquadro

“We offer the tax-free scheme which is a very strong selling point and a push towards purchase. The abolition of the VAT would harm our business significantly, not only in term of sales, but would also slow our client’s footfall forcing us to reduce staff.”

The Royal Opera House.

“It’s vital to the cultural ecology and economy of the West End to encourage international tourists back after the pandemic. Other world cities are planning their campaigns now, and anything that we do now to diminish the UK’s attractiveness will just be to Paris, Milan and New York’s benefit.

“The big issue is encouraging overseas city centre tourism after the collapse of that market during the pandemic, which for us represents 10% of the audience but 14% of our box office income and absolutely essential to our financial model.”

4 Conclusions and recommendations

Conclusions

- We believe that HMT's decisions are based on too narrow focus on retail – it's the wider international tourist economy that counts
- We believe that HMT has misunderstood and made wrong assumptions on:
 - the national impact outside London
 - the features and operation of the scheme
 - the cost of extending the scheme
 - the impact of ending the scheme on behaviour of international visitors
- We believe that ending the schemes will damage
 - visitor numbers
 - visitor spending
 - job numbers
 - tax revenues
 - Global Britain
- We believe that extending the schemes to EU visitors will
 - Support the UK's tourism, retail and hospitality sectors
 - Enable the UK to benefit from the growth of international visitor numbers and spending
 - Encourage greater visitor numbers
 - Encourage greater spending on both tax-free shopping and other goods and services
 - Create new jobs
 - Increase tax revenues

Recommendations

- Government should
 - Reverse its decision to abolish the VAT RES and airside tax-free shopping
 - Seek a transitional arrangement with the WTO if necessary, to provide more time and capacity
 - Accept the industry offer to digitalise the VAT RES at no cost to the Government
 - Use the transition period and low volume of international visitors (COVID-19) to install the digital system
 - Extend the scheme to EU visitors

What Business Thinks

Essential Edinburgh

"Tax-free shopping is fundamentally crucial for Edinburgh city centre. China remains the no.1 tourism market in terms of international tourism expenditure in 2019, with £1,937 average spend per visit in the UK and 16.33 day average length of stay. On top of the existing challenges the loss of tax-free shopping would be catastrophic for the city"

Olivia Burton

"Should tax-free shopping no longer be offered in the UK and our stores become unprofitable then we would consider closing the locations."