

**Association of International Retail**

**Government decides not to proceed with plans to reintroduce tax-free shopping  
17.10.22**

**1. The decision to end tax-free shopping is damaging economic growth**

- 1.1 The Chancellor's decision to reverse its commitment to restore tax-free shopping and extend the scheme to all international visitors is disappointing. It's bad news for business and it's bad for Treasury revenues.
- 1.2 Spending by international visitors to the UK rose by over 60% between 2009 and 2019,<sup>1</sup> largely driven by spending on shopping. This is a fast-growing sector and any measures that enhance Britain's appeal to high spending international visitors is a fast way to the UK's economic performance and tax revenues. The Treasury has just removed a vital element of the UK's appeal to high spending international visitors
- 1.3 HMRC's own consumer research shows that tax-free shopping plays a major role in attracting international visitors.<sup>2</sup> A consumer survey by VisitBritain showed that only 38% of international visitors said that ending tax-free shopping would make no difference to them. The majority said that they would either choose another destination or reduce their spending on shopping.<sup>3</sup>
- 1.4 Reintroducing tax-free shopping and extending it to EU visitors would have been a boost the UK international tourism sector resulting in higher overall spending, over 80% of which is on goods and services that are subject to VAT. It would have removed the major competitive disadvantage placed on Britain as we are now the only major European country not to offer tax-free shopping to international visitor.
- 1.5 In particular, this policy would have created a significant new international tourism market by making Britain the only major European country where the 447 million European Union citizens can shop tax-free. This would have been particularly helpful to regional economic growth since most regional airports only serve destinations in the European Union. The potential of this new market can already be seen by the growth of tax-free shopping by British visitors to EU countries which is now worth £500m each year.<sup>4</sup>
- 1.6 As international travel starts to return, early evidence indicates that ending tax-free shopping has led to a diversion of spending from the UK to the EU, particularly to France and Italy. One survey of 11 global brands with stores throughout Europe showed that while all retail spending by GCC visitors in EU countries had grown to over 150% of 2019 levels, in the UK it had only reached around 60% of 2019 levels. Spending by visitors from the USA was back to 90% of 2019 levels but only 40% in the UK.<sup>5</sup> Removing tax-free shopping is already harming Britain's attraction to international visitors. Many will still visit but dramatically reduce their spending. Others, particular high spending visitors are already diverting away from Britain, choosing to spend their money, not just on shopping but on hotels, restaurants, etc in other EU countries.

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<sup>1</sup> VisitBritain "Britain's visitor economy facts" and "2019 snapshot"

<sup>2</sup> HMRC "VAT RES Digitalisation – online survey with non-ERU visitors to the UK" June 2020. "VAT RES does play a role in attracting overseas visitors to the UK;" "VAT RES is a strong influence in the decision-making process"

<sup>3</sup> VisitBritain "Inbound Consumer Sentiment Research" March 2021

<sup>4</sup> Global Blue data, Q1 2022

<sup>5</sup> Global Blue "Survey of 11 leading Global Brands" Jan 2022

- 1.7 Moreover, many major global brands tell us that they have already revised their long-term investment programmes to divert capital planned for the UK to other EU countries that are benefiting from the diversion of consumer spending away from Britain, particularly by high-value international visitors. The prospect of restoring tax-free shopping was an opportunity to reconsider their plans and bring investment back into the UK, but this will now not happen.
- 1.8 And while non-UK global brands are simply experiencing a shift rather than a loss of sales, many British heritage brands, which rely on London as their global shop window, are disproportionately suffering from lower levels of sales to international shoppers. This has negative impacts on their manufacturing plants and on skilled jobs throughout the whole of the UK.

## **2. The estimates in the Growth Plan are inaccurate and incomplete**

- 2.1 We believe that the impact of reintroducing tax-free shopping will be either neutral or net positive for the Treasury with the additional VAT receipts generated by increased visitor spending exceeding the amount of VAT refunded. In 2019, tax free shopping accounted for just 17% of non-EU international visitor spending in the UK with the remaining 83% of expenditure being on goods and services where VAT is charged, such as hotels, restaurants, leisure, culture, transport and non-tax-free shopping.<sup>6</sup>
- 2.2 It is disappointing that the Treasury's method of reporting the estimated impact of this measure in the Growth Plan only features the estimate of VAT refunded, suggesting a cost to the Government. The cost figure estimated for the first full year is simply not credible. It suggests a 400% increase in sales compared with 2019, when the average growth over ten years has been just 6%. Even adding EU visitor to the mix would not produce this level of increase.
- 2.3 But in addition, the Treasury's insistence that the first full year cost is £1,955m shows that no account has been taken of the additional taxes raised as a result of introducing this measure.
- 2.4 Moreover, HMRC's own consumer research showed that most of the VAT refunded was immediately re-spent in the UK.<sup>7</sup>
- 2.4 AIR has commissioned Oxford Economics to produce an independent assessment of the full impact of the Government's announcement. This will be available before the end of October, and we will share it with the Government.

**The Government should re-assess the full economic impact of introducing a tax-free shopping scheme, including an estimate of the level of additional VAT and other taxes raised as a result of increased overall international visitor spending. The Growth Plan's focus on the cost of VAT refunds gives an incomplete and misleading estimate of the net impact of this measure.**

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<sup>6</sup> VisitBritain "Britain's visitor economy facts" and "2019 snapshot"

<sup>7</sup> HMRC ibid "Most spend all or some of their savings in the UK, with a trickle down into hospitality and entertainment services, as well as further spending in retail"