

# ASSESSING THE IMPACT OF TAX-FREE SHOPPING IN THE UK

A REPORT FOR THE ASSOCIATION OF  
INTERNATIONAL RETAIL (AIR)

NOVEMBER 2022

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## November 2022

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# EXECUTIVE SUMMARY

## BACKGROUND AND CONTEXT

In Autumn 2022, the UK Government’s Growth Plan<sup>1</sup> considered restoring tax-free shopping (TFS), both VAT-RES and airside, for non-EU27 visitors and extending it to visitors from the EU27. **HM Treasury estimated that this scheme would cost the Exchequer £1.3 billion in 2024/25**, increasing to **£2.0 billion in 2025/26**. These estimates reflected the projected value of VAT refunds that would be issued and did not account for how the policy would affect incentives for non-residents to visit and shop in the UK.

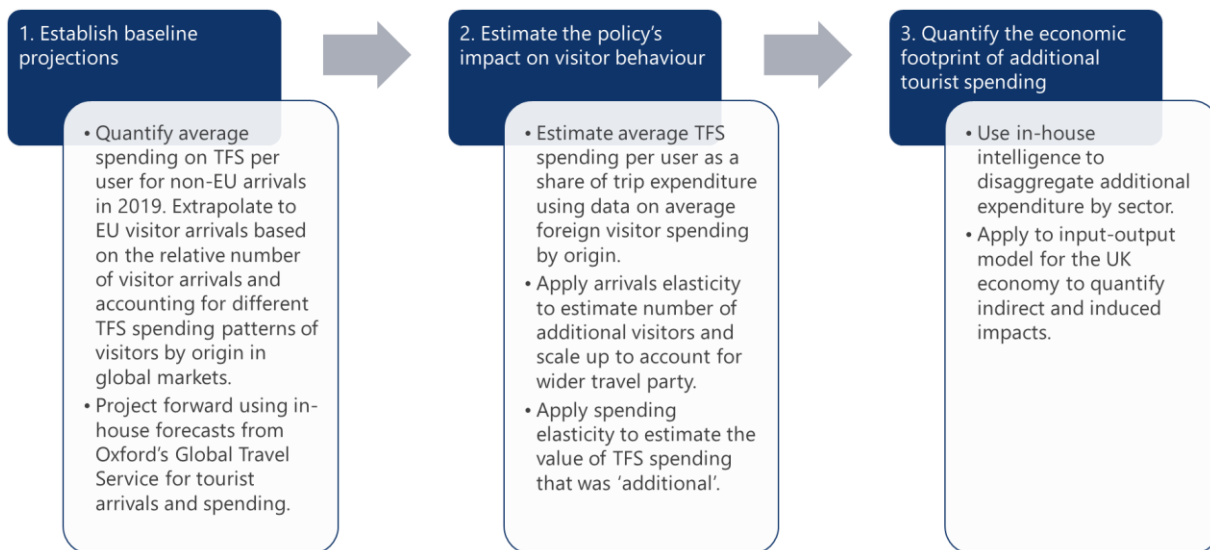
Oxford Economics was commissioned by the Association of International Retail (AIR) to produce an independent assessment of the implications of reintroducing TFS. This has included two analytical workstreams:

- estimating the direct **fiscal impact of reintroducing TFS** accounting for how the policy would affect visitor behaviour; and
- quantifying the **economic footprint** supported by the **additional foreign visitor spending in the UK** as measured through its contribution to GDP, employment and tax revenue.

## OUR APPROACH

Our analysis follows a three-step approach as illustrated in Fig. 1.

**Fig. 1. Overview of methodological approach**



## KEY FINDINGS

<sup>1</sup> HM Treasury, "[The Growth Plan 2022](#)", 2022.

**HM Treasury’s forecasts are likely to significantly overstate the total value of TFS refunds...**

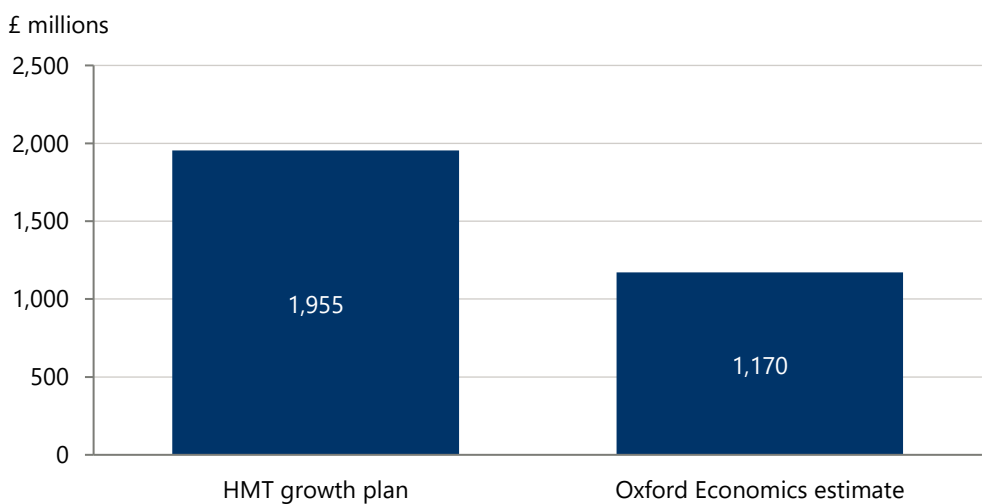
HM Treasury estimates that if TFS were to be introduced, total refunds would be £1.3 billion in 2024/25 increasing to £2.0 billion in 2025/26. The reason for the steep increase is that it was assumed that the policy would be implemented part way through fiscal year 2024/25. To aid consistency, we focus our comparisons on fiscal year 2025/26, the first full year of implementation.

According to Her Majesty’s Revenue and Customs (HMRC), total TFS refunds in 2019 were worth £500 million with a further £150 million of claims linked to airside shopping in 2019.

How visitors from the EU27 would have behaved if this discount were available to them is clearly subject to a high degree of uncertainty. HM Treasury’s projection was developed by assuming that the average value of refunds per visitor would be the same for both EU and non-EU tourists. An analysis of data from Global Blue, an operator who cover around 70% of the market, shows that TFS spending by EU27 tourists is substantially lower than those originating from China, the Gulf Cooperation Country (GCC) markets and the United States. In 2019, the average refund claimed by an EU27 tourist, in comparable markets, was 63% lower than from the aforementioned countries. Adjusting for the fact that tourists from these origin markets (China, GCC and the United States) are disproportionately high spenders on TFS, the evidence from other markets shows that users of TFS from the EU27 spend significantly less per trip than those who used TFS in the UK in 2019.

This analysis implies that assuming EU tourist will spend as much on average on TFS and airside, as HMT have done, is likely to significantly overestimate the value of total VAT refunds. Using our alternative approach, which we believe to be more robust, we forecast that total VAT refunds in 2025/26, if TFS were to be reintroduced, would be £1.17 billion, 40% lower than HMT’s estimate (Fig. 2).

**Fig. 2. Total value of TFS refunds, 2025/26**



Source: HMT, Oxford Economics

**... whilst the reintroduction of TFS would attract more than 1.6 million extra visitors to the UK in FY 2025/26 and stimulate an extra £2.8 billion of tourist spending...**

The reintroduction of TFS will encourage more people to visit the UK and spend money on eligible goods as well as a variety of tourism-facing services. Some potential TFS users will travel as part of a wider group, e.g., with friends or family, some of whom may not be TFS users. These people are referred to as the “wider travel party”.

Including those in the wider travel party, we project that in 2025/26, TFS will encourage 1.6 million visitors to come to the UK who would not have done so. This comprises just over 1 million visitors from the EU27 and 590,000 from outside the EU27. Moreover, even visitors who would travel even without TFS can be expected to spend more given the significant discount on their retail purchases.

Accounting for both these channels of additionality, we estimate that £2.1 billion (35%) of the forecast expenditure on shopping would not take place if the policy were not in place. Moreover, the extra foreign visitors attracted to the UK are forecast to spend an additional £1.0 billion on other goods and services. Summing these values together implies that reintroducing TFS would lead to an increase in foreign visitor spending of over £3.1 billion in FY 2025/26, as decomposed in Fig. 3.

**Fig. 3. Expected changes in tourism activity in the UK due to the reintroduction of TFS**

Description	2025/26
Additional visitors due to TFS, thousands	1,629
Additional spending on TFS, £ billion	2.069
Spending on non-TFS items by additional visitors, £ billion	1.014
Total TFS-linked additional expenditure, £ billion	3.083

Source: Oxford Economics estimates

**...implying that the net direct fiscal cost of reintroducing TFS would be 70% lower than HMT’s projection**

As noted, when considering the actual fiscal cost of the policy it is important to adjust for the impact it would have on tourist behaviour. Notably:

- A portion of VAT refunds reflect spending on shopping by tourists that would not otherwise have occurred—these are fiscally neutral.
- Additional visitors to the UK will spend on a variety of goods and services that will result in revenues being collected through a variety of taxes on expenditure, primarily VAT.

Fig. 4 breaks down how these adjustments affect our estimate of the direct net fiscal cost of reintroducing TFS in comparison to HMT’s projections. Our modelling indicates that approximately half of TFS refunds issued by HMT would be offset by the policy’s impact on visitor behaviour. In total, we estimate that the policy would have a direct fiscal cost of £590 million in 2025/26, 70% less than HMT’s projection. To put this in context, based on our forecast at the time of writing, this would be equivalent to 0.05% of projected government revenue.

**Fig. 4. Comparison of the expected fiscal cost of reintroducing TFS in 2025/26: HMT vs OE**

Description (all £ billions)		2025/26
a.	HMT: Value of TFS refunds projected in the Growth Plan	1.955
b.	Oxford Economics: Total value of TFS refunds	1.170
c.	Oxford Economics: Value of TFS refunds due to additional spending on shopping	0.431
d.	Oxford Economics: Value of tax collected on spending by additional visitors	0.153
e.	Oxford Economics: Net direct fiscal cost to the Exchequer (= b - c - d)	0.586
f.	Difference in estimated fiscal cost of TFS (= e - a)	-1.369

Source: HMT projection, Oxford Economics estimates

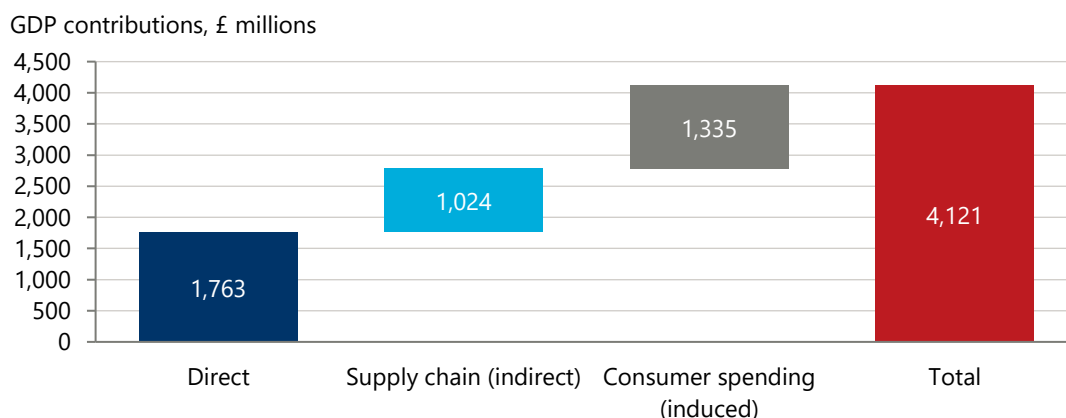
These estimates do not account for additional tax contributions associated with the economic footprint that would be enabled by additional visitor spending. These are described in the next section.

**Additional visitor spending would sustain £4.1 billion in GDP and support 78,000 jobs...**

Our modelling shows that the additional foreign visitor spending incentivised by TFS would support a total gross value added contribution to UK GDP of £4.1 billion in 2025/26. Of this contribution, £1.8 billion in GDP would be supported directly on site at businesses where the additional visitor spending took place. The remainder is expected to be stimulated by:

- TFS-related retailers and tourism businesses’ spending on goods and services from its UK supply chain (which is expected to contribute £1.0 billion in 2025/26); and
- the spending of wage income in the consumer economy by those whose jobs are supported by additional foreign visitor spending (leading to a projected GDP contribution of £1.3 billion in 2025/26).

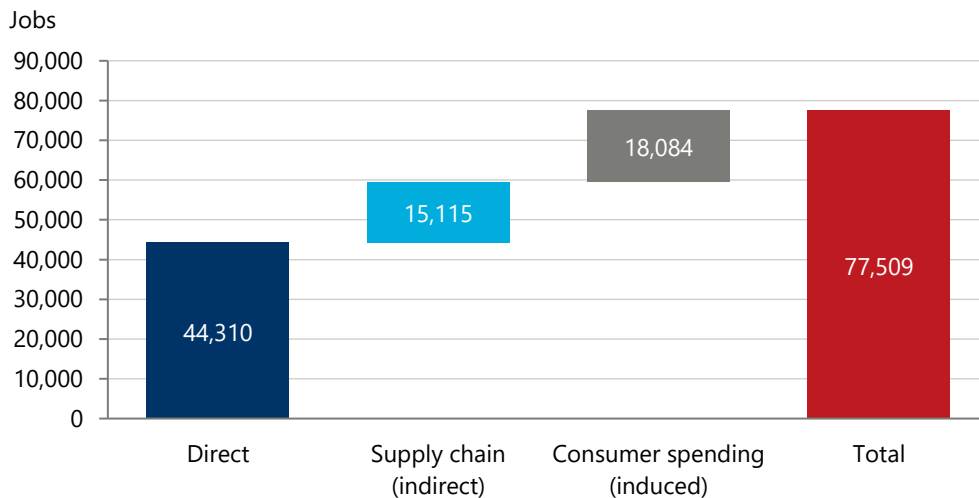
**Fig. 5. GDP contribution of additional foreign visitor spending enabled by TFS, 2025/26**



Source: Oxford Economics

We calculate that the reintroduction of TFS would support a total of 78,000 jobs across the UK in 2025/26. Of these, just over 44,000 workers (58% of the total employment contribution) will be employed directly by businesses which receive the additional foreign visitor spending. The remainder will be supported by the procurement of goods and services, and by the spending of wage income by those whose jobs are supported by the additional foreign expenditure, as shown in Fig. 6.

**Fig. 6. Employment contribution of additional foreign visitor spending enabled by TFS, 2025/26**

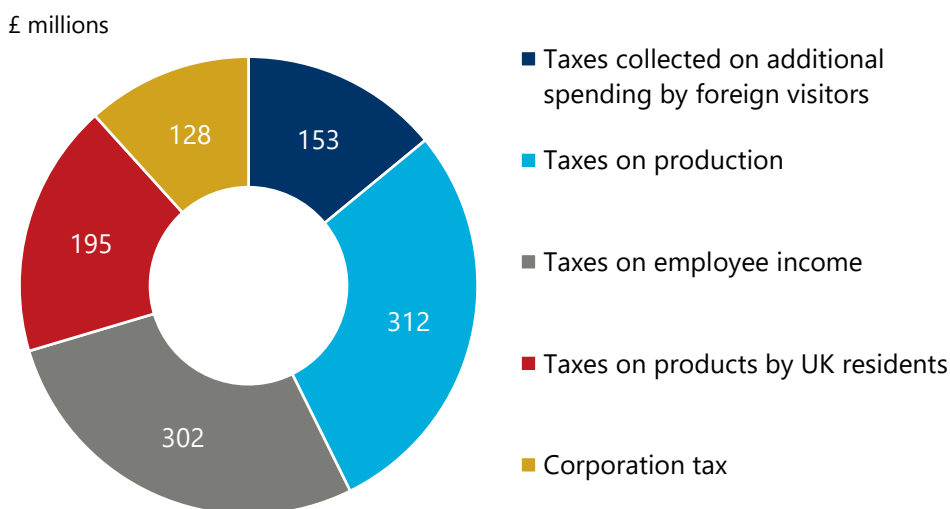


Source: Oxford Economics

**... activity that would generate £1.1 billion in tax revenue for the Exchequer**

The additional economic output and employment sustained by the TFS scheme is expected to generate £1.1 billion in tax revenues in 2025/26 (Fig. 7). This includes the previously referenced £153 million that we estimate would be collected directly based on the wider (non-shopping) spending of foreign tourists. The remaining extra £940 million reflects taxes that would be collected through various channels as described in Fig. 7.

**Fig. 7. Tax revenue contribution of economic activity supported by additional foreign visitor spending enabled by TFS by type, 2025/26**



Source: Oxford Economics

**Conclusion**

Our research indicates that the direct fiscal cost of introducing TFS in the UK would be over 70% lower than implied by the current HMT estimate. This difference arises because of both an anticipated overestimate of the total value of refunds that would be claimed and the failure to capture the policy's impact on visitor behaviour.

Our modelling indicates that the economic footprint supported by the additional foreign visitor spending would offer a considerable boost to the UK tourism and wider economy, sustaining over 78,000 jobs and £4.1 billion in GDP. Whilst it would be reasonable to contest that this *total* contribution will not be fully additional, since it will incorporate some level of displacement, the fact that it is being supported by an increase in export revenue implies that the net boost to UK GDP will be significantly higher than a policy that incentivizes UK consumer spending.





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