



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

January 31st 2023

Dear Chancellor,

Budget Plan Submission – Promoting growth by increasing international spending in the UK

The Association of International retail and UKInbound made a submission for consideration in the November 2022 Budget (updated version attached) asking that you request the Office for Budget Responsibility to undertake an independent assessment of the full impact of tax-free shopping on the British economy and tax revenues. In advance of the March Budget we ask you to look again at this issue.

In his letter of December 14th 2022 in response to our joint submission, the Economic Secretary stated that there are no current plans to review the decision to withdraw the VAT RES saying that “the independent Office for Budget Responsibility also set out their assessment of the impact of the withdrawal of the scheme, factoring in the effect on spending on luxury goods and tourist numbers.”

But the OBR was clear in its Economic and Fiscal Outlook report in November 2020 that it had not undertaken an assessment of the full impact of the withdrawal of the scheme. The OBR stated that “Ending the scheme results in a direct Exchequer saving but there will also be costs as the UK becomes less attractive for affected tourists relative to alternative EU destinations such as Paris or Milan.....Several studies have considered the negative consequences of this measure for affected industries. Our forecasts consider such indirect effects at an aggregate level, looking at overall changes in tax and spending rather than measure-by-measure.”¹

When Felicity Buchan MP, at a hearing of the Treasury Select Committee in December 2020 , asked OBR Member Andy King “if you were to look at this measure on its own, do you think there’s a risk that it could actually be negative to the Exchequer, if you were to take in the losses on VAT?” he replied “I’m afraid I haven’t looked at that specifically, sorry. I don’t have an answer for you.”²

So, despite the assurances from the Economic Secretary, the OBR has never made an assessment of the full impact of the tax-free shopping scheme on the UK economy or tax revenues.

In a letter to AIR on December 14th, the Financial Secretary stated “Introducing VAT-free shopping would come at a significant fiscal cost as it would subsidise a large amount of tourist spending which already occurs without a tax relief in place.” But, once again, the Treasury’s cost estimate has not

¹ “Economic and Fiscal Outlook” Office Of Budget Responsibility, November 2020 A.22 p 183

² OBR oral evidence to Treasury Select Committee inquiry into the Spending Review 2020, December 2020

been assessed by the OBR, particularly the key Treasury estimate of £900 million as the annual cost of extending the scheme to visitors from the EU.

This is because the decision to end the VAT RES and airside tax-free shopping was taken before the OBR was asked to consider the cost figures upon which it was made, departing from the norm. In a written statement to the Judicial Review of the Government's decision to end tax-free shopping, a Treasury official stated that "the Government is committed to understanding the wide range of impacts and evidence bases associated with tax policy options to inform decision making..... The OBR is also a key part of that process as they independently review and publish information about tax policy decisions" (para 13).³ But he then explained that, when deciding to end tax free shopping, based mainly on the estimated cost of extending the scheme to EU visitors, "the process for the 'Decision' departed from this norm as the policy changes were not announced at a Budget or alongside an OBR forecast. Therefore, the Government was unable to know what OBR's 'reasonable and central' view of the Exchequer Impact would have been before announcing the policy decision. Instead, the OBR-certified figures were necessarily published at a later date (25 November 2020) than would have ideally been the case." (para 15).

Since Ministers decided not to include that policy in the 2020 Budget, based largely on the estimated £900 million additional cost, that estimated cost was never subjected to an OBR assessment.

The Oxford Economics study, commissioned by AIR, examined the Treasury's £900 million cost estimate.⁴ Using empirical data, Oxford Economics demonstrated how the Treasury's estimate was based on an inaccurate understanding of the relative spending between EU and non-EU visitors. Oxford Economics suggest that Treasury's estimated annual cost of reintroducing the scheme should be cut by £800 million from £2bn to £1.2bn, a 40% reduction

So the OBR has assessed neither the key data upon which the decision to end tax-free shopping was made nor the full impact of the scheme on the UK economy and tax revenues, taking account of the benefits, rather than just the costs, of the scheme.

The more comprehensive Oxford Economics report estimated that instead of a £2 billion annual cost to the Exchequer, tax-free shopping would result in a net positive of £350 million annually based on additional foreign spending in the UK.

We know that the Government is actively seeking measures to grow the economy. The Oxford Economics study estimates that introducing a tax-free shopping scheme would generate £4.1 bn GVA annually from additional overseas spending in the UK, create 78,000 jobs and produce a net positive for the Treasury of £350 million annually.

Given the large discrepancy between the Treasury's figures and those of the Oxford Economics study; the evidence that the OBR has not undertaken an assessment of the full impact of the scheme or the Treasury's key cost estimates; and the need for growth measures that have a fast impact across the whole of the UK; we ask again that you seek an independent assessment of the full impact from the OBR to decide whether or not to reconsider this growth measure.

Yours sincerely,

Paul Barnes
Chief Executive
Association of International retail

Joss Croft
Chief Executive
UKInbound

³ Second Witness Statement of Michael Cunningham, January 27, 2021

⁴ "Assessing the impact of tax-free shopping in the UK" Oxford Economics, November 2022
https://internationalretail.co.uk/wp-content/uploads/2022/11/20221110_AIR-TFS-report_Final.pdf

Appendix – November 2022 Budget Submission



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"⁵

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.⁶ 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
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⁵ HMRC "VAT RES Digitalisation – online survey with non-ERU visitors to the UK" June 2020.

⁶ 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"