



Submission to inform the Visitor Economy Growth Plan

Introducing VAT-free shopping for all international visitors to the UK

Generating rapid growth across all of the UK, creating and supporting thousands of new, accessible jobs in all regions, and establishing new markets to make Britain the number one choice for global shoppers and retail investors.

Please note – Any information from this document used by third parties should be referenced to the Association of International Retail

June 2025

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Submission to the Visitor Economy Advisory Council to inform the Visitor Economy Growth Plan. June 2025¹

Establishing Britain as the World's best place to shop - how introducing a new VAT-free shopping scheme will attract more international visitors, drive spending levels higher, encourage investment and produce net additional revenue for the Exchequer

1. Why businesses are seeking a commitment in the Visitor Economy Growth Plan to introduce a new VAT-free shopping scheme for all international visitors
 - 1.1 Stability, investment and productivity are key themes in the Chancellor's plans for economic growth. Introducing a new VAT-free shopping scheme for all international visitors will help the Government to achieve its growth ambitions.
 - 1.2 The Association of International Retail recommends that:

“The Government should work with industry to look again at the impact of VAT-free shopping on the economy and the Exchequer with a view to introducing a new, fully digitalised, fiscally positive scheme for all international visitors to support rapid economic growth throughout the whole of the UK and encourage investment and job creation in the retail, hospitality, leisure, cultural and transport sectors, and support UK high streets by making Britain the best place in the world to shop.”
 - 1.3 It is a measure that:
 - is a unique opportunity for Britain to generate economic growth across the whole country
 - builds on Britain's existing successful and fast-growing tourism sector
 - creates a new, shopping-led EU visitor market which could be worth an additional £3.68bn annually and creating around 73,000 new jobs at all levels across the whole of the UK
 - is proven to produce growth quickly
 - promotes growth in all of Britain's regions and supports regional airports

¹ Note - AIR understands that a new report has been commissioned from EY to undertake a detailed study into the fiscal impact of introducing tax-free shopping to the UK

- supports British brands' manufacturing growth across the UK
- will give a boost to Britain's high streets
- increases productivity
- reduces tariffs on British exports
- contributes to Britain's soft power
- is supported by overwhelming and ever-growing evidence and data
- has the backing of political and business leaders throughout the UK
- brings Britain back in line with our EU neighbours and other major global destinations who offer a VAT refund scheme to international visitors
- is simple for government to implement
- will have a positive impact on Exchequer revenues
- adds to Britain's attractiveness as the place to visit, spend and invest

1.4 The time is now right for the new Government to re-examine the benefits to the economy, the regions and the Exchequer of introducing a new VAT-free shopping scheme for all international visitors as an integral part of the wider Visitor Economy Growth Plan.

1.5 When exploring this growth proposal, the Government should consider four important factors:

- The proposal is based on clear and recent evidence of growth delivery
- The growth could be delivered, across the whole of the UK, within the lifetime of this Parliament
- The growth is based on substantial additional foreign spending in the UK, not the redirecting of domestic spending
- The policy would have a positive impact on other Government priority areas such as revitalising high streets, improving productivity, reducing the impact of trade tariffs; and enhancing soft power

2. Growing the UK economy through shopping – building on Britain's top ten global ranking in the fast-expanding international visitor economy

2.1 The international visitor market is highly competitive, with a growing choice of destinations as governments around the world realise the value and the strong growth potential of this sector. UN Tourism, formerly UNWTO, forecasts 1.8bn International arrivals by 2030.² This represents an annual growth rate of approximately 3.3% each year from 2010 to 2030. The World Travel and Tourism

² UN Tourism "Tourism towards 2030"

Council forecasts that by 2035 international spend will reach \$2.9 trillion, with a compound annual growth rate of 3.4%.³

- 2.2 Britain is in the top 10 most visited countries globally. Historically, the UK's international visitor sector outperforms the wider economy. In the ten years from 2009 to 2019,⁴ international visitor numbers grew from 31m to 40.9m (+32%) and spending grew from £17.6bn to £28.4bn (+ 61%).⁵ The annual average growth rate of around 6% contrasts favourably with the economy's average growth rate in that period of 1.7%.
- 2.3 But UN Tourism forecasts growth being focused on emerging countries at the expense of traditional destinations. The Government has set challenging goals for future international visitor numbers, with an ambition to reach 50 million annually by 2030. The plan to achieve this target requires a range of incentives to ensure Britain is a number one choice.
- 2.4 Increased visitor numbers also need to be matched by increased visitor spending. All the evidence shows that Britain's post-COVID recovery in international visitor numbers is significantly weaker than our competitors. Worryingly, while throughout the world the recovery of spending exceeds the recovery of international visitor numbers, in Britain, the recovery of spending levels is not keeping up with visitor numbers. Relatively fewer international visitors are choosing to visit the UK and those that do are spending less money, as shown in table 1.⁶

³ WTTC "Global travel and tourism is strong despite economic headwinds", April 2025

⁴ 2019 is a milestone year for Britain's international visitor sector. It was the last full year before COVID-19 closed down all international travel, and the last full year in which Britain offered VAT-free shopping to visitors from non-EU countries.

⁵ VisitBritain "Britain's visitor economy facts" and "2019 snapshot"

⁶ Sources:

UK (VisitBritain) www.visitbritain.org/inbound-tourism-trends

Global (UN Tourism / UNWTO) www.unwto.org/tourism-statistics

France (Atout France & Banque de France) www.atout-france.fr

Spain (Instituto Nacional de Estadística & Ministerio de Industria, Comercio y Turismo)

www.ine.es/dyngs/INEbase/en/categoria.htm?c=Estadistica_P&cid=1254735576863

www.tourspain.es/en-us/estadisticas

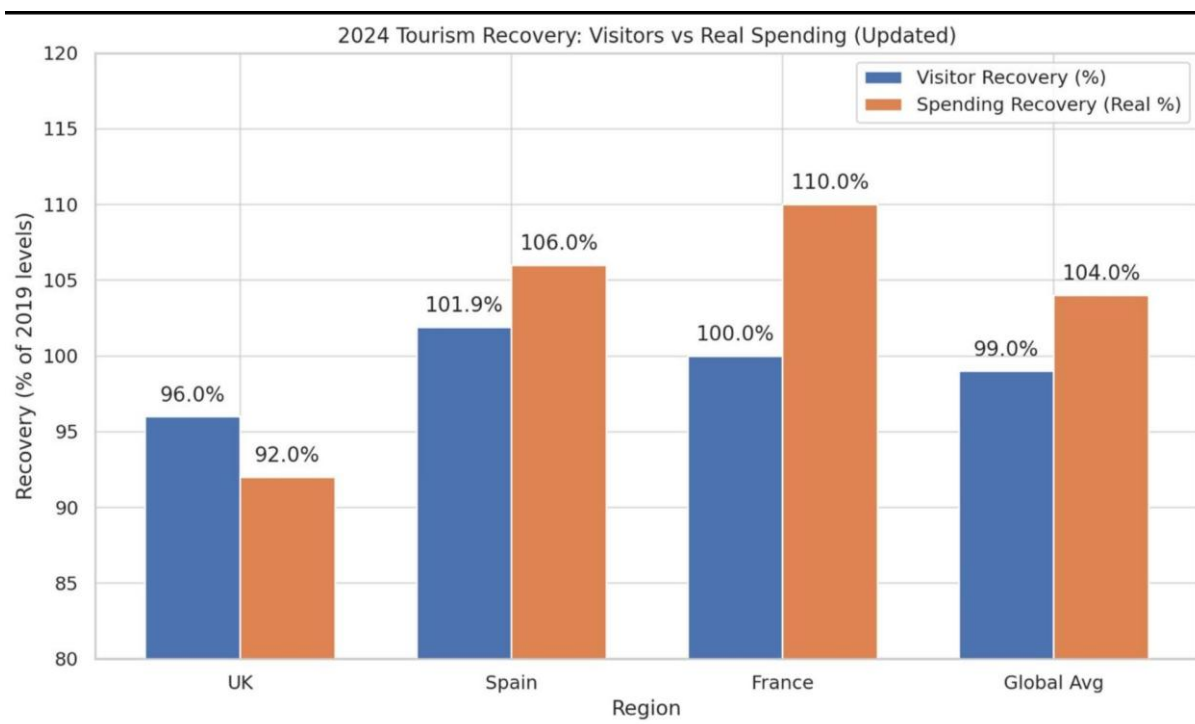


Table 1

3. A nation of shopkeepers – using Britain’s predominance to grow international visitor numbers and spending
 - 3.1 Shopping is both a major attraction for international visitors when choosing where to visit and also accounts for a large part of their spending. Britain has a reputation as a global shopping destination with world renowned International Centres in London's West End and Knightsbridge, and growing international shopping in Manchester, Edinburgh, Leeds, Liverpool, Glasgow and other major cities.
 - 3.2 Visit Britain estimates that shopping accounts for 25% of all international visitor spending, more than any other single item (such as accommodation dining or travel).⁷ In 2019, the last full year of the UK’s VAT-free shopping scheme before COVID-19 shut down international travel, total international visitor spending spend in the UK was £24.8bn.⁸ This suggests that international visitors In 2019 spent £6.2bn on all shopping. According to HMRC, VAT was reclaimed on £2.5bn of this and a further £1bn was spent airside.⁹ This is important because it suggests that part of the spending by international visitors is on shopping on which VAT is not reclaimed. So, if they choose not to shop in the UK because of the ending of VAT-free shopping, the Exchequer loses the VAT from that element.

⁷ VisitBritain “Inbound Shopping Research” 2016

⁸ VisitBritain “2019 snapshot”

⁹ HMT “Technical Note on the VAT RES” November 2020

- 3.3 In London, before the ending of VAT-free shopping, shopping accounted for even more of international visitor spending, at 46%, the highest single element of their spending.¹⁰
- 3.4 Importantly, shopping is a key motivator for the highest spending tourist groups, especially those from China and the GCC states. The Chinese are the world's biggest spenders as tourists¹¹ and have the greatest potential for growth.¹² Visit Britain's Foresight Report 150¹³ cited the International Passenger Survey which showed that for Chinese visitors, shopping is the number one attraction.¹⁴ It also reported that 51% of visitors from Saudi Arabia and 41% of visitors from the UAE listed shopping as a key motivational factor for choosing to visit the UK.
- 3.5 In that last year of VAT-free shopping being available, the Chinese and GCC visitors accounted for 8% of all non-EU international visitors but between them they were responsible for 58% of VAT-free shopping.¹⁵
- 3.6 The attraction of Britain's shopping relative to European competitors were shown by the fact that in 2019, when the Britain still had VAT-free shopping, of all VAT-free shopping in France, Italy, Spain and the UK by visitors from the USA and GCC states, 44% took place in the UK, compared with 26% in France, 23% in Italy and 7% in Spain.¹⁶
- 3.7 VAT-free shopping had two ways of increasing international visitor spending levels. The majority of refund claims in 2019 were low in value. This spending, taking place mainly in high street stores such as Primark, were not high enough to be a motivator for choosing to visit the UK, but encouraged greater spending by non-EU visitors. These were complimented by a smaller number of high value refund claims, particularly by visitors from China and the GCC states. For these travellers, who can choose where to do their shopping in Europe, the combination of Britain's global reputation for shopping and the VAT refund made many chose to visit Britain over France, Spain and Italy and to increase their spending levels, as shown in para 3.6. As illustrated in table 1, above, and in section 11, below,

¹⁰ London& Partners "Visitors spend more on shopping while in London" September 2017

¹¹ UN World Tourism Organisation "China recovers its position as top spender in 2023 as Asia and the Pacific re-opens tourism", June 2024

¹² UN World Tourism Organisation "China recovers its position as top spender in 2023 as Asia and the Pacific re-opens tourism", June 2024

¹³ World Tourism Forum "Tourism in 2020: reshaping the global landscape with China's influence" , May 2025

¹⁴ Global Blue and Planet data on actual spending levels by visitors based on region of origin.

¹⁵ Data on actual sales by visitor origin provided by Global Blue and Planet

¹⁶ Association of International Retail "The ending of tax-free shopping – evidence of impact" November 2023. Available at www.internationalretail.co.uk

ending VAT-free shopping in the UK reduced Britain's attractiveness in comparison to France, Spain and Italy.

- 3.8 Although many retailers, retail centre operators and airports have reported that ending VAT-free shopping in 2021 has resulted in a weaker post-COVID recovery in international visitor spending compared with key EU competitor countries, Britain still remains a global shopping destination and shopping continues to attract visitors and spending. This established base provides opportunities for strong future growth in international visitor numbers and spending levels, led by the attraction of shopping British.

4. Seizing the opportunity – why it's time to realise the value of Britain's unique EU position

- 4.1 With Britain no longer in the EU, we have the opportunity to become the best place in the world for shopping. While the 26 EU countries offer VAT-free shopping to non-EU visitors, including those from the UK, Britain is now in the unique position of being the only major European country where this attraction could also be offered to all 450m EU residents.

- 4.2 This would give Britain an unchallengeable competitive advantage within Europe. In addition to levelling the playing field with our EU competitor destinations who all offer VAT refunds non-EU visitors, Britain would have the unique opportunity to create a whole new, shopping-led, EU tourism market.

- 4.5 Evidence of the behaviour of British people, now able to shop VAT-free in the EU post-Brexit, suggests that offering VAT refunds has done more than just increasing spending on shopping by existing visitors. Extending the scheme beyond the traditional long-haul traveller to include those who can make multiple, cheap and easy short-haul trips from Britain to France, Italy and Spain, has created a new, additional, shopping-led tourism market. These new visitors bring significant additional foreign currency by spending not just on VAT-free shopping but also on goods and services on which VAT is charged such as accommodation, food, entertainment and travel. This new market creates economic growth, new jobs and additional VAT and associated tax revenues.

- 4.6 In 2021, Britons spent €169m on VAT-free shopping in the EU, rising to €608m in 2022, €745m in 2023 and €855m in 2024. This fast growth is continuing in 2025 with spending in the first 22 weeks up 16% on the same period in 2024.¹⁷ While these figures will include the deadweight cost of refunding VAT on sales that would have taken place without VAT-free shopping, the scale of the growth suggests most is new spending, driven by VAT-free shopping.

¹⁷ Industry data on actual VAT-free shopping spending levels provided by Global Blue, June 2025

- 4.7 The disproportionate increase in British visitor numbers to the EU show that a new market in shopping-led tourism has emerged. France is the most popular EU destination for British VAT-free shoppers, attracting 35% of all spending, with Paris accounting for 75% of this.¹⁸ Examining bed night data for Paris revealed a significant difference between UK visitors and those from other EU countries.¹⁹
- 4.8 In 2023, British bed nights in Paris were 230% of 2019 levels.²⁰ Bed nights for other European visitors increased by just 5%-30% in the same period. The French Institute of Statistics report on hotel stays in France in Q4 2023 compared with Q4 2022 states “Hotel occupancy decreased for Dutch (- 17.7%), Belgium (- 5.9%) and German customers (- 5.6%). On the other hand, British customers increased by + 17.9%.”²¹
- 4.9 The only factor that can explain this significant increase in UK visitor numbers to the Paris is the extension of VAT-free shopping to UK residents. VAT-free shopping has created a new tourist market, and these additional visitors are spending money, not just on VAT-free shopping but also on hotels, restaurants, transport and entertainment, all of which create additional VAT (and other tax) receipts for the Government.
- 4.10 VisitBritain states that in 2019, non-EU visitors spent around £18bn in the UK.²² £3.5bn was spent on VAT-free shopping, £2.5bn in high streets and £1bn airside.²³ So, for every £1 spent in VAT-free shopping, around £4 was spent on goods and services on which VAT was charged. This suggests that if the UK created a new market which generated just £1bn in VAT-free shopping spend, a similar amount to that the current British spending in the EU, the additional spending on goods and services on which VAT is charged could be up to £4bn.
- 4.11 The EU population is over six times the size of the UK’s (albeit with marginally different GDP per head and spending propensities) and with British spending nearly €1bn on VAT-free shopping in the EU this suggests that extending VAT-free shopping to EU visitors would provide a significant boost to the UK economy and the Exchequer.
- 4.12 In 2023, Britain received 38 million international visitors, of which 24.8 million were from the EU. VisitBritain estimates international visitor numbers rose to

¹⁸ Industry data provided by Global Blue, June 2025.

¹⁹ Note – we do not include data from 2024 since this is distorted by the effect of the Paris Olympics

²⁰ Office de Tourisme, Paris, 2024

²¹ National Institute of Statistics and Economic Studies, France

²² VisitBritain “2019 Snapshot”

²³ HMRC data used in HMT “Technical Note” October 2020

41.2m in 2024 and forecasts 43.4 million in 2025.²⁴ Based on 2023 figures, each 1% increase would result in an additional 248,000 EU visitors.

- 4.13 To illustrate the potential impact of extending VAT-free shopping to EU visitors, even though the EU population is over six times the size of Britain's, we have assumed that spending on VAT-free shopping by new EU shopping-led visitors to the UK would be the same as the British VAT-free spending EU in 2024 at around £730m (€855m).
- 4.14 Based on VisitBritain and HMRC figures, this could generate additional spending on goods and services on which VAT is charged at a ratio of 4:1. This would suggest a total additional spend of £3.65bn, of which VAT would be charged on £2.92bn.²⁵
- 4.15 The Government sees skills and workforce development as a key element of its tourism ambitions. Based on the British Retail Consortium's measure that one job is created for every £50,000 of retail spending, in this illustrative example, introducing a new VAT refund policy for EU visitors could create an additional 73,000 jobs across the UK.
- 4.16 Crucially, as the evidence shows, this growth occurs quickly, created by the private sector and driven by a small, simple and cost-free regulatory change by government.
- 5, Building back better – how government and business can work in partnership to attract a new generation of international shoppers
- 5.1 Throughout this submission we have given examples of the consequences of adding a 20% tax on retail spending by non-EU international visitors when our major EU competitor destinations, particularly France, Italy and Spain, continue to offer VAT-free shopping. Some travellers choose not to visit or to reduce the time spent in the UK. Others visit but chose to do their shopping in other countries on their itinerary.
- 5.2 In absolute terms, this has been partially hidden because the post-COVID bounce back saw a surge of international visitor numbers and spending in Europe, which disguises the relatively weaker recovery by the UK, as shown in Table 1, above.
- 5.3 But Britain now has the benefit of a blank sheet of paper on VAT-free shopping. The Government and business have the opportunity to work together with the shared mission of creating a new, world-beating scheme to secure Britain's place

²⁴ House of Commons Library "Tourism: Statistics and Policy", March 2025

²⁵ Note – this example is for illustrative purposes only based on actual data of international visitor spending levels. It is not meant as a full economic forecast. With a population more than six times that of the UK, EU visitor spend is likely to be more than UK spend. And since this new market is shopping led, the ratio of spend on shopping to all other spending is likely to be less than 1:4

as the heart of global shopping and to make a major contribution to achieving the Government's growth ambitions.

- 5.4 The benefits go beyond Britain's retail sector. Increased international visitor numbers are good for all the associated sectors, such as hospitality, culture and leisure. Businesses in London's West End cultural and entertainment centre, centred on Leicester Square, report weak post-COVID recovery relative to their operations in other European countries and many cite the ending of VAT-free shopping as a contributory cause.²⁶
6. Shifting the focus – how creating a new EU market promotes growth in the regions
- 6.1 The development and growth of tourism to the regions outside London is a key priority for the Government. This new market of European Union visitors would have a particularly strong impact on all of the UK regions beyond London. Visit Britain report that 50% of EU visitor spending is currently outside London.²⁷ This is because people from the EU make more trips to the UK as a nearby destination than long-haul, non-EU travellers and so are more likely to explore beyond London. This is helped by direct links from most major EU cities to regional airports across the UK.
- 6.2 Based on our illustrative figure of an additional £3.65bn in EU visitor spending, this would suggest a £1.82bn annual boost to the regions outside London.
- 6.3 Previously around 80% of VAT-free shopping took place in the capital, a further 10% was in Bicester Village and the remaining 10% was spent throughout that UK regions.²⁸ Because the former VAT-free shopping scheme was available only to non-EU visitors who predominately don't travel outside London, it was often seen as mainly benefiting only London's economy. But 10% of £2.5bn still represents significant expenditure in those regions. In 2019, the direct spending on VAT-free shopping sales were £92 million in Edinburgh, £60 million in Manchester, £32 million in Liverpool, £18 million in Leeds and £14 million Birmingham.²⁹ This doesn't take account of additional indirect spending.
- 6.4 Both Edinburgh and Manchester Airports have introduced flights to and from China, enabling and encouraging direct visits by the world's top-spending travellers, for whom shopping is the number one activity. And a combination of

²⁶ Heart of London Business Alliance, the Business Improvement District for Leicester Square and Piccadilly - anecdotal reports from hotels, restaurants, theatres, casinos, galleries, museums, and leisure and entertainment venues in and around their district

²⁷ Data provided by VisitBritain to the Association of International Retail, 2024

²⁸ Data provided by Global Blue and Planet.

²⁹ Industry data on actual spending supplied by Global Blue

VAT-free shopping and world-class football proved a great attraction for travellers from GCC countries.

6.5 The regions also benefited from the supply side element because UK brands with factories throughout the UK use London as their global shop window. Walpole states that “London’s luxury brands rely on an ecosystem of regional manufacturers to produce the goods sold in their flagship stores. A single Burberry trench coat, for example, may be sold in Sloane Street, but it is handmade in Castleford, using gabardine woven in Keighley, supported by smaller manufacturers throughout the UK. This is emblematic of a wider trend: from Walsall’s leatherworkers to Northampton’s shoemakers and Axminster’s carpet artisans, high-end production underpins local employment and regional identity”³⁰

6.6 Reintroducing VAT-free shopping would bring back these benefits both nationally and regionally. But any new scheme would automatically include visitors from the EU and bring that additional direct benefits to retail, hospitality and tourism businesses in towns and cities across the UK. And regional airports, vital elements of a regional economy, would receive a welcome boost in passenger numbers and spending from this new market. Based on VisitBritain data for the current regional share of spending by EU visitors, Table 2, below, shows how the illustrative £3.65bn additional regional spending would be split .

Region	Total International Spending 2022 (£100m)	EU Spending 2022 (£100m)	%age of total EU	Share of additional £3.65bn spending (£100m)
London	14100	4700	49%	1,788
North East	311	119	1%	36
North West	1700	683	7%	255
Yorkshire	533	233	2%	73
West Midlands	867	420	4%	146
East Midlands	515	255	3%	110
East Of England	1000	445	5%	182
South West	1300	595	6%	219
South East	2300	921	10%	365
Scotland	3200	1000	10%	365
Wales	391	157	2%	73
Total	26217	9528	99%	3,650

Table 2

³⁰ Walpole “State of London Luxury 2024”

7. You would be mad not to – how the UK's unique position in Europe makes global investing in Britain a no-brainer
 - 7.1 By becoming the only global VAT-free shopping destination in Europe, Britain's cities would be the top choice for international retail brands looking to invest in Europe, helping to reverse the decline of our high streets, a key Government priority.
 - 7.2 The commercial sensitivity prevents publication of the investment impact of VAT-free shopping. But for investors looking to open flagship stores in Europe or to expand their European presence, the unique combination of Britain's existing reputation for shopping and its new unassailable competitive advantage would make the UK the overwhelming first choice. A sure sign of success would be when major retailers, such as Galerie Lafayette and El Corte Ingles, seek to open stores in UK cities.
 - 7.3 And where retail brands choose to invest, complementary hospitality, leisure, transport and cultural investment is bound to follow.
8. Revitalising our high streets – how a new form of VAT-free shopping boosts Britain's high streets
 - 8.1 Revitalising town centres and ensuring they remain vibrant, sustainable places is a key priority for the Government. High street businesses are facing increasing costs, for example on wages, National Insurance contributions, business rates, energy and supplier costs. The Government is introducing measures to support high street businesses such as the new lower business rate multiplier for retail hospitality and leisure.
 - 8.2 But the best way to counter increase in costs is to increase revenue. Introducing a new VAT-free shopping scheme for all international visitors is a way of bringing billions of pounds of additional foreign spending into Britain's high streets. And by extending this scheme to include EU visitors, more of that money will get spent in high streets across the whole of the UK.
 - 8.3 Even increased spending in Central London helps high streets across the UK. This additional income in London stores of national chains reduces the pressure to cut costs at their more marginal stores outside the capital.
9. Productive shopping – how VAT-free shopping boosts productivity
 - 9.1 Increasing productivity is essential for higher growth and is a key aim of the Chancellor. Introducing a VAT-free shopping scheme for all international visitors to the UK contributes to productivity enhancement in the visitor economy.

- 9.2 Table 1 shows how the recovery of spending levels by international visitors, post-pandemic, is outpacing the recovery in visitor numbers in Europe and world-wide. More is being spent per visitor, so increasing productivity in the sector.
- 9.3 But Table 1 also shows that this is not the case in Britain. The recovery in visitor numbers is weaker than that of our competitor countries, but the recovery in spending is even weaker than those visitor numbers. This fall in spending relative to visitor numbers is confirmed by reports from the West End and Heathrow, reported in para 13.5, below, which show a widening tourist spending gap.³¹ Spend per international visitor is declining in Britain since VAT-free shopping was ended and lower productivity is an unintended result.
10. How to trump import tariffs – increase retail exports
- 10.1 The world is moving into an era of new and increased tariffs on exported goods. The additional tariffs imposed on imported goods in certain countries make them relatively more expensive and sales decline. Although the Prime Minister has negotiated a deal with the United States which puts most British businesses in a better position than their EU competitors, there is one export sector where exports from the EU have a tariff, in practice, of 0%, but for British exporters, it is 20% - and that's shopping.
- 10.2 What is popularly called "tax-free shopping" was officially called the "VAT Retail Export Scheme," or the VAT RES. Countries that offer VAT-free shopping do so because they consider goods bought by international visitors and taken home with them to be exports. VAT is a domestic tax, so not appropriate for exported goods, which instead pay import duties, or tariffs, charged by the importing countries at their borders.
- 10.3 That's why over around 50 countries, including every EU state and most popular tourist destinations, allow international visitors to shop tax-free if they can prove, that they are exporting them back to their home countries.³²
- 10.4 In tax theory, these retail exports join all the wholesale exports in being charged import taxes at the borders instead. But in practice, most countries chose not to charge import duties on goods bought in shops overseas and transported back

³¹ Para 11.5 of this report says "The number of American visitors to the West End in Q2 2023 was up by 17% over the same period in 2019 but their spending in the West End was down by 1% on 2019 levels. In the same period, the number of visitors from GCC states was up 7% on 2019 but spending decreased by 17%. Heathrow Airport reported that in July 2023, the number of passengers from China was at 88% of July 2019 levels but spending was at only 33% of the 2019 level."

³² Removing the VAT only when airside, and so clearly leaving the country is why international visitors are charged VAT on goods bought in high street stores and then reclaim the VAT when airside, while goods bought airside at airports are sold already VAT-free.

home in travellers' suitcases. This means that international tourist can buy goods in European stores at around 20% cheaper than in the USA.³³ Except in Britain.

- 10.5 If a new VAT-free shopping scheme was introduced in Britain, combining the 2019 value of this retail export sector (£2.5bn VAT RES and £1bn Airside) with the additional sales to EU visitors (which we estimated to be at least £730m in para 4.13, above) produces a UK export sector for goods worth a around £4.23bn.³⁴ This would make it Britain's eleventh biggest goods export sector. With a tariff of 0% in practice, it would level the playing field with our EU competitors.³⁵

11. The soft power of shopping – how to win back Britain's valuable lost friends

- 11.1 Shopping is a strong soft power factor, particularly with travellers from the GCC. Britain has long-standing ties with the region and encouraging GCC investment is an important part of the UK's growth planning. The soft power attraction of shopping helps to develop relationships and establish familiarity with, and loyalty to, the UK.
- 11.2 As shown in 3.4, shopping is a major attraction for GCC travellers. A combination of the UK's established and world-leading retail offer and VAT-free shopping made the UK the number one choice in Europe for GCC travellers.
- 11.3 Analysis by the Association of International Retail, based on data on actual spending levels, demonstrates this, but also showed how VAT-free shopping plays a big role in GCC traveller behaviour.³⁶ In 2019, GCC travellers to France, Italy, Spain and the UK spent a total of €2.1bn on VAT-free shopping and Britain dominated the market.

³³ The level of discount will vary, but tax-free shopping means significantly cheaper shopping.

³⁴ This is a crude way of measuring the value potentially added to this export sector by introducing VAT-free shopping. There is an existing, smaller retail export sector which should be classed as "deadweight". But counter-balancing this is the fact that our estimate of the value of EU tax-free shopping in the UK assumes the same level as Britons spend in the EU, even though the EU population is nearly seven times greater.

³⁵ ONS data for the 12 months leading up to April 2025

³⁶ Analysis by the Association of International Retail of data of actual levels of VAT refunds in 2019 and 2022 provided by Global Blue. Total retail spending based on anonymised data on actual levels of spending by GCC visitors from a representative group of international retailers with stores in all of the four countries. Details included in Association of International Retail report to HMT, "Impact of Ending Tax - Free Shopping" November 2023. Report available at www.internationalretail.co.uk

- GCC spending in Britain: €1.29bn, 62%
 - GCC spending in France: €416m, 20%
 - GCC spending in Italy €262m, 13%
 - GCC spending in Spain: €101m, 5%
- 11.4 In 2022, with international travel still recovering, the size of the VAT-free market for GCC travellers in these four countries stood at €1.44bn. But with Britain no longer offering VAT-free shopping, GCC travellers diverted their VAT-free spending away from the UK to France, Italy and Spain:
- GCC spending in France: up from €416m in 2019 to €849m in 2022 (+104%)
 - GCC spending in Italy: up from €262m in 2019 to €427m in 2022 (+63%)
 - GCC spending in Spain: up from €101m in 2019 to €164m in 2022 (+62%)
 - GCC spending in the UK: down from €1.29bn in 2019 to €0 in 2022.
- 11.5 Data on total retail spending by GCC visitors (VAT-free and VAT-charged), provided by a representative group of leading retailers with stores in all of the four countries, show the impact of VAT-free shopping on visitor behaviour. Total spending on all shopping by GCC visitors in 2022 relative to 2019 showed:
- GCC retail spending in France +98%
 - GCC retail spending in Spain +66%
 - GCC retail spending in Italy +58%
 - GCC retail spending in UK -35%
- 11.6 High-spending GCC travellers have diverted their spending away from Britain, with France being the big winner. And along with their spending, they inevitably transferred an element of their loyalty and familiarity away from the UK to France, which must have an impact of future investment decisions by the now more Franco-file investors.
- 11.7 Introducing a new VAT-free shopping scheme would go a long way to re-establishing that vital soft power attraction of the UK, particularly with important potential investment partners.
12. Cost or benefit? – what is the real fiscal impact of VAT-free shopping?
- 12.1 The previous government chose not to extend VAT-free shopping to EU visitors mainly because of the cost of doing so.³⁷ It estimated that EU visitors had paid £900m in VAT in 2019 and that few if any additional visits or spending would be made, resulting in a net fiscal cost to the Exchequer of up to £900m. By not

³⁷ HMT “Technical Note” October 2020 and HMT evidence submitted to Judicial Review, January 2021

extending the scheme to EU visitors, the then Government has no option but to end the scheme for non-EU visitors.

- 12.2 Industry disputes the previous Government's forecasts on the fiscal impact of extending VAT-free shopping to EU visitors. Retail data for 2019 shows that EU visitors paid only £50m in VAT, not £900m.³⁸ And new data on the behaviour change of British visitors to the EU as a result of introducing VAT-free shopping shows increased visitor numbers and spending in the EU generating additional VAT and other tax revenues for the Exchequer.
- 12.3 This is no criticism of the Treasury. A decision on the future of VAT-free shopping post-Brexit had to be made in 2020 to meet the timetable set for leaving the EU on January 1st, 2021. These forecasts were essential to that process. But the unexpected arrival of COVID-19 meant that these forecasts were made at a time of immense pressure on the Treasury, which was having to deal with both the weight of the unprecedented Brexit arrangements together with this once-in-a-generation international crisis. To add to this, the lockdown in 2020 restricted officials' access to real impact data and their ability to approach businesses. Moreover, the need to meet the Brexit deadline meant that the forecasts on the fiscal impact of extending tax-free shopping were never assessed by the OBR.
- 12.4 With a wealth of new data now available, HM Treasury has a far greater resource to draw on to look again at the fiscal impact.
13. Tax cuts v tax rises – why a tax cut for foreigners reduces the need for tax rises for everyone else
- 13.1 The Government is under pressure to raise taxes and cut public spending in order to adhere to the Chancellor's fiscal rules. In this context, calls to refund VAT for certain sales to international visitors seem counter intuitive. But there is a clear distinction. While British people have no choice but to pay any increase in national taxes, international travellers do have a choice of where they visit and where they spend their money. And the evidence suggests that a significant number now choose not to visit the UK or to make shorter trips because of the additional VAT.

³⁸ Industry data shows that spending by EU visitors accounted for only 10% of retail spending by international visitors in 2019. With VAT refunds of £500m in 2019, this suggests the deadweight cost of extending VAT refunds to EU visitors would have been just £50m. This is because prices in UK shops are similar to those in EU countries so there is no incentive for major spending by EU visitors. Non-EU visitors however could reclaim the 20% VAT on shopping providing an incentive for greater spending at all levels.

- 13.2 By ending VAT reclaims on 14% of their spending, the Exchequer misses out on revenue it would have raised from the other 86% of their spending, which is subject to VAT.³⁹
- 13.3 The earlier “2024 Tourism Recovery” table (Table 1) shows how the UK’s post-COVID recovery of non-EU visitor numbers and spending levels is significantly weaker than the EU’s and globally where VAT-free shopping continues.
- 13.4 This is illustrated in research by the Association of International Retail in 2023 examining the recovery of spending levels in 2022 by USA and GCC visitors on all shopping (both VAT-free and VAT added) by visitors from the USA and GCC. This shows the UK lagging far behind its main EU competitor destinations.
- Spending on retail sales in France in 2022:
 - USA, 226% of 2019 levels;
 - GCC 198% of 2019 levels
 - Spending on retail sales in Spain in 2022:
 - USA, 201% of 2019 levels;
 - GCC 166% of 2019 levels
 - Spending on retail sales in Italy in 2022:
 - USA, 190% of 2019 levels;
 - GCC, 158% of 2019 levels
 - Spending on retail sales in the UK in 2022:
 - USA, 101% of 2019 levels;
 - GCC, 65% of 2019 levels.⁴⁰
- 13.5 The evidence from various sources is consistent. The number of American visitors to the West End in Q2 2023 was up by 17% over the same period in 2019 but their spending in the West End was down by 1% on 2019 levels. In the same period, the number of visitors from GCC states was up 7% on 2019 but spending decreased by 17%.⁴¹ Heathrow Airport reported that in July 2023, the number of passengers from China was at 88% of July 2019 levels but spending was at only 33% of the 2019 level.⁴²
- 13.6 Many long-haul travellers tend to make multi-country tours when they visit Europe. This new gap between visitor numbers and visitor spending suggests that

³⁹ Based on VisitBritain and HMRC data showing that total spend by non-EU visitors in 2019 was £18bn and of that, VAT-refunded spending was £2.5bn (14%)

⁴⁰ Association of International Retail “The ending of tax-free shopping – evidence of impact” November 2023. Available at www.internationalretail.co.uk

⁴¹ New West End Company “tourist spending gap widens in London” August 2023

⁴² City:am “Tourism Tax: Heathrow sees rise in Chinese visitors - but they are not splashing the cash” October 2023

even if they do include Britain on their tour, they choose to go shopping elsewhere, VAT-free.

- 13.7 International travellers are choosing to visit and spend money in competitor destinations rather than the UK. So, while the Exchequer gains VAT from the (reduced level of) spending by non-EU visitors. on shopping that was previously VAT-free, this must be balanced against the loss to the Treasury of the potential VAT and other taxes that it would have gained had Britain's recovery in non-EU visitor numbers matched that of the EU.
- 13.8 By introducing a new VAT-free scheme, Britain would cease to be an exception to the offer of tax-free shopping, used by every EU country and most major global visitor destinations and which British travellers can already take advantage of.
- 13.9 The evidence suggests that this particular tax incentive would result in a net increase in revenue for the Exchequer, generated through additional foreign spending in the UK rather than by diverting domestic spending from one sector to another, and contributing to economic growth throughout the UK.
- 13.10 This is why, for example, in 2024 the Italian government enhanced its VAT refund scheme by halving the minimum spending threshold as a central part of its tourism growth plan.⁴³ And it is why Jersey has recently introduced a new digitalised GST Refund scheme, working with industry to provide a cost-free digital system for the Government.
- 14. Delivering the shift from paper to digital – How to create a world beating digitalised system without spending a penny of taxpayers' money
- 14.1 The Government rightly insists that a new VAT-free shopping scheme must be digitalised, from customer to retailer to HMRC, to manage the increased number of users quickly and effectively, reduce pressure on Border Force resources and minimise fraud.
- 14.2 The two major VAT refund agencies, who together manage most the world's VAT refunds, have offered to work in partnership with the Government to design, install and manage a fully digitalised system which will meet all the Government's requirements at no cost to the Government and in time to ensure that the growth potential is activated within months of any decision to introduce a new scheme. It is a process they have successfully undertaken for governments around the world. Although on a smaller scale, the Jersey Government's new scheme was designed and delivered to meet all their requirements, by Global Blue.

⁴³ Article 14 of the Italian Government's 2024 Budget Law, aimed "to stimulate the recovery of the tourism sector"

15. Commitment before legislation

- 15.1 If the Government did commit to introducing a new VAT-free shopping system, the design and installation of the necessary digitalised system would take around 12-18 months. A clear commitment from the Government would allow this process to begin.
- 15.2 The previous scheme was based on secondary legislation, suggesting that any new scheme may not need to be introduced in a fiscal event. However, the Chancellor has been clear that major new policies would be introduced only at a fiscal event. But the legislation to create the scheme would not be required immediately because the scheme could not go live until the digitalised system is in place. This means that, if the measure was included in the Visitor Economy Growth Plan in November 2025, there would be at least two fiscal events to introduce the necessary legislation before it was required.

16. Recommendation

- 16.1 In order to generate rapid growth across all of the UK, creating and supporting thousands of new, accessible jobs in all regions, and establishing new markets to make Britain the number one choice for global shoppers and retail investors, The Association of International Retail recommends that:

“The Government should work with industry to look again at the impact of VAT-free shopping on the economy and the Exchequer with a view to introducing a new, fully digitalised, fiscally positive scheme for all international visitors to support rapid economic growth throughout the whole of the UK and encourage investment and job creation in the retail, hospitality, leisure, cultural and transport sectors, and support UK high streets by making Britain the best place in the world to shop.”

APPENDIX



The Association of International Retail is an industry backed body that seeks to promote growth by encouraging more international tourists to spend more time and more money in the United Kingdom through policy change.

AIR's board comprises Global Blue, Value Retail, Heathrow Airport, Marketing Manchester, Cadogan, Essential Edinburgh, and Planet. AIR is supported by thousands of businesses across the UK in the retail, hospitality and travel industries

AIR works closely with trade bodies including Walpole, UKInbound, UKHospitality, ETOA the Tourism Alliance, the British Retail Consortium, the Federation of Small Businesses, Business London and the Airport Operators Association.

Since the ending of VAT-free shopping, AIR has twice been called by the Commons Select Committee for Culture, Media and Sport to give oral evidence on the impact of this policy decision as the authority on this policy area.

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