



Restoring Tax Free shopping - Briefing September 25th 2020

1. Overview

- 1.1 The Chancellor's decision to restore tax-free shopping and extend it to visitors from EU states is good news. This was AIR's main campaign objective.
- 1.2 The focus now should be on ensuring that the new system is operational as soon as possible and meets the expectation of businesses.
- 1.3 The Treasury's belief that it will take two years to introduce a digital system needs to be challenged and we need to promote the industry alternative which can be operational far quicker.

2. The announcement

- 2.1 The Growth Plan, published on Friday, says (AIR's highlights):

3.46 The government will introduce a modern, digital, VAT-free shopping scheme with **the aim of providing a boost to the high street and creating jobs in the retail and tourism sectors**. The delivery will include modernising the scheme that currently operates in Northern Ireland and **introducing a new digital scheme** in Great Britain – a **consultation** will gather views on the approach and design of the scheme, to be delivered as soon as possible. The new VAT-free shopping scheme for non-UK visitors to Great Britain will enable them to obtain a **VAT refund on goods bought in the high street, airports and other departure points** and exported from the UK in their personal baggage.

- 2.2 On Page 26 the Plan forecasts the costs of this policy to HMT:

Tax-free shopping: introducing a modern, digital, VAT-free shopping scheme

2022-23	2023-24	2024-25	2025-26	2026-27
0	0	-1,265	-1,955	-2,060

- 2.3 Treasury officials have confirmed to AIR that they expect the design and installation of a digital scheme to take two years. This is reflected in the cost forecasts.

- 2.4 The key points are :

- The scheme will cover high streets and airports
- It will apply to EU and non-EU visitors
- The scheme must be digitalised
- A consultation on digitalisation will be launched soon
- Government expects tax free shopping to start only from 2024/5
- Government sees the scheme as a cost to government

2. AIR's Response

- 2.1 AIR has welcomed the announcement and stressed the benefits to the whole of the UK, particularly the boost to regional economies as a result of including EU visitors. Most regional airports only serve European destinations and they and their region should benefit from higher passenger numbers and spending.
- 2.2 The extension of the scheme to include visitors from EU countries opens up a potentially large new tourist market. Britain will be the only major European shopping destination where the 447 million EU residents can shop tax free. The 60 million British residents can shop tax-free in EU countries and already, even though international travel is only just restarting and the new tax-free shopping eligibility is not yet widely known, they spend over five million euros a week on tax-free shopping.
- 2.3 New West End Company, the Business Improvement District for London's West End, has calculated an initial estimate of the impact in the West End alone of restoring an expanded tax-free shopping system. The initial estimate is that it will be in excess of £2 billion annually in additional sales to international visitors.¹ In addition there will be indirect sales benefits for hotels, restaurants, leisure and culture.
- 2.4 The new scheme provides a firm foundation to make Britain the world's number one destination of choice for international shoppers.
- 2.5 We have challenged the Government's belief that it will take two years to implement by stating:
- This is outdated Treasury orthodoxy
 - We need growth now, not in 2024/5, after the 2024 General Election
 - Industry is confident we can launch a digitalised system in around 6 months, based on systems already used by many governments around the world and at no cost to the Government
 - We should set ourselves the challenge of having a tax-free shopping operational in time for the King's Coronation.

3. Next Steps

- 3.1 HM Treasury is meeting interested parties to inform the content of the consultation paper. AIR has arranged a meeting with officials and will be responding to the consultation paper when it is published. We will be urging others to do so too.
- 3.2 Meanwhile we will continue to promote to decision makers and influencers the need for a fast reintroduction of the tax-free shopping scheme.

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¹ Based on i) Global Blue estimation that West End stores accounted for 65% of the £3bn VAT RES sales in 2019 ii) OBR forecast of 38% fall in sales as a result of ending the VAT RES = £740 m loss in the West End iii) level of spending on VAT RES shopping by EU visitors based on 2019 visitor and spending figures = £1.1 bn and iv) estimate of expected additional EU visitor numbers and spending attracted by VAT RES. Total is in excess of £2 bn