



## Tax-free shopping

### AIR's submission to the Treasury on Evidence of Impact of ending tax-free shopping Key points

**1. AIR has submitted new research to the Government based on actual spending levels by non-EU visitors to Europe in 2022 and early 2023 as evidence of the negative impact on British retailers of ending tax-free shopping.**

- The new evidence shows that:
  - The decision to make Britain the only European country not to offer tax-free shopping cost British retailers **£1.5bn in lost sales in 2022** as international visitors switched their spending away from Britain and instead shop in France, Italy and Spain.
  - The pent-up demand for travel after COVID-19 gave **French, Italian and Spanish high street retailers a bonanza of spending in 2022, up 98% (+€1,941 or £1,746m)** on 2019 levels while **Britain's high street shops experienced a £401m fall in spending, down 28% on 2019.**
  - In 2022, compared with 2019, **spending by visitors from GCC states** was :
    - Down £405m in the **UK, a 35% fall**
    - But up £433m in **France, a 104% increase**
  - In 2022, compared with 2019, **spending by visitors from the USA** was :
    - Up £3m in the **UK, a 1% increase**
    - But up £653m in **France, a 129% increase**
  - **British airports** experienced a fall in retail spending of around £250m in 2022 compared with 2019, a **25% drop**.
- This is despite the decision to end tax-free shopping being taken based on a **Treasury forecast of little of no impact on visitor behaviour.**

**2. Early data for 2023 show it's on course to be even worse in 2023.**

- In **Q1 2023 American** spending in the **UK was 4% higher** than Q1 2019. In **France it was 194% higher.**

**3. If tax-free shopping had not been abolished, AIR estimates :**

- British retailers would have earned an **additional £1.5bn in sales.**
- **Over 26,000 FTE retail jobs** would have been created.
- The **Treasury** would have raise **£459m in tax, £206m more than the VAT it raised** on the reduced level of spending.

**4. AIR is calling on Government to review its decision because :**

- The evidence does not support the Treasury's 2020 forecasts .
- The Treasury states that its forecasts assumed no behaviour change due to lack of data from retailers. Now they have the data, they should revisit their forecasts.

- In a departure from procedure, the Treasury's forecasts were not assessed by the independent OBR before the decision was made. When the OBR did assess them, two months after the decision was announced, it rejected the Treasury's forecast of "little or no impact" and replaced this with one of a 24% fall in spending. AIR's evidence showed that in 2022 actual spending fell by 28%.
- The Treasury did not fully explore the impact of creating a unique, new, EU-focused, shopping-led tourism market, potentially worth £6bn in retail sales alone and benefitting every region of the UK.

#### **5. Britain is losing out on a unique new, multi-billion pound tourism market made possible by Brexit**

- Britain had the opportunity to extend tax-free shopping to the 447m European Union residents following Brexit but instead decided to end the schemes altogether.
- The Treasury forecast that expanding the schemes would cost up to £900m in refunded VAT but attract only a maximum of 50,000 new visitors annually or just 0.2% of the 24m EU visitors in 2019 and no new spending.
- AIR believes that this estimate is far too low. They are based on an extrapolation of forecasts of non-EU visitor numbers. But they are not the same. Visitors from the USA or China make costly, long haul flights and only visit Europe once every few years. But visitors from the EU can use low cost, short haul flights or Eurostar and the ferry's to make multiple trips each year.
- Britain would be the only country in Europe where EU residents could shop tax-free. The attraction of tax-free shopping would encourage a new, shopping-led international tourism market.
- The policy would be a boost to the Levelling-Up agenda. UK regions would particularly benefit because their airports fly mainly to European destinations.
- Since 2021 British tourists can shop tax-free in the EU. In 2022 over 138,000 refunds were claimed worth over €500m. In 2023 that is set to double to €1bn. The EU population is over six times the size of Britain's, suggesting an annual spend of around £6bn on shopping alone, in addition to other tourist spend.
- In 2022 France saw visitor nights by British tourists grow to 102% of 2019 levels, far outstripping growth by other countries. In the first half of 2023, the number of nights grew by a further 35% on the 2022 level, compared with a rise of just 8% by German visitors and a fall of 5% by visitors from Belgium and the Netherlands. This suggests that the Treasury's forecast of just a 0.2% growth in visitor numbers is not correct.
- AIR believes that this potentially valuable new market should not have been dismissed with no detailed assessment. AIR is calling on the Government to undertake a study into all aspects this potentially huge new market rather than treat it as just a VAT issue.

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