BY EMAIL
Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
1 Horse Guards Road
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18 September 2020

Dear Chancellor,

I am writing to let you know of the shock and dismay of many British businesses at the Treasury's surprise decision to end the tax-free shopping scheme and set out why this is and how we might be able to provide a solution regarding a way forward at no cost to the taxpayer.

Businesses across Britain are worried that this decision is an own goal at a critical time for the UK economy. In effect, Britain will now be the only country in Europe not to offer tax free shopping to international visitors. Why does this matter? For a number of reasons set out below.

Firstly, we fear that the message this decision sends is effectively telling international tourists, particularly those from the Middle East & Far East, for whom shopping is a major draw, to go anywhere but the UK to spend their money. The decision changes a potential £2.1 billion tax free shopping bonus from the UK's departure from the EU into a £3.5[1] billion loss of tax-free sales. This is a £5.6 billion hit on the UK economy even before accounting for the negative knock-on effect on wider international tourism spending, at a time when retail and tourism across the UK are already reeling from the impact of COVID-19.

VisitBritain's own research shows that shopping is one of the major reasons why tourists come to Britain[2]. This decision has massive negative implications for Britain's tourism industry, hitting hotels, restaurants and cultural attractions across the whole of the UK, as high-spending tourists instead choose to go to Paris, Rome or indeed any European country other than the UK to spend their money. The decision will clearly damage the Government's ambitions for a Global Britain.

While much tax-free shopping is in London, the negative impact will be felt throughout every high street in the UK, either directly or indirectly. Over 20% of the £3.5 billion tax free sales are made outside London. It is likely that much of the sales associated with tax free currently will stop, as visitors go elsewhere. More importantly, the billions of addition sales in stores in London help to support more marginal stores in UK high streets. They will be the first to close and lose jobs, as we are already seeing as a result of COVID-19. Moreover, the fall in rentable value in central London, first from COVID-19 and now as a result of the loss of significant international spend with less prospect of any recovery, will result in high streets throughout the UK facing significantly higher business rates following the next revaluation.

All of this will create lasting damage to the Government's efforts to level up parts of the UK left behind. EU visitors form 70% of international visitors to the UK and are more likely to travel outside London than long haul travellers. So, extending the scheme to EU visitors would have helped high streets throughout Britain and been an opportunity to level up the economy by growing international tourism across the wider UK, especially around International Airport cities, something the country has tried to do for a number of years. Now is the opportunity and it will be taken away if this decision stands.

Existing international centres in Birmingham, Manchester, Edinburgh, Oxford and London will be particularly badly hit. It destroys their current benefits and removes the opportunity for them to grow through this decision to give tax free shopping to the EU. Within London, it is impossible to overstate the already perilous position of most West End stores, which are suffering more than any other part of the UK with a perfect storm on low return of office workers (around 10%) and virtually

[1] Total registered annual tax-free sales in the UK are £3.5 billion but the reclaim rate is around 65% (due to the failure of HMRC to digitalise the validation system). So, VAT is only actually reclaimed on only £2.5 billion.
[2] **"Shopping is one of the most popular activities for overseas visitors to Britain, with at least 57% of all visits involving shopping in 2014 (increasing to around 70% amongst leisure visitors)2. VisitBritain "The Importance of Shopping to overseas visitors"**

no domestic and international tourists. New West End Company predicts that sales in Bond Street, Oxford Street and Regent Street for the 12 months from March 2020 will be down 80% from £10 billion to just £2 billion. Many stores are on the verge of closing, as are hotels, theatres and restaurants. The ending of furlough and the business rates holiday will put additional cashflow pressures on these businesses. The expectation of the return of international visitors in 2021 has kept businesses supporting their West End presence, but the Treasury's decision to end tax-free shopping has undermined that hope.

An estimated 50,000 jobs will be lost in the West End by the end of this year. The Treasury's decision to end tax-free shopping means that this number is now certain to increase. Added to this, will be thousands of additional job losses in hotels, restaurants and other businesses that rely on international visitors.

More importantly, the West End, which is both an economic powerhouse for the UK economy and a soft power asset, attracting investors, talent and visitors from around the World, will inevitably lose its international reputation, sending a damaging message for the Global Britain brand and ambition. International investors and brands will simply move to those countries and cities which continue to attract high spending international visitors. We know many international brands are already making plans in this regard.

The Government says that the scheme is costly and that, when abolished, the Treasury will benefit by retaining the VAT on the (around) 50% of retail sales to international visitors that are currently tax free[3]. It will not. If the scheme is abolished, that element of sales will simply not take place in the UK. It will move to Paris, Rome and other European cities. HM Treasury's proposed alternative, VAT-free scheme is unappealing to international visitors who are our customers and are now being offered more attractive traditional tax-free schemes by every other European country. There will be no VAT income bonus for the Treasury because those sales will simply not now take place in the UK.

Not only will the Treasury save nothing, but the inevitable fall in international tourist numbers and spending in the UK will reduce £4 billion VAT income from them (total annual spending by international visitors is over £22 billion, of which only 10% is reclaimed on tax free shopping), as well as corporation tax, income tax and national insurance payments, as profits fall and job numbers are cut. Moreover, the Treasury will acquire substantial unemployment costs for over an estimated additional 70,000 redundant retail workers (and others) across the UK, as a direct result of this loss of international sales[4]. As a result, we would be keen to know what cost/benefit analysis the Treasury used in making this decision because clearly these are extremely worrying statistics.

Indeed, HMRC itself previously recognised the importance of tax-free shopping, saying in 2013:

> "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 UK. This 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."[5]

The Treasury response to the consultation says "The government recognises the operational challenges of the current VAT RES, and that many stakeholders are concerned about the practical implications of any extension of the scheme to the EU in its current paper-based form. Industry stakeholders have requested that the current scheme be replaced with a digital system for any extension to EU residents, which the government continued to explore in parallel with the consultation".

This is probably one of the most frustrating comments. For the past seven years, British retailers have watched in dismay as HMRC has continually failed to deliver a digital system, while virtually all our international competitor countries have adopted simple, low cost, global standard models which address all the concerns highlighted in the Treasury's announcement on Friday.

Retailers have been warning HMRC for some years that they need to introduce a simple, cost effective digital element to link with existing retailer digital infrastructure, just as most other countries have done. We have even offered to create the

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[3] Tax free refunds are claimed on around £2.5 billion of the £6 billion annual retail sales to international visitors - NAO report and VisitBritain figures

[4] Based on BRC figures that one retail job is supported by every £50,000 spending

[5] HMRC "VAT: Retail Export Scheme Summary of Responses December 2013"

necessary infrastructure at no cost to government, as has been done in many other countries. Yet we are now being told that lack of digitalisation is a major reason for ending the scheme. Make no mistake – it is not too late to put in place a low-cost digital system and we would be delighted to work with you and industry experts to do just that at no cost to the Government. It is the perfect time to change the system while visitor numbers are low, preparing for a time post-COVID-19 when we can enjoy an increase in visitor numbers again.

This decision will have a devastating impact on the UK's international tourism and retail industries. One major retailer has said that this decision by the Government is more damaging to their business than COVID-19. As Britain is about to leave the EU, we should be working to maximise the level of international support, spending and investment in the UK. We are now giving this vital element away to our European neighbours. It contradicts all previous commitments from the Government to support international tourism and Brexit will benefit us. Instead of a Brexit dividend, we will now be at a major disadvantage.

It does not seem right that such a momentous decision should be made on the basis of a one-sentence question in a 22-page consultation, which focussed mainly on duty free issues. We are so concerned by this, that we are now seeking legal advice on how the process and briefings that led to this decision could be examined. To be clear, this is not a route we want to explore but will do so if we feel we have no choice. As a result, we would appreciate the opportunity to discuss this situation further.

We believe that there is a way, working with industry, to create a first-class tax-free shopping system that will enhance the UK's current position as a global shopping and tourist destination and grow its financial contribution to the UK economy. If tax free shopping were extended to the EU, despite our current challenges, we are optimistic about the future. The current decision will inevitably lead quickly to a decline in the international standing of Britain and London as global destinations and be a drain on the UK's economy with no cost saving for the Treasury.

The retail industry and its partners are confident that they can provide a digital solution to the validation element, linked to existing retailer digital infrastructure, which will provide the necessary capacity, within 12 months and at no cost to government. They have done this with many governments across the world. This is in stark contrast to the many Government IT initiatives which have floundered, including the HMRC attempts for a similar system.

We believe there is a way to work together on this important issue for the benefit of the UK's economy.

Yours sincerely

Steve Rowe
Chief Executive, Marks & Spencer

Anne Pitcher
Managing Director, Selfridges & Co.

John Edgar
Chief Executive, Fenwick

Hugh Seaborn
Chief Executive, Cadogan

Brian Duffy
Chief Executive Officer, Watches of Switzerland

Robert Sinclair
Chief Executive Officer, London City Airport

Ewan Venters
Chief Executive Officer, Fortnum & Mason

Emma Degg
Chief Executive Officer, North West Business Leadership Team

Inderneel Singh
Managing Director, Edwardian Hotels London

Neil Rami
Chief Executive, West Midlands Growth Company

James Raynor
Chief Executive, Grosvenor Britain & Ireland

Brian Bickell
Chief Executive, Shaftesbury

John Holland-Kaye
Chief Executive, Heathrow Airport

Stewart Wingate
Chief Executive Officer, Gatwick Airport Ltd

Nick Barton
Chief Executive, Birmingham Airport

Derek Provan
Chief Executive Officer, AGS Airports Limited (Aberdeen, Glasgow, Southampton)

Liam Cunningham
Maybourne Hotel Group

Jose Luis Duran
Chief Executive Officer Europe, Value Retail Europe Management, for Bicester Village

Mark Bourgeois
Managing Director UK and Ireland, Hammerson plc

Ian Hawksworth
Chief Executive, Capital & Counties Properties plc

Clive Memmott
Chief Executive, Greater Manchester Chamber of Commerce

Alan Morgan
Chief Executive Officer, GLH Hotels