

Duty Free Consultation, VAT and Excise Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

May 20th 2020

Dear Sirs,

Thank you for giving us the opportunity to comment on the potential approach to duty- and tax-free goods arising from the UK's new relationship with the EU. Our response is attached below.

AIR's three key recommendations for this consultation are:

Extend tax free shopping to visitors from EU member states to increase annual retail sales by up to £1.4 billion and give an overall boost of £2.1 billion to the UK economy.

Postpone plans for a comprehensive review of digitalisation, which has already taken over seven years and is still no further forward, **and instead adopt immediately a globally recognised standard of validation digitalisation** in order to reduce risk and uncertainty, restore competitiveness with other major countries, and enable the system to cope with an EU extension

Explore innovations that will encourage economic growth and improve customer experience with retailers and their agents, who understand their customers and their VAT RES system best.

Yours sincerely,

Paul Barnes
Chief Executive

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A consultation on the potential approach to duty- and tax-free goods arising from the UK's new relationship with the EU – response by the Association of International Retail

1. Introduction

- 1.1 We are very pleased that the Government has prioritised this issue amongst many that arise as a result of Britain's new relationship with the EU. We believe very strongly that simple regulatory reform to extend the scheme to visitors from EU member states has the potential, at no cost to the Government, to generate billions of pounds to the UK economy.
- 1.2 As Britain recovers from the COVID-19 pandemic this will provide a major boost to Britain's tourism and retail industries, particularly if short haul trips replace long haul for the foreseeable future.
- 1.3 Before responding specifically to the four relevant questions (Questions 8,9,10 and 11) we give a short overview of the Association of International Retail, the international retail sector and examine the importance of the tax-free shopping scheme.

2. The Association of International Retail (AIR)

- 2.1 AIR is a new sector support body that aims to help retailers throughout the UK enhance their sales to international visitors. Our supporters are drawn from landlords and Business Improvement Districts in the major international centres (based on tax free shopping sales), predominantly the West End and Knightsbridge International Centres, Bicester Village, Manchester and Edinburgh; major retailers such as Harrods and Selfridges; VAT refund agencies; and other retail and tourism bodies that support growth in the international retail sector .
- 2.2 Our founding Chairman is the Chief Executive of New West End Company, the Business Improvement District representing over 600 retail, hotel and property businesses in London's West End, an International Centre which accounts for around 65% of all UK tax free shopping sales. You can see more about AIR at www.internationalretail.co.uk.

3. The importance of international retail to the UK economy

- 3.1 In the years before COVID-19, retail sales to international visitors amounted to around £6 billion annually¹. This makes it the UK's 12th largest export sector². It supports the jobs of 120,000 people in the retail sector.
- 3.2 Of this total, around £3.5 billion is registered as tax free at the point of sale³. However, HMRC state that around £500 million of VAT is refunded under the VATRES⁴, putting the value of tax-free sales at £2.5 billion. The £1 billion difference (29%) is the number of registered tax-free sales where the VAT is not subsequently reclaimed. This is largely due to the lack of digitalisation, by HMRC, for validation prior to reclaim, which prevents a significant number of shoppers from claiming the refund they are due. We will return to later in our response (para 7.28).

¹ VisitBritain <https://www.visitbritain.org/sites/default/files/vb-corporate/Documents-Library/documents/Foresight> updated to 2018 values

² <https://tradingeconomics.com/united-kingdom/exports-by-category>

³ Based on Global Blue and Planet figures

⁴ Letter from Comptroller and Auditor General to Sir Geoffrey Clifton Brown MP, August 2018

- 3.3 But the value of international retail is far greater because Britain's shops are one of the major draw for international visitors. It is one of the main reasons for people visiting London and the wider UK. VisitBritain states that shopping is the major expenditure for international visitors in London, accounting for 46.7% of all their spending, with accommodation coming second at 30%.⁵
- 3.4 There is an additional positive knock-on effect for the UK economy and some retailers when international customers who have returned home continue shopping with these brands via their websites.
- 3.5 International visitors drawn to the UK for shopping spend money in hotels, restaurants, theatres, and cultural attractions, contributing £23 billion to the UK economy in 2018⁶.

4. COVID-19 impact on tax free shopping

Impact on international visitor numbers

- 4.1 COVID-19 has stopped virtually all international visits and most non-food stores have been closed during the lock-down period. It is unlikely that international visitor numbers will start to recover until Q1 or Q2 of 2021⁷. It is likely that international visitor revival will be led by business travellers rather than holiday makers. Tax free shopping sales are therefore virtually zero at present and will probably remain extremely low for the rest of 2020. Measures introduced by the Government for 14-day quarantine periods for anyone entering the UK from abroad will prevent any early revival in international visitors⁸.
- 4.2 We do not yet know the true impact as the pandemic is still developing. Reopening measures in Germany and South Korea have led to a growth in infections and some have been reversed.
- 4.3 The impact on the aviation industry is both current and long term. The loss of revenue at present is damaging the ability of certain airlines to survive. Those that do survive will have difficulty operating practically and economically under social distancing rules. It is likely that reduced flights, increased fares (possibly, although there is likely to be some discounting to lure passengers back) and more arduous passenger experiences at airports will reduce the level of international travel in the short to medium term.
- 4.4 This will have a detrimental impact on the UK's inbound tourism industry, including those retail sectors that depend on international tourist spend for a portion of their income.
- 4.5 It is too early to forecast the shape of any return to normality in international travel both in terms of its scale and structure. It seems likely that long haul will restart from the Far East and move west, mirroring the path of the pandemic and (hopefully) the recovery from it. It is also likely that people may take shorter flights meaning that the European market, which before COVID-19 already accounted for over 70% of inbound visitors to the UK⁹, will become increasingly important.

⁵ VisitBritain inbound shopping research

⁶ VisitBritain 2018 snapshot <https://www.visitbritain.org/2018-snapshot>

⁷ McKinsey & Company – "COVID-19: Briefing Materials" March 25, 2020

⁸ The Tourism Association told the Tourism Ministers at a Tourism Industry Emergency Response Group (TIER) meeting in April that over 95% of international visits to the UK were for less than 14 days

⁹ UK Parliament "Tourism: statistics and policy". Page 8

Impact on retailers

- 4.6 Many high street retailers, some already under pressure from structural changes to the retail sector will have problems operating under social distancing measures, both practically and financially. It is difficult to see how stores that depend on high volumes of visitors and sales will be able to adapt sufficiently. Those stores whose business model is low volume, high value (i.e. the luxury brands and stores) are more likely to be able to implement and smoothly accommodate social distancing measures.
- 4.7 The evidence of food stores open during the pandemic has been that customers changed their shopping habits to spread the load away from peak times and that may be the way forward. Some non-food stores are planning to open initially with reduced hours. For example, New West End Company, the BID for London's West End, is advising district wide opening from 11:00 to 17:00 or 19:00.¹⁰ We have anecdotal evidence from other countries that stores that reopened with reduced hours initially, subsequently found it easier to operate with extended hours.

Impact on international centres and the need for Government policy to support recovery

- 4.8 Although it is outside the scope of this consultation, it should be noted that COVID-19 has the potential to damage severely the infrastructure of the UK's international centres. In London's West End for example, social distancing and the lack of international visitors will close its world-famous theatres and severely damage its hotels, restaurants and cultural attractions.
- 4.9 The overall economic impact of COVID-19 (both in terms of business recovery and the need to generate maximum tax to support the unprecedented level of Government borrowing) means that now, more than ever, when reviewing regulations such as this, Government must make its primary objective, above all others, the need to support the growth of British business.
- 4.10 With the economic devastation caused by COVID-19, all changes to the tax-free shopping system (particularly extension to EU visitors and digitalisation) must have, as their key priority, the survival and growth of British business. Everything else is secondary.
- 4.11 A good example of this change of emphasis (which we will examine in more detail below) is retailers' concerns, pre-COVID-19, that HMRC's digitalisation proposals for tax-free shopping were driven by a primary objective to improve marginally the amount of refund retained by the visitor (as demonstrated by this line in this consultation document "whether passengers are being treated fairly (for example, some customers only receive a small proportion of their VAT refund)). While this is clearly a relevant issue to explore, from discussions with successive HMRC project teams and the Policy Lab team it has been clear that this was still a driving objective of any reform. At the time we felt this was unbalanced (for reasons explained below) but post-COVID-19 we believe the HMRC emphasis must change very strongly to "what most helps British businesses to survive and grow".

5. Key recommendations

- 5.1 AIR's three key recommendations for this consultation are :
- **Extend tax free shopping to visitors from EU member states** to increase annual retail sales by up to £1.4 billion and give an overall boost of £2.1 billion to the UK economy.

¹⁰ New West End Company "Ensuring a Safe and Sustainable Return for our Customers and Colleagues" May 2020

- **Postpone plans for a comprehensive review of digitalisation**, which has already taken over seven years and is still no further forward, **and instead adopt immediately a globally recognised standard of validation digitalisation** in order to reduce risk and uncertainty, restore competitiveness with other major countries and enable the system to cope with an EU extension
- **Explore innovations that will encourage economic growth and improve customer experience, particularly for high spenders**, with retailers and their agents, who understand their customers and their VAT RES system best.

6. Answers to questions in the Consultation Paper

6.1 In the following sections we respond to the questions posed in the consultation paper based on evidence from a pre-COVID-19 environment. At the end of the questions, where appropriate, we add COVID-19 comments based on the best advice and forecasts available.

7. Q8. The government would welcome any evidence or views on the current structures, practices and benefits of the VAT RES.

The benefits to international tourism and the UK high street

The importance of international tourism to the UK economy

- 7.1 Tourism is the world's third largest export category (after chemicals and fuels) valued at \$1,960 billion in 2017 and consistently, each year since 2008, it is growing faster than merchandise exports.¹¹
- 7.2 Europe accounts for half (51%) of the world's international arrivals. The UK is the tenth most popular global destination (France is top) but is the world's fifth largest earner from international tourism.¹²
- 7.3 International inbound tourism is a significant sector of the UK economy, generating around £23 billion in 2018¹³ and shopping is a major attraction for international tourists, accounting for over £6bn of that spending.¹⁴
- 7.4 Importantly, the future growth of international tourism is likely to focus increasingly on countries where shopping is a major reason for travel, particularly those from the Far East. China, with its growing middle class, is the source of the biggest global spenders when travelling¹⁵ and, when travelling outside Asia, shopping is their main area of spending.¹⁶ The International tourism expenditure of Chinese tourists grew from \$36 billion in 2008 to \$277 billion in 2018, up by nearly 800%.¹⁷ Since only 9% of Chinese people currently have a passport¹⁸

¹¹ UNWTO International Tourism Highlights 2019 Edition Page 8 <https://www.e-unwto.org/doi/pdf/10.18111/9789284421152>

¹² UNWTO International Tourism Highlights 2019 Edition Page 9

¹³ VisitBritain 2018 snapshot

¹⁴ VisitBritain <https://www.visitbritain.org/sites/default/files/vb-corporate/Documents-Library/documents/Foresight> updated to 2018 values

¹⁵ UNWTO "World Tourism Barometer" 2018 Page 14 <https://www.e-unwto.org/doi/pdf/10.18111/9789284419876>

¹⁶ UNWTO International Tourism Highlights 2019 Edition

¹⁷ Statista – "Travel, Tourism and Hospitality" <https://www.statista.com/statistics/249702/international-tourism-expenditure-of-chinese-tourists/>

¹⁸ CN Traveler "How Chinese Tourists are Changing the Travel landscape" 2018

<https://www.forbes.com/sites/niallmccarthy/2018/01/11/the-share-of-americans-holding-a-passport-has-increased->

(compared with 76% in the UK)¹⁹, the potential for growth in Chinese international travel and spending is great.

- 7.5 The importance to a national economy of international retail, shopping and tax-free shopping schemes can be seen in the way in which certain Middle Eastern countries are focusing on international tourism and shopping as they prepare their economies for a post-oil future. The opening of the Dubai Mall, the establishment of the Louvre in Abu Dhabi, the Hermitage considering opening in Saudi Arabia and the introduction of visitor visas by Saudi Arabia are example of how these states are planning for the growth in international tourism, largely based on shopping and entertainment, as an important element of their economic futures.

The importance of tax-free shopping as part of the shopping attraction

- 7.6 With shopping being a major attraction for international tourists, particularly for high spending visitors, the offer of tax-free shopping is a vital part of that attraction. It is offered by virtually all of the UK's major global competitors. It is an incentive both to visit the UK and to spend more when they are here.

The importance of tax-free shopping to the UK high street

- 7.7 Tax free shopping helps the UK high street, both directly to those districts and in those stores where it is offered but more widely due to the economic boost it gives to major store chains that are represented in high streets throughout the UK.
- 7.8 The concentrated and wide offer of tax-free shopping within a district boosts the attractiveness of that district. Bicester Village is a good example of how tax-free shopping is used as the key draw for international visitors. Stores offering tax free shopping clearly see increased retail sales in many cases, those shoppers are encouraged to spend more on non-retail (and taxable) elements, such as food and beverage.
- 7.9 Outside the key international centres, the £3.5 billion spent on tax free shopping adds to the income of these national retail chains and reduces the pressure to cut costs (through job losses and store closures) in the more marginal sites, which are almost always in UK high streets that are far away from the international centres.

Regional use of the scheme (particularly outside London)

- 7.10 The five top international centres, in terms of tax-free shopping are in London (specifically the West End and Knightsbridge International Centres), Bicester Village, Manchester and Edinburgh. VAT Refund Agencies, such as Global Blue and Planet will be able to provide details based on the number and value of tax-free shopping claims broken down by region.
- 7.11 Currently London accounts for 54% of all inbound visitor spend, the rest of England is 33%, Scotland is 10%, Wales is 2% and Northern Ireland is 1%.²⁰ Around 80% of tax free shopping is done in London but that still leaves a large and growing element (£700 million) taking place in the regions. A key VisitBritain priority is to spread the benefits of international tourism throughout the regions. Shopping will play a major role in this and tax-free shopping is therefore an important part of the attraction.

[dramatically-in-recent-years-infographic/#59af37a63c16https://www.cntraveler.com/story/chinese-tourists-changing-travel](https://www.cntraveler.com/story/chinese-tourists-changing-travel)

¹⁹ Forbes "The share of Americans holding a passport has increased dramatically in recent years" 2018.

²⁰ VisitBritain – Britain's visitor economy facts

- 7.12 Some centres, like Bicester Village in Oxfordshire, specifically aim at attracting tax free shoppers, boosting local jobs and the economy. Manchester and Edinburgh Airports recently opened flights to China and tax-free shopping is part of the attraction and local economic benefit.
- 7.13 Over time, as regions and specific destinations, supported by VisitBritain, seek to grow their share of international visitors and spending the ability to offer tax-free shopping will be a helpful attraction, particularly if the scheme is extended to visitors from EU member states.

The importance of tax-free shopping to HM Treasury

- 7.14 It feels counter intuitive that refunding VAT to international visitors should result in increased resources for HM Treasury. The figures quoted in section 3.2 makes it appear that the scheme costs the Treasury £500 million in lost tax annually. But the amount repaid needs to be balanced with the additional income raised by the Treasury (and reduced costs) as a result of the total economic impact of tax-free shopping.
- 7.15 A report from the Centre for Economic and Business Research (CEBR)²¹ found that, taking account of spending on non-tax free items and services by international tourists attracted by tax free shopping together with increased sales and employment (with the additional taxes this produces), HM Treasury gains up to £1.90 for every £1.00 refunded. The study showed that the net additional HMT tax take caused by the tax-free shopping scheme is up to £447 million annually.

Administration fees or the proportion of VAT that is refunded

- 7.16 Businesses determine the fees they charge for managing tax refunds, including, in most cases, the administration fee for VAT refund agencies who are contracted to manage the refund scheme. We understand that, while there is some variation, the level of fees is similar to those charged by retailers in major competing countries. We understand that, of the UK, the Netherlands, France, Spain and Germany, fees in the UK are second lowest with only Spain having marginally lower fees.
- 7.17 Other respondents will no doubt provide details of their fees but there are two separate issues to examine. First, the fee by retailers and their agencies is used, not just to cover the cost of administration (both in dealing with the customer and with HMRC) but to grow the market for the benefit of the UK economy and to enhance the customer experience which encourages them to spend more. The fee is largely reinvested into growing tax-free shopping sales and enhancing customer experience. Retailers and their agents invest the fees in:
- the digital infrastructure to register customers and record their purchases
 - the facilities and staff instore needed to process tax refund forms
 - enhanced environments, staffing and services instore to create a positive customer experience and encourage upselling and repeat sales experience
 - generic and specific brand marketing of tax-free shopping globally to grow international tourism and increase the global and local spend
 - sales and customer analysis for business promotion and management

²¹ CEBR "Understanding the value of tax free shopping to destination economies. Study No 1: The United Kingdom" January 2017. Copy available at [www. https://internationalretail.co.uk/research-insights](https://internationalretail.co.uk/research-insights)

- 7.19 Secondly, it is important to understand whether the marginal size of the refund, usually made sometime after a sale has been completed, has any significant impact in the customer experience and willingness to shop. We believe that it is the offer of a tax refund, rather than marginal differences in the amount refunded, that is the key issue. Other issues, such as a product's cost in the shops, the exchange rate and the general shopping environment, combined with the knowledge that there will be some (undefined) level of tax refund, is what drives sales. We do not believe that the difference of one or two pence more or less for each pound reclaimed, sometime after the sale, is not a major influence in the customer decision to purchase.
- 7.20 We believe that limiting or forcing the reduction of fees charged by retailers and their agents, which are generally in line with global practices, will severely damage British business' ability to invest in enhanced customer services while making little if any positive difference on the customers shopping practices.
- 7.21 We do, however, believe that the lack of digitalisation by HMRC of the validation process results in additional and potentially unnecessary fees being charged for that element at airports which would be removed if digitalisation was implemented.

Customer experience

- 7.22 By charging fees retailers can invest in enhanced customer experiences, as described above. Clearly the experience differs depending on particular stores and their markets. But the key area for value of sales and future growth is with high spending visitors. Those stores that account for much of the tax free shopping sales - luxury brands and large department stores – have tax free lounges, special serviced rooms for high spending tax-free shoppers, personal shoppers, courier services (to hotels and even airports), multi-lingual staff and materials and concierge services.
- 7.23 It is unfortunate that this consultation and the digitalisation project is being conducted when it is not possible to demonstrate these services and facilities so that officials can fully understand the level of customer services, which is difficult to envisage and comprehend without witnessing it in action.
- 7.24 The problem with customer experience arises as they leave the UK, usually at Heathrow, and is entirely due to HMRC's inability to decide, over many years, on how to digitalise the verification process.

Practices at the border

- 7.25 The customer experience at the border is the part of the process that undermines much of the good work undertaken by retailers and their agents and damages the UK's reputation. The paper-based system is slow and costly for the international customer and open for fraud against HM Treasury.
- 7.26 In peak times queues can be so long that a shopper has to abandon their claim in order not to miss their flight. Having been treated so well by retailers, the experience of standing in a long queue for shoppers, many used to VIP lounges, is an unpleasant shock and last impression of Britain as they leave. And one many do not wish to repeat. When interviewing West End retailers, HMRC's Policy Lab team reported that they had been told by Border Force at Heathrow that the length of queues has shortened. This is probably less a reflection of faster processing

and more likely that high spending international shoppers are learning to do their tax-free shopping in other countries on their itineraries to avoid the queues in Britain.

- 7.27 In addition, the issue raised above about the level on of fees arises at the borders when additional administration fees are charged for the validation process and exchange rates for refunds are set by the particular refunder that has a monopoly position at Heathrow.
- 7.28 In a presentation shared with the then Secretary of State for Digital, Culture, Media and Sport, the global chief executive of Global Blue, which manages the majority of tax free shopping refunds throughout the world, stated that, of all complaints made by shoppers, on all issues, throughout all of Europe, over 50% were about the experience at Heathrow. The border experience is an awful last impression for high spending international shoppers, damages Britain's reputation and economic position and lets down Britain's retailers. It is a direct result of HMRC's failure, over many years, to digitalise the validation element of the process. It is the reason why, as alluded to in section 3.2, the refund claim rate in the UK is around 70% compared with a European average of the mid 80% and Singapore at 90%.²²
- 7.29 The continued failure by HMRC to digitalise validation also allows far greater opportunity for fraud as it is impossible to cross-check thousands of paper tax-free receipts at refund points at the borders.

Digitalisation

Background

- 7.30 In 2013 HMRC published a consultation document on improving the VAT RES, including the potential for digitalising it. It is disappointing that, seven years later, HMRC is still consulting on digitalisation. In a letter to the then Chancellor in October 2018 (attached as appendix A), virtually the entire UK international retail sector stated that they had lost confidence in HMRC's (then) preferred option, both in terms of its appropriateness and the ability of HMRC to deliver it. A year and a half after the letter was sent, HMRC are still consulting on digitalisation options and, worryingly, despite the complete rejection of HMRC's preferred option by the entire tax-free shopping sector, from discussions with Policy Lab this appears to still being strongly considered by HMRC as a preferred option.
- 7.31 Attached as an appendix to that letter was an overview of 17 countries that have successfully digitalised their tax-free shopping systems (attached at the end of Appendix A). It demonstrated two points:
- most countries have introduced a system based on existing retailer digital infrastructure which focus just on validation and providing a bridge to existing retailer digital infrastructure. No country is following the previously preferred HMRC route, which means that HMRC would be putting the UK outside the accepted global practice for tax-free shopping with all the disadvantages that brings for consumers and businesses.
 - most countries introduced their systems within one to three years. HMRC is still consulting seven years on.

²² Figures from Global Blue refund operations

Current HMRC research

- 7.32 Through New West End Company (the BID for London's West End) AIR has worked with the HMRC Policy Lab team and is fully aware of its objectives, methodology and activities. We generally support its approach but we believe that the COVID-19 pandemic has significantly altered the environment in which their research is being undertaken and we feel that its approach may not be appropriate given the current crisis in high street retail. We have three concerns.

Concern one - Comprehensiveness and balance

- 7.33 We are aware that Policy Lab has spent around two weeks at major airports, pre-COVID-19, to understand fully, through direct experience, how that element of the process operates in practice. However, we fear that their practical experience of witnessing operations at major retailers has been severely limited by the COVID-19 outbreak. While we are aware of two or three telephone discussions with retailers in London's International Centres, we are not aware of any time spent experiencing at first hand the central element of tax-free shopping in major stores in the West End or Knightsbridge. These two international Centres account for 80% of UK tax free shopping sales. Policy Lab, in introducing its project, were keen to stress that the robustness of its approach was based on extended practical experience observing the system in action over a number of days and weeks. That has clearly not happened and cannot happen until at least the start of 2021.
- 7.34 Closure due to COVID-19, followed by many months of minimal international visitors (as noted above, not expected to return in numbers until Q2 of 2021), means that Policy Lab will have a major gap right in the heart of the tax free shopping system. This will not only mean that their research cannot be comprehensive, but it will also be unbalanced, compared with their time spent at the major airports.
- 7.35 It is no fault of the Policy Lab team, who were impressive and have been very responsive, but we question whether their work would stand up to independent scrutiny as being comprehensive, informed and balanced should it be challenged.

Concern two - Scope

- 7.36 Throughout this long, seven year period, HMRC has seemed intent on developing a totally new, bespoke, end-to-end digitalisation solution rather than systems adopted by almost every other major country which are based on global standards, build upon existing, established and tested retailer digital infrastructure and can be developed cheaply, quickly and at minimum risk.
- 7.37 Retailers have already stated publicly (in the joint letter to the Chancellor) that they have lost confidence in HMRC's preferred solution, frustrated at the continued delay and the competitive advantage being given to our international competitors. The letter also outlines why the bespoke system favoured by HMRC would result in an inferior product that would damage retailers' ability to maximise customer experience, maximise sales and understand and respond to their international markets.
- 7.38 The huge pressure that COVID-19 has placed on retailers has massively reinforced this position. Retailers do not want to have to manage significant change in their tax-free shopping systems at a time when they are struggling to cope with the massive change needed to adapt to a post-COVID-19 retail environment.

Concern three - Timescale

- 7.39 Although the COVID-19 pandemic has stopped tax free shopping at the moment, we need to be ready for when it returns. The current paper-based system will not be able to cope with organic growth from the 2019 level. If the Government decides, following this consultation, to extend the scheme to shoppers from EU member state, that would increase by 200% the number of eligible international visitors. Without digitalisation in place the Government simply cannot make the policy decision which, as we show in section 8, below, could be worth an additional £2.1 billion to the UK economy

Recommendation

- 7.40 We strongly urge the Government to instruct HMRC to postpone until a later date any bespoke options for a large reorganisation of the current, smoothly operating (within stores) tax free shopping system and instead learn from other governments how to digitalise their validation system and link it to existing retailer infrastructure so that it can be put in place quickly, cheaply and with minimum risk and disruption to UK retailers, all of whom are currently under unprecedented pressure.

COVID-19 impact

- 7.41 We have outlined, above the broad impact of COVID-19 on this market and its operations. It is unfortunate that this consultation is taking place during the pandemic when there is great uncertainty about its development as a disease (will it die out or will it always be with us?) and its impact on international travel (will it be short term or will it cause a structural change in international travel?). It could be that international travel becomes lower volume but higher value which would most likely lead to higher levels of tax-free shopping in terms of spending based on a lower number of transactions.
- 7.42 We believe, however, that rather than speculate, the consultation should assume a reopening of international travel and, over time, a return to 2019 visitor numbers and spend together with continued long term growth.

8. Q9. What additional benefits would there be to an extension of the VAT RES to EU residents in its current, or digital form?

Benefits of extending tax free shopping to EU residents

- 8.1 We strongly believe that there are significant benefits to UK businesses, the wider economy, HM Treasury and consumers of extending tax free shopping to those living in EU member states.
- 8.2 Over 70% of the 38 million international visitors to the UK come from the European Union.²³ They are currently excluded from the VAT RES scheme due to the UK's membership of the EU. This will change when the transition period ends. There will no legal or regulatory reasons why visitors from EU member states should not be allowed to shop tax free. Similarly, there will be no reason why British visitors to EU member states should not be able to shop tax free. However, whereas this will present the EU with a new tax-free shopping market of 66 million people, it will present the UK with a new tax-free shopping market of 446 million people, nearly seven times as big.

²³ UK Parliament "Tourism: statistics and policy". Page 8

- 8.3 Based on the CEBR study, we estimate that extending tax free shopping to EU visitors would generate an additional £1.4 billion in additional retail sales rising to a total of £2.1 billion additional income when taking account of the knock-on impact of other tourist businesses (hotels, restaurants, travel, etc).
- 8.4 In effect, a French person wishing to make purchase in Paris may decide to take the opportunity of a long weekend break in London to make that purchase tax-free, contributing to additional tourism spending.
- 8.5 In the UK, the relevant VAT RES regulations exclude residents from EU member states.²⁴ While the regulations of some EU member states list those particular countries that are excluded, in those with regulations similar to the UK's, the moment that the transition period end and the UK is no longer an EU member state, we assume that, by default, UK citizens will be allowed to shop tax free.

Digitalisation

- 8.6 We stress again that the current paper-based system for validation, already failing at peak times, would be unable to take a trebling in numbers of tax-free shoppers. It is therefore vital, if the British economy is to realise the significant gain from the extending the system to EU visitors, that the digitalisation of this element is undertaken quickly and smoothly, as discussed in section 7.30 to 7.40.

COVID -19 impact

- 8.7 There is a possibility that short haul travel will increase compared with long haul travel as a response to COVID-19 and this will make the nearby EU market even more important for tax-free shopping. Although outside the timescale of any reform, the current exclusion of visitors to the UK from France from any 14 day quarantine requirements is a good demonstration of the strong links between our two countries which would benefit even further from extending tax-free sales to visitors from France.

9. Q10. The government would welcome any evidence or views on alternative and/or more effective ways of operating the VATRES.

- 9.1 We are aware, through many discussions with HMRC and others, that the Government has been exploring different idea for changing the tax-free shopping system, particularly through enabling apps to be created that allow individual consumers to gather together in one place all their tax free shopping purchases and claim their refund. HMRC believes that this would create a better customer experience and a higher level of refund through avoiding retailer administration fees.
- 9.2 We appreciate and welcome the benefits of apps but for a number of important reasons any developments in that area must always have the retailer right at the heart of it rather than being operated by a third party with no contractual link with the retailer selling and managing the zero rating of the goods. Any new system that breaks the link between the customer and the retailer will be:

- bad for the retailer –
 - breaking the tax-free shopping lounge link with the international customer

²⁴ Retail Export Scheme (VAT Notice 704) states that the scheme is open to overseas visitors which are described as “ a traveller (including a member of the crew of a ship or aircraft) who is not established in the UK or EU.”

- losing opportunities to develop valuable customer relationships, provide additional services, upsell, and collect contact and marketing detail and data
- losing the global, national and store data that is only available under the existing system
- adding to administration costs as app companies seek duplicate invoices to make claims
- losing control of the process and risking being inadvertently implicated in fraudulent activities, damaging brand reputation and greater exposure to financial risk
- bad for the customer -
 - many stores would not work with independent app creators, for the reasons listed above, meaning that customers' claims for tax refunds that they were expecting would be refused
 - losing the enhanced customer experience offered through the tax-free shopping lounges
 - confusing as a departure from the globally accepted practice
- bad for HMRC –
 - increased fraud – apps based on photographs of till receipts, rather than the original receipt, are far more susceptible to fraud since those photographs can be used by many people to claim back VAT many times for the same purchase.

9.3 We believe that there are a number of improvements to the tax-free shopping system that would enhance the customer experience which retailers would be keen to explore and introduce now that HMRC appears to be open to more flexibility in its regulations. For the maximum positive impact on the UK economy, these should focus on high spending visitors, for whom apps and marginal fee differences are not particularly important. While we appreciate HMRC's interest in enhancing the system, we are not aware any major effort by HMRC in the past to talk to retailers about what these might be. We are very happy to facilitate that dialogue.

9.4 But all these marginal changes are overshadowed by the overriding need for HMRC to digitalise the validation system. These welcome but marginal improvement ideas are distractions from the overriding priority of creating a fully digitalised system as most of Britain's international competitors have done years ago.

10. Q11. The government would welcome any evidence or views on the impacts of abolishing the VAT RES.

10.1 We strongly believe that abolishing tax-free shopping would have an overwhelmingly negative impact for British businesses, the British economy, HM Treasury and consumers (both international and British shoppers and in the UK).

10.2 For all the reasons outlined above, abolishing tax-free shopping would put the UK at a competitive disadvantage to our international competitors who would be offering this attractive discount.

10.3 Shoppers would be both less likely to choose the UK as a destination and those that are here would make fewer purchases. This would directly reduce sales in Britain's shops but would also have a knock-on impact on the wider tourism, hospitality, cultural and travel sectors.

- 10.4 The Treasury would lose out on the net additional tax it gains as a result of the tax-free shopping scheme (as shown in 7.14 and 7.15 above)
- 10.5 UK consumers, already witnessing the decline of their high streets, would see more cost cutting by major chains in their stores in marginal areas as they lose the income from tax free shopping sales in international centres.

11. Conclusions

- 11.1 We welcome this consultation and the early consideration of extending tax-free shopping to visitors from EU member states. We appreciate the difficulties imposed by the unpredictable development and unknown long-term consequences of COVID-19. But when high street retailers are facing very difficult times, and the economy is in desperate need of any boosts available, we urge the Government to prioritise extending the scheme to EU visitors and to implement immediately a global standard model for digitalising its element of the scheme in place of any HMRC's more extensive and untried model which has only resulted in Britain being left behind its global competitors and which will undermine any attempt to include EU visitors.

May 2020

Paul Barnes
Chief Executive



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Appendix A



Rt. Hon. Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Rd
Westminster
SW1A 2HQ

23 October 2018

Dear Chancellor,

VAT Retail Export Scheme (Tax Free Shopping)

We are very concerned at the slow pace of the HMRC programme to digitalise the tax-free shopping scheme and the impact this is having on Britain's international competitiveness and reputation.

As retailers responsible for virtually the entire UK tax free shopping industry we ask, as a matter of urgency, that the Government takes action to introduce a digital system at the earliest possible moment. We have lost confidence in HMRC's ability to deliver its preferred option, which we believe is unnecessarily ambitious, will create an inferior product, will introduce additional risks and uncertainty, and will see the UK diverging from the global norms for tax free shopping schemes.

Instead we urge the Government to introduce a digitalised system focusing just on validation and that builds on, rather than replaces, the digital infrastructure that already exists, operated by retailers and their VAT Refunding Organisations (VRO) partners. This would be faster, cheaper, less risky and less disruptive. It would also retain many important, value-added elements that the current HMRC proposal would lose such as creating a stronger link between retailers and their customers, data collection by retailers for marketing and business planning, the ability to compare international performances, and income to fund tax free development and marketing.

The tax-free shopping scheme is a major attraction to international visitors and creates around £2.5 billion of retail sales each year. According to research by CEBR there is a net benefit to the Treasury of up to £1.90 for every £1.00 refunded coming from revenues raised as a result of greater visitor numbers and spending on other, non-tax refundable goods and services.

Britain's current paper-based system causes long queues at exit ports which are sometimes so long that visitors have to abandon attempts to reclaim. This leaves visitors with a very poor impression of the UK at their last contact point.

The paper-based system is at breaking point, inconveniencing international shoppers, damaging the UK's reputation, encouraging fraud and putting undue pressure on Border Force.

It will not be able to cope with expected growth in international tourist numbers. It will be unworkable should the Government decide to extend the tax-free shopping scheme to visitors from EU member states after Brexit to retain competitiveness with the EU.

HMRC started to explore a digital system in 2013. In 2018 HMRC is still defining its model and has postponed, once again, the expected launch date, from 2019 to 2020. Based on past performance we have no confidence that HMRC will meet this revised date.

During this time many other countries have introduced digitalised systems, most within two or three years of starting (see attached appendix), building on the existing retailer digital systems. As more and more countries digitalise their systems the UK is increasingly at a competitive disadvantage.

Despite years of work the HMRC preferred model is not yet designed in detail, is not costed or funded, carries significant risk and will materially damage Britain's tax free shopping system to the detriment of the UK economy.

At a time when HMRC needs to focus its resources on preparing for Brexit we ask the Government to rethink their approach to this project as a matter of urgency and act quickly to prevent Britain's further loss of international competitiveness. We cannot afford to wait any longer.

We would appreciate the opportunity of meeting you to discuss our concerns and proposals in more detail.

Yours sincerely,

Jace Tyrrell
Chief Executive
New West End Company
(West End retailers)

Helen Dickinson
Chief Executive
British Retail Consortium

Helen Brocklebank
Chief Executive
Walpole
(British luxury industries)

Jasmin Whitbread
Chief Executive
London First

Kurt Janson
Chief Executive
The Tourism Alliance

Michael Ward
Chief Executive
Harrods

Ewan Venters
Chief Executive
Fortnum & Mason

Jose Luis Duran
Chief Executive
Value Retail (Bicester Village)

Derrick Hardman
Managing Director UK & Ireland
Global Blue

David Perrotta
UK Country Manager
Planet

cc:

Financial Secretary to the Treasury
Secretary of State for Digital, Culture, Media and Sport
Secretary of State for Business, Energy and Industrial Strategy
Project Manager, Tax Free Shopping digitalisation team, HMRC

Appendix to letter

Digital systems introduced by countries, including the time taken between announcement and delivery.

This shows that:

- Most countries have introduced a system based on existing retailer digital infrastructure which focus just on validation, not customer registration as HMRC is proposing.
- Most countries introduced their systems within one to three years. HMRC is predicting a seven-year program with no certainty that this will not slip once again.

France

Government announced their plans late 2004 and the pilot commenced 2007. It is a system funded and developed by Customs. They focus on validation which means a central transaction database which is connected to merchants (or VRO), validation kiosks located all over France and a system for Customs officers. The merchant facing system is primarily provided by the industry (note - the system was optional for the first 7 years before Customs decide to make it mandatory 2014).

Italy

Customs announced 2014 and went live 2015 at the major exit points. System is doing export validation only. Customs works closely with the industry (VRO) and have expectations VRO provide systems and support. A revised system (Otello2) was rolled out 2018 that makes it mandatory for the merchants to connect and is now supported by all relevant exit points. Merchant and traveller facing systems provided by the industry.

Spain

System was announced by Customs in (mid) 2015 and went live early 2016. Focus on validation. Merchants need to connect (mandatory 2019). Self-service kiosks at major exit points. Merchant and traveller facing systems provided by the industry.

Portugal

Was announced by Customs 2017 and went live 2018. Mandatory from the start. Export validation system. Self-service kiosks. Relies on industry (VRO) support as the main source of managing data and communication to the external market.

Cyprus

Customs and tax department (MOF) didn't build their own system. Instead they made sure their regulations permit and support a digital flow. The industry provides Customs with technology. Agreements reached 2015 and Pilot started 2016. Customs operate the validation system. Industry provide external stakeholders with technical solutions.

Denmark

Similar approach as Cyprus. MOF modified their regulation to permit a digital flow. Pilot started 2012 that involved self-service kiosks, digital stamps and a paperless audit-trail. Industry provides all technology.

Sweden

Same as Denmark.

Finland

Same approach as the other Nordic counties. Agreement was made 2009. Pilot went live 2009.

Estonia

Customs uses a system provided by the industry. Agreement reached 2013. Pilot started 2014. It includes self-service kiosks and the world's first mobile phone validation service. Industry provides all external stakeholders with technical solutions.

Czech Republic

Announced (through a tender) their plans 2017. System is expected to go live late 2018. It includes self-service kiosks located at Prague airport only in the initial phase.

Austria

MOF (BMF) changed regulation to permit digital export validation (2016). MOF expects industry to provide the technology. First system is expected to be live early 2018.

Lebanon

Customs allow a digital system. Agreements made 2010 and system went live same year. System provided by the industry.

Turkey

MOF announced their intention to change tax free to a digital scheme 2016. It involves a more complex approach by leveraging on an e-invoicing system merchants uses. Industry provides solutions that assist the merchant to connect to the government system. System went live 2017.

Singapore

IRAS released a tender end of 2008 to digitize the entire tax-free system. The validation system went live 2011 which was (and still is) the most advanced but still user-friendly system in the world. It involves self-service kiosks at Changi airport. Industry provides solutions to the external stakeholders. Next generation of this system was tendered and awarded 2017 and is expected to be live 2019.

Korea

Customs built their own validation system (same approach as France). It was announced 2011 and went live same year. Industry provides all solutions for the external stakeholders (merchants and travellers) and self-service kiosks.

Argentina

Customs built their own validation system. Specifications were released to the industry 2014 and pilot started 2015. Industry provides retailers with necessary technology.

UAE

FTA released a tender in 2017 to digitize the entire tax-free system. The validation system will go live in 2018 and will be the most modern tax-free system in the world. It involves self-service kiosks at airports and land border crossings.