



Dear Sirs,

Thank you for giving us the opportunity to submit proposals for consideration for inclusion in the Spring Budget on March 6th. We propose that the Government should reintroduce tax-free shopping, both the VAT RES and the Airside Tax-Free Shopping scheme, for all international visitors, including those from the EU.

Our proposal reflects the Government's desire to :

- **promote economic growth** – the measure would restore the £1.5bn loss of spending by non-EU visitors ¹and create a unique new EU shopping-led tourism market worth £10bn annually.²
- **maximise the benefits to the UK from leaving the EU** – the new £10bn market is a direct benefit of leaving the EU.
- **promote growth in the sectors where Britain is a world leader** – the UK is consistently a top ten global tourist destination.
- **prioritise policies that benefit the whole of the UK, in particular the regions outside London to support the Levelling-Up agenda** – £5bn of the new EU market spending would be outside London. AIR estimates that airside tax-free shopping, which was worth £1bn in 2019, would generate an additional £2bn, with much of that spent in regional airports.
- **create secure and long-term jobs across the UK** – the new £10bn market would create 200,000 retail, hospitality and travel jobs.
- **support and enhance Britain's high streets and city centres** – most of the new £10bn would be spent in high street businesses
- **support Britain's hospitality and retail sectors which suffered most during the COVID-19 pandemic** – most of the new £10bn spending would be in shops, hotels and restaurants
- **generate net additional revenue for the Exchequer to help fund public services and reduce public debt particularly following necessary expenditure during COVID-19** - £5bn of the new EU market would be spending on taxed goods and services, generating £1bn annually in VAT alone.

Reintroducing tax-free shopping would reverse the growing diversion of spending by non-EU visitors away from Britain to continental Europe, shown by all data on actual spending levels. Many international visitors to Europe are on multi-country tours and all the evidence shows they are choosing to shop more outside the UK as they become aware that they cannot claim back VAT from purchases made in Britain.

Evidence that AIR submitted to the Treasury in November 2023 showed that in 2022, spending by non-EU visitors in mainland Europe rose to 198% of 2019 levels but fell by 28% on 2019 levels in Britain.

¹ All the figures quoted in this Budget Submission are contained in AIR's tax-free shopping impact submission to the Treasury in November 2023. This is on www.internationalretail.co.uk . Some elements have been subsequently updated as new data becomes available.

² Estimate based on actual spending levels by British visitors now shopping tax-free in the EU in 2023. AIR has commissioned a more detailed study which will be available before Budget day.

The data on actual spending levels differs from the HMT forecast of no impact on spending behaviour upon which Ministers made the decision to end tax-free shopping in 2020. It is more in line with the subsequent forecast by the OBR of a 24% fall, but the OBR assessment was only made after the decision had been taken.

Based on evidence of actual spending levels, AIR estimates that ending tax-free shopping cost British retailers alone around £1.5 bn in lost spending in 2022.

Early indications suggest that this loss increased in 2023 and will continue to get worse in 2024 as highly price sensitive Chinese visitors, the World's biggest spenders, reduce their spending in the UK by nearly 70%, representing an additional £700m loss for British stores.³

The diversion of spending away from Britain is particularly damaging heritage British Brands with Burberry and Mulberry both recently citing the ending of tax-free shopping as reasons for their relatively poor performance. And it is causing leading global brands to re-examine their capital expenditure plans for the UK as high-spending visitors from America, the GCC states and China are choosing to spend their money in other European destinations.

We are aware that if tax-free shopping was reintroduced it would have to be extended to visitors from the EU. In 2020, HM Treasury forecast that this would result in the Exchequer losing VAT currently paid by EU visitors but assumed no positive impact on visitor numbers or spending levels if the 447m EU residents could, uniquely in Europe, shop tax-free in Britain.

But now, evidence of actual spending levels for British visitors able to shop tax-free in the EU since 2021, suggests that extending tax-free shopping does have a significant positive impact on spending levels. In 2023, Britons spent €1bn on EU tax-free shopping, double the level of 2022, and this looks set to increase significantly in 2024. And while bed nights in Paris for visitors from most EU countries in 2023 was up by 10-20% on 2019 levels, for British visitors the rise was over 230%.

We understand that the OBR was not given the opportunity to assess this key Treasury forecast since ministers decided not to extend the schemes to EU visitors and it was therefore not included as a Budget proposal for the OBR to examine.

The evidence of actual spending levels by Britons in the EU suggests that there would be significant benefits to the UK economy and the Exchequer from Britain becoming the only European country where EU residents could shop tax-free. Based on tax-free shopping spending by Britons in the EU, AIR estimates that this unique new shopping-led EU tourism market would be worth around £5bn annually in tax-free shopping and a further £5bn in spending on hotels, restaurants, leisure and travel. This largely additional £10bn spending would generate around 200,000 FTE jobs across the country and produce £1bn annually in VAT alone from the non-shopping spending.

The Government had stated that the former tax-free shopping schemes benefited mainly London and not the UK regions with just 10% (£300m) of tax-free shopping by non-EU visitors taking place outside London and Bicester Villiage. But VisitBritain has shown that EU visitors travel throughout the UK. Based on current and historic spending patterns, it is likely that around 50% of this new £10bn market would be spent outside London. This £5bn additional annual spending would be a huge boost to regions, cities, retail and hospitality businesses and leisure, culture and tourist attractions across the UK.

³ As an example, Chinese passenger numbers at Heathrow in September 2023 were at 98% of September 2019 levels, but spending in the airport shops was only 28% of September 2019 levels

Moreover, regional airports, which mostly serve EU destinations, would benefit both from increased passenger numbers and their share of airside tax-free sales. In 2019, airside tax-free sales were worth around £1bn, mostly spent in Heathrow. But if extended to EU visitors, AIR estimates that these could generate a further £2bn annually, in addition to the £10bn high street spending, with most spent in regional airports.

We appreciate that the decision to end tax-free shopping was taken at a difficult time during the first COVID lockdown when the Government was anxious to find ways of reducing public expenditure. However, as international travel returned, all the evidence on actual spending levels is consistent in showing that the Treasury's initial assumption that tax-free shopping had no impact on international visitor spending is not correct. This calls into question the Treasury's £2bn cost forecast, based on the estimated cost of VAT refunds but assuming no positive impact. The evidence suggests that in reality there will be a net positive to the Treasury.

Even the OBR, when it assessed the Treasury's forecasts after the decision had been taken, recommended that the Treasury's 0% impact forecast should be replaced with a forecast that ending tax-free shopping would lead to a 24% fall on spending, which the Treasury accepted.

This means that the decision not to extend tax-free shopping to EU visitors, based on the same assumptions that the Treasury has now accepted not to be correct, should also be re-examined.

The situation and the facts have changed. The evidence of actual spending by non-EU visitors to Europe in 2022 shows a £1.5bn spending loss as a result of ending tax-free shopping. And the evidence of British people shopping tax-free in the EU suggests that Britain is missing out on a unique new £10bn market which would not be so focused on London.

We urge the Government to respond to this evidence by changing its policy on tax-free shopping to reap the benefits from this unique and valuable new market and to work with business to make Britain the best place in the World to shop.

Best wishes

Dee Corsi
Chair

Paul Barnes
Chief Executive

January 2024