



Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
1 Horse Guards Rd
London SW1A 2HQ

November 3rd, 2022

Dear Chancellor,

Medium Term Fiscal Plan Submission – Tax-Free shopping

Congratulations on your recent appointment. We wish you well as you guide our economy through some very difficult times.

While we were disappointed that you chose to reverse the decision to introduce a tax-free shopping scheme for all international visitors to the UK, we can understand why you have done so. We believe that you are right to say in your recent statements that you must take difficult decisions to restore trust and confidence in our national finances.

We are writing to request that you ask the Office of Budget Responsibility to review HM Treasury's estimate of the costs of the scheme in light of a new report published today by Oxford Economics into the full economic impact of the scheme. We are attaching a copy of the Executive Summary and will forward the full report

The report was commissioned in September by the Association of International Retail in response to the cost estimate of £2bn in the Growth Plan. When you announced that you would not be proceeding with the new VAT-free shopping scheme for all international visitors to the UK you stated that this would save £2bn every year.

However, the Oxford Economics Report into the full economic impact of the VAT RES and airside tax-free shopping concludes that :

- Rather than a £2bn annual cost, the net impact will be a £350m annual net gain to the Exchequer
- The introduction of tax-free shopping will cost only £1.2bn annually in refunded VAT by 25/26, far lower than HMT's estimated £2bn cost. Once VAT raised by additional spending is included, the impact on VAT revenues would be a net cost of just £0.59 bn
- Tax-free shopping would result in an additional £4.1bn of GDP growth annually, sustaining 78,000 jobs. This is a compelling economic return (7:1 return on investment).
- That extra economic activity is worth an additional £940m annually in tax take, leaving a net impact of a £350m positive contribution to the Exchequer annually.

Moreover, HMRC's own consumer survey (June 2020) concluded that "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"¹

Given the large discrepancy between estimates of the cost of tax-free shopping and because of the importance of tax-free shopping to the international visitor sector, we believe that an independent assessment should be made of the full economic impact of the scheme to inform future decision making.

The reintroduction of tax-free shopping, both high street and airside, was a way of encouraging economic growth quickly. HMRC's own consumer survey showed that tax-free shopping was an important part of the UK's attraction for international visitors.² We are already seeing early signs of damage being done to the UK economy as high-spending international travellers are choosing to divert their spending away from Britain to competitor EU countries. We have also learned that global brands are diverting planned investment in the UK to other countries because of lower visitor spending predictions as a direct result of ending tax-free shopping.

Making the UK the only major European country where EU visitors could shop tax-free would have established a unique and significant new tourism market. It would have particularly benefited the regions, whose airports largely serve only European destinations.

The growth impact would be immediate. The ending of tax-free shopping in the UK has already resulted in significant economic growth in other EU countries as international visitors are diverting their spending away from the UK and British residents are taking advantage of their newly-gained tax-free shopping rights, with EU tax-free sales to UK residents estimated to be over £500 million in 2022.

The DCMS Select Committee published its report into "Promoting Britain Abroad" and was critical of the decision to end tax-free shopping. It said "The Government fixed on its policy without ensuring it had the full facts before doing so. To make such a decision without considering its indirect impact, not just the direct one, is extraordinary and has already harmed the industry on which so much of our economy depends." The Committee recommended that "The Government should publish an assessment of the direct and indirect impact that withdrawing from the VAT Retail Export Scheme will have had on the inbound tourism sector."

This echoes the call in November 2020 by the Chairman of the Treasury Select Committee, Rt Hon Mel Stride MP, who asked the Treasury for an independent assessment on the full economic impact of tax-free shopping. Despite Ministerial assurances that this would be done, the Treasury's estimated cost of extending the scheme to EU visitors and the level of additional tax generated have never been assessed by the OBR or by any other independent body.

We are happy to discuss this further with you and your colleagues.

Yours sincerely,

Paul Barnes
Chief Executive
Association of International Tourism

Joss Croft
Chief Executive
UKinbound

¹ HMRC "VAT RES Digitalisation – online survey with non-ERU visitors to the UK" June 2020.

² 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"

