



Rt Hon Rachel Reeves MP
Shadow Chancellor of the Exchequer
House of Commons
Westminster
SW1A 0AA

April 9th 2024

Dear Ms Reeves,

Following your announcement today of Labour's proposals to "close the non-dom spending gap", I wanted to draw your attention to an additional annual source of £3.7bn tax revenue which has not yet been taken into account.

New data on actual spending by UK visitors in the EU, where Britons can now shop tax-free, suggests that reintroducing tax-free shopping for international visitors (bringing the UK back in line with every other EU country) and extending it to EU visitors (making Britain the only major country in Europe where the 447 million EU residents could shop tax-free) would create a unique, new, £10bn tourism market based on EU shopping-led trips to the UK. This would generate a net annual gain to the Exchequer of £3.4bn, even after taking account of any VAT refund deadweight costs.

Half of this additional EU spending in the UK would be on tax-free shopping. The VAT deadweight cost of all tax-free shopping, based on actual spending data, would not be HMT's original inflated £1.4bn forecast but just £300m. This cost is outweighed by the benefit of £1bn in VAT raised from the additional £5bn that would be spent by new EU visitors in hotels, restaurants, and on travel and leisure. Data from Paris, for example, shows British bed nights in 2023 increased by 230% on 2019 levels, compared with just 5-10% for visitors from other European states, a clear indication of the boost given by tax-free shopping. And the impact happened immediately, from year one.

VisitBritain's evidence on EU visitor spending patterns shows that half of this new spending will take place outside London, giving a £5bn annual boost to the regions, particularly since their airports serve mainly EU destinations. The Yorkshire Region, for example, would receive a new £244m annual spending boost, with Leeds Bradford Airport benefiting both from additional passenger numbers and new revenue from airside tax-free shopping.

This issue is a great example of the type of supply-side measure that would encourage significant new private sector investment, as you mentioned in your Mais Lecture. Not only would it raise substantial net additional taxation at no cost to the Government, but a £10bn market would create around 200,000 jobs in retail and hospitality throughout the whole of the UK. And by making the UK the best place in Europe for international shopping, Britain would become the first choice for international brands looking to invest in Europe.

In 2020, the Government took the decision to make Britain the only major European country where international visitors cannot shop tax-free based on its central assumption that tax-free shopping has no impact on the level of their spending. This is not supported by any of the evidence. As international travel started to return from 2022, the increasing amount of data emerging on actual spending levels is constantly and consistently proving HMT's forecasts to be wrong.

Indeed, just last month the OBR in its Budget 2024 "Economic and Fiscal Outlook" again rejected HMT's original forecasts of no impact on spending. Instead, the OBR confirmed its 2020 forecasts of a 24% fall in spending by non-EU international visitors, which aligns closely with AIR's new data on the actual impact, which showed a 28% fall in spending in the UK in 2022.

The OBR also confirmed at the Treasury Select Committee's Budget 2024 inquiry in March that the Government had never asked it to assess HMT's forecasts on the new EU market and the OBR declined to endorse the Treasury's methodology behind that key forecast. Evidence of actual spending levels demonstrates that HMT's original forecast £900m cost of extending the scheme to EU visitors was, in reality, just £50m, a significant difference.

With all the data suggesting that the Treasury's key original forecasts were wrong, and with the lack of any OBR assessment or endorsement for these forecasts, we believe it is time for a full business case to be undertaken with the conclusions then independently assessed by the OBR. Industry would be happy to contribute to such a study. The urgent need to stimulate economic growth and generate additional tax revenue suggest that this opportunity for British businesses to create a whole new £10bn tourism market should be examined in full by government with the scheme reinstated if the business case shows a positive impact on the Exchequer, which industry, supported by data, is confident it will.

Hundreds of UK business leaders from Britain's major retail, hospitality and travel companies have publicly called on the Government to review this decision, which cost British retailers around £1.5bn in lost spending in 2022. They are supported overwhelmingly by virtually all the national media and the UK's main tourism, retail and business organisations. But to date businesses feel they have been ignored by the Government. AIR would welcome the chance to discuss this exciting new growth opportunity with you and your team. We can share all the evidence and data from across the UK and mainland Europe, which is available on www.internationalretail.co.uk.

Britain is already one of the World's top ten visitor destinations, and is internationally renowned for the quality and range of our retail sector. But ending tax-free shopping is damaging Britain's global reputation. Our mission is to make Britain the best place in the World for international travellers to shop and for international retailers to invest, with all the benefits this brings for economic growth, job creation and tax revenues. We would appreciate the opportunity to discuss with you how together we can achieve this mission.

I look forward to hearing from you.

Best wishes,

Paul

Paul Barnes
Chief Executive