Association of International Retail

Dear Chancellor,

Budget Submission

I am making this submission on behalf of the Association of International Retail and thousands of retail, hospitality and travel businesses who, together with destination marketing and management organisations across the UK, support the call for the return of tax-free shopping as a proven growth measure for high streets and airports across every region of the UK.

Our request is that the Chancellor should announce a Treasury review of the impact of tax-free shopping on the economy and the Exchequer in light of five years of new evidence of actual spending behaviour which suggests a significant positive impact on both.

Announcing **a review is cost-free** to the Treasury and makes **no commitment** to restoring the scheme. AIR calculates, based on a wealth of new evidence, that a new scheme that includes all international visitors to the UK would **generate at least £5.65 billion of additional foreign spending annually**, creating more than **110,000 new jobs** across the whole of the UK, and producing a net benefit to the Exchequer of over **£500 million in VAT** receipts alone.

Importantly, by being able to include EU visitors in the scheme, the benefits would be widely spread throughout the UK because around 50% of EU visitor spending already takes place outside London. Based on the new evidence, AIR calculates **£2 billion of additional foreign spending in the regions annually.** A new scheme would provide a boost for **regional growth** and welcome additional income for **regional airports**, which mainly serve EU destinations. The 2020 Treasury forecast on this key element has never been reviewed or scrutinised by the OBR.

AIR is confident that a review of the impact of tax-free shopping would reveal both the growth potential and the speed at which the measure would **generate significant additional foreign spending in the UK within the lifetime of this Parliament**. In just three years from 2021, spending by Britons on tax-free shopping in the EU grew from £140 million to £730 million and is set to reach £1 billion in 2025. The evidence also shows the creation of **a new shopping-led tourism market** resulting in additional spending on accommodation, hospitality and travel which generates significant additional VAT receipts.

In the longer term, establishing Britain as the only European country where all international visitors, including the 450 million EU residents, could shop tax-free would create an unchallengeable competitive advantage. It would make Britain **the destination of choice, both for international shoppers but also for retail, hospitality, leisure and travel brands and investors.**

The attached briefing provides more details and evidence and then presents the case for a review in a format that reflects the Treasury Green Book Five Case model.

We would appreciate the opportunity to bring a few industry leaders to discuss this with you,

Best wishes,

Derrick Hardman.
Chair
Association of International Retail

Association of International Retail

The case for a review of the impact of tax-free shopping

1. Growth and International Competitiveness Context

1.1 The Government is seeking policy measures that will enable and stimulate economic growth quickly and throughout the whole of the UK. AIR is recommending that the Budget should include an announcement of a review of the impact of tax-free shopping, particularly of extending the scheme to EU residents, in the light of substantial new evidence. Data on actual spending levels of international visitors that suggests a £6bn annual additional inflow of foreign money and a net positive benefit to the Exchequer of over £500m in VAT receipts alone which exceeds the VAT gains made by ending the non-EU scheme.

1.2 The Government has set a target of increasing international visitor numbers from around 40 million in 2024 to 50 million in 2030[1] and will publish a new National Visitor Economy Strategy, expected in early 2026. Growth in the international visitor sector globally is strong and in the UK its value grew by an average of 6% annually in the ten years from 2009. [2] The main driver of this was spending on shopping which, at 25% of total spending, was the biggest single element of expenditure.[3] But since the previous government ended tax-free shopping, the UK has missed out on shopping spending growth in Europe. This has plateaued in the UK at 75% of 2019 levels but is now an average of 158% of 2019 levels in France, Spain and Italy, where it continues to rise.[4]

1.3 Based on current spending levels, the UK's increase to 50 million international visitors would generate an additional £4.4bn (€5bn) total additional spending in 2030.[5] In comparison, France is forecasting additional international visitor spending in 2030 of €29bn, Spain forecasts an additional €34bn and Italy an additional €21bn.[6]

1.4 Britain remains a top ten international visitor destination but is facing increasing competition from traditional and emerging destinations. Britain's historic, cultural and natural attractions continue to appeal to global travellers, but evidence shows a relative decline in visitor numbers compared with EU competitor states and a sharp fall in spending by those who do visit since tax-free shopping was ended. For example, while international visitor numbers to Spain in 2024 rose to 112% of 2019 levels and real term spending levels rose to 113%,[7] in the UK visitor numbers were at 99% of 2019 levels and real term spending was just 92% of 2019 levels.[8]

1.5 This brief follows the Treasury and OBR's practice of focussing on the VAT RES while acknowledging the inclusion of airside tax-free shopping in any new scheme.

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[1] Government Press Release "New ambition for 50 million annual visits to UK announced by Tourism Minister" November 27, 2024
[2] VisitBritain "Visitor Economy Facts" 2020
[3] VisitBritain "Inbound Shopping Research"
[4] Global Blue research into comparative spending - UK, France, Spain, Italy. 2025
[5] Based on VisitBritain international visitor numbers and spending data
[6] Official government forecast for each country
[7] VisitBritain data from the International Passenger Survey 2024 and official Spanish Government data
[8] Global Blue research into comparative spending - UK, France, Spain, Italy. 2025

2. Extending tax-free shopping to EU residents - the Treasury's 2020 forecasts rightly assumed a worst-case scenario

2.1 The previous government's decision to end tax-free shopping rather than extend it to EU visitors was based on Treasury forecasts of the impact on the Exchequer. In the absence of firm evidence and restricted from engaging with retailers by COVID-19 lockdowns, the Treasury's 2020 impact forecast of allowing EU residents to shop tax-free rightly presented Ministers with an estimate of the maximum risk to the Exchequer of extending the scheme. The Treasury assumed that the average shopping spend by EU visitors in 2019 was the same as that of non-EU visitors which led to the estimate that EU shoppers in the UK paid £900m in VAT in 2019. This became the Treasury's forecast of the maximum deadweight cost of refunding VAT previously received from EU shoppers if tax-free shopping was to be extended to EU visitors.[9] The Treasury also assumed that extending tax-free shopping to EU residents would have little or no positive impact on visitor numbers or spending levels.[10]

2.2 This led the Treasury to forecast a worst-case scenario of a £900m cost to the Exchequer in refunded VAT with no fiscal benefits to counter this negative impact. On the basis of this forecast, Ministers decided not to extend the scheme to EU residents and consequently the government had to end the scheme for non-EU visitors on January 1st, 2021.[11]

3. Extending tax-free shopping to EU residents – substantial and consistent new evidence now allows more accurate forecasts to be made

3.1 Since 2021, as international travel returned, there is now a large and growing supply of new evidence which would enable the Treasury to make a more accurate forecast of the fiscal impact, based on data of actual changes in visitor behaviour and spending levels, rather than the broad modelling assumptions based on worse-case scenarios used in the 2020 forecasts. We are happy to provide this evidence, in confidence, to the Treasury.

3.2 First, it is now possible to assess more accurately the deadweight loss of VAT currently paid by EU visitors on shopping. Industry has clear evidence, based on actual spending levels, that shows that EU visitors accounted for just 6% of total international visitor spending in 2019. This is because there is little price difference between goods sold in the UK and EU countries, providing little incentive for EU visitors to shop in the UK. Non-EU visitors were encouraged to spend more by the discount afforded by the VAT refunded through the tax-free shopping scheme. This 6% share suggests that the maximum deadweight cost of £900m was actually only around £34m, reducing the deadweight cost by £866m.[12]

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[9] This is based on the HMRC estimate of £500m of VAT refunded under the VAT-RES scheme in 2019 combined with VisitBritain's 2019 ratio of 1.7 EU visitors for every 1 non-EU visitor in 2019. £500m x 1.7 = £850m.

[10] The Treasury evidence to a Judicial Review in January 2021 outlined this process in detail

[11] Under WTO rules, when Britain left the EU, all foreign countries had to be treated equally. So tax-free shopping had to be offered to all international visitors or to none. In deciding not to extend tax-free shopping to EU residents, the government had no option but to end it for non-EU visitors.

[12] Retailers and brands in the UK that together had been responsible for over 80% of all tax-free shopping in the UK in 2019 provided Global Blue with anonymised data on actual spending levels on shopping by all international visitors in 2019. The data included the levels of actual spending by EU and by non-EU visitors. The data showed that actual non-EU spending accounted for 94% of all international spending. Based on HMT's estimate of £500m of VAT refunds to non-EU shoppers in 2019, this suggests that the remaining 6% of international spending by EU visitors generated £32m in VAT for the Exchequer, not the £900m assumed in the worst-case scenario used for the Treasury's 2020 forecast.

3.3 Secondly, the new data available now that British residents can shop tax-free in the EU enables a more accurate forecast of the impact on visitor behaviour of extending tax-free shopping to a new market. Spending on tax-free shopping by British visitors in the EU was £140m in 2021, rising to £730m in 2024 and is now on target to reach £1bn in 2025.[13]

3.4 Moreover, a study of bed night data shows that extending tax-free shopping to UK visitors has created a whole new, shopping-led tourism market. According to official French tourist data, British bed nights in Paris, the place where Britons shop most, rose to 230% of 2019 levels in 2023 compared with a rise of only 10%-20% for visitors from other European countries.[14] This shows that offering tax-free shopping creates a whole new market of shopping led tourism based on cheap, frequent, short-haul journeys that are qualitatively different from the long-haul market.

3.5 All this new data suggests that there is a great, untapped growth potential across the whole of the UK. Even if EU spending in the UK only matched that of British visitors in the EU (even though the EU population is over six times as much as the UK's) a new market would be formed worth, AIR calculates, around £3.65bn annually, generating around £570m in additional VAT receipts alone. With a deadweight cost of just £34m, this would leave a net positive to the Exchequer of £536m in annual VAT receipts, more than is gained by ending the earlier scheme. You can read AIR's calculations briefing at How-the-Figures-Add-Up.pdf

4. Extending tax-free shopping to EU residents – a £2bn boost to the regions

4.1 *£2bn additional foreign spending in the regions* - VisitBritain states that half of EU spending currently takes place outside London. Allowing EU visitors to shop tax-free would therefore result in a boost to regional economies outside London of around £1.8bn from the new EU market. This is in addition to the estimated £200m from the non-EU market. For example, under the former system, Manchester earned around £42m from tax--free shopping by non-EU visitors. Under a new scheme for all international visitors, AIR calculates a return of the £42m plus a £180m new EU market, a total of £222m additional foreign spending for Manchester, creating 4,500 new jobs.

4.2 *40,000 new jobs in the regions* - AIR calculates that this additional spending would create around 40,000 new jobs outside London and a total of 113,000 new jobs across the whole of the UK, based on accepted BRC spending per job ratio (£50,000:1 job). You can see AIR's regional breakdown of spending and job creation across the UK here: Estimated-additional-spending-and-jobs-2.pdf

4.3 *Regional airports get a double win* - A new tax-free shopping scheme which included EU residents would provide an additional boost to regional airports, where most flights are to EU city destinations. These vital regional infrastructure assets would benefit both from increased passenger numbers and from revenue from new airside tax-free shopping activity.

4.4 *Support for regional manufacturing of British brands* – Heritage British brands such as Burberry and Mulberry, which use London as their international shop window for goods manufactured throughout the UK, have suffered most from the diversion of spending from the UK to EU states. Winning back that diverted £2bn will support additional regional investment and job creation. This would be in addition to AIR's estimates of the direct benefits.

[13] Actual spending levels of British tax-free shoppers in the EU based on refund data provided by VAT Refund Agencies,
[14] Office de Tourisme, Paris, 2024

5. New evidence suggests that restoring the scheme to non-EU visitors would generate an additional £2bn in foreign spending in the UK

5.1 The Treasury's 2020 forecasts of the impact of ending tax-free shopping originally assumed no behaviour change by international visitors in choosing to visit the UK or in spending levels.

5.2 The large amount of new data now available on the real impact, based on evidence of actual spending levels in the UK and in continental Europe from 2019-2024, shows that ending tax-free shopping has had a significant impact on non-EU visitor sending behaviour. The latest data suggests that non-EU spending on shopping in the UK has plateaued at around 75% of 2019 levels. Across France, Spain and Italy it has risen to an average 158% of 2019 levels and continues to rise.[15]

5.3 This is reflected in VisitBritain's latest International Passenger Survey, conducted by the ONS, which shows that the level of all international spending in the UK in 2024 was 8% lower, in real terms, than in 2019. Official government data for France, Spain and Italy shows that in 2024, spending in Spain was up 13% in real terms, in Italy up 13% and in France up 5%.[16]

5.4 Based on this new evidence of actual spending levels, AIR calculates that ending tax-free shopping for non-EU visitors resulted in around £2bn of foreign spending being diverted from UK stores to France, Spain and Italy.

5.5 VisitBritain's IPS data also shows that international visitor numbers for the UK in 2024 were 1.3% lower than in 2019. In Spain, official government data shows they were 13% higher, in France they were 12% higher and in Italy they were 5% higher.

5.6 You can see how AIR arrived at these forecasts here: How-the-Figures-Add-Up.pdf . We are happy to provide the Treasury with the actual data in confidence.

6. New evidence suggests the combined impact would be £5.65bn additional foreign spending annually and 113,000 jobs across all of the UK

6.1 Combining this new EU market with the recovery of lost non-EU spending, AIR calculates that introducing a new tax-free shopping scheme for all international visitors would generate an additional £5.65bn of foreign spending annually. This would create 113,000 new jobs throughout the UK.[17]

7. New evidence suggests a direct net benefit to the Exchequer of over £500m annually

7.1 AIR calculates that the new EU market would generate a net £536m in VAT alone from additional spending on accommodation, hospitality, transport, leisure and culture.[18] This is more that the Exchequer currently collects from ending the former non-EU scheme. Established tourism economic modelling suggests that the Exchequer gains 37p in direct and indirect benefits for every £1 spent by international visitors. This suggests a total benefit to the Exchequer of over £2bn annually.

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[15] Data on actual tax-free shopping spending levels in France, Spain and Italy in the period of 2019-2024 and data provided by UK retailers and brands on actual spending levels by non-EU in the same period. Collected by Global Blue.

[16] AIR can provide HMT with the data sets, in confidence, if requested

[17] Based on the accepted BRC ratio that each £50,000 of sales supports one additional job in retail

[18] This is explained in AIR's calculations briefing which you can see here

8. Other costs

8.1 Officials have asked for details of the administration of a fully digitalised tax-free shopping scheme and the potential cost to the Exchequer. The refund agencies have written to the Treasury stating that they would design, install and manage a digitalised system to meet the government's requirements and which would be accessible to all businesses wishing to use it. This would be based on enhancements to existing tried and tested systems and would be done at no cost to the Government. This is common practices in many countries and provides the best and most customer friendly system, end-to-end system. The full cost is covered by small administration cost charges on each refund claimed.

8.2 Despite the anticipated increase in refund claims and the growth in the number of exit points where VAT refunds can be claimed, it is unlikely that this would produce significant additional pressure or costs for Boarder Force. A fully digitalised system would significantly reduce the opportunity for fraud. The vast majority of refund claims would be managed automatically, with only a small number being referred to Border Force officials for a manual check if a concern is digitally flagged up. Based on evidence from digitalised systems worldwide, we believe this would have a minimal impact on Border Force resources.

9. Evidence of impact on international investment

9.1 Introducing a new tax-free shopping scheme for all international visitors would give Britain a significant and unassailable competitive advantage over all EU member states whose schemes are restricted to non-EU visitors. This unique ability to provide a stronger attraction to all international visitors would inevitably result in Britain being the first choice for major European investment by brands and investors in retailer, hospitality, culture and leisure.

9.2 Evidence given in confidence indicates that making Britain the only large European country not offering tax-free shopping has resulted in investment plans by international brands in new stores and refurbishments in the UK are being revised. Some planned spending on enhancement of brand presence in the UK is being diverted from the UK to other global visitor destinations where visitor spend is higher.

10. The need for a review

10.1 While the Treasury's forecast for the impact of ending tax-free shopping for non-EU visitors has been reviewed, the key forecast of the impact of extending the scheme to EU visitors has never been reviewed. It has not been scrutinised or certified by the OBR, as the former Financial Secretary confirmed to Parliament on March 19th, 2024.[19]

11. A cost-free, commitment-free review to provide more accurate evidence-based policy making

11.1 We are therefore calling on the Chancellor to update the Treasury's original forecasts. This would allow the Government to look again at this potentially fast and UK-wide growth measure, based now on a mass of new evidence of actual spending and behaviour change

[19] This was confirmed by the then Financial Secretary to the Treasury in the House of Commons in an exchange on March 19th 2024. In response to a comment by Nickie Aiken MP that *"Last week, the OBR informed the Treasury Committee that it has not assessed the Treasury's forecast that it would cost £900 million to extend tax-free shopping to EU visitors"* the Financial Secretary to the Treasury, Nigel Huddleston, said *"It is not in the OBR's remit to consider the effect of alternative policies and, as expanding tax-free shopping to EU visitors is not current Government policy, it has not considered that."*

rather than on the 2020 forecast which, rightly at the time, were based on worst-case scenarios.

11.2 This review of the impact of tax-free shopping to assess the growth potential for both the UK economy and Exchequer receipts would be a cost-free, commitment-free measure. It would allow the Treasury to explore the potential of this growth area more accurately, moving away from an understandable worst-case scenario forecast to one now able to be based on extensive new evidence of actual behaviour changes and spending levels

11.3 A review would demonstrate that this Government listens to business and is committed to helping high streets, supporting international and regional airports and to creating jobs by encouraging significant additional foreign spending and investment throughout the whole of the UK.

Review of the Impact of Tax-Free Shopping, Green Book Format

The following section presents the case for a review in a format that reflects the Treasury Green Book Five Case model.

1. **Strategic Case** – Why is the intervention needed? What are the objectives?
2. **Economic Case** – What are the costs, benefits, risks, and value for money?
3. **Commercial Case** – How will the intervention be delivered and procured?
4. **Financial Case** – Is it affordable and how will it be funded?
5. **Management Case** – How will it be managed, monitored, and evaluated?

Budget Submission to HM Treasury: Green Book-Aligned Case for a Review of Tax-Free Shopping

1. Strategic Case

Context and Rationale:

The Association of International Retail (AIR), representing thousands of retail, hospitality, and travel businesses, requests a Treasury-led review of the impact of tax-free shopping on the UK economy and Exchequer. The original 2020 Treasury forecast for the fiscal impact of extending the VAT RES to EU residents was based on a worst-case scenario due to the lack of available data. Five years on, there is now a large amount of data, based on actual impact on behaviour and spending levels, which will allow the Treasury to refine its forecast. This new evidence suggests that introducing tax-free shopping does have a significant positive impact on international visitor behaviour which is likely to result in a net positive outcome for the Exchequer and produce economic growth quickly and across the whole of the UK with an estimated value of £6bn additional foreign spending annually.

The evidence also suggests that if Britain takes the unique opportunity to become only large European country able to offer tax-free shopping to all international visitors, the UK will become the number one choice, not just for international shoppers but for international investors and brands in retail, hospitality and leisure.

A Treasury-led review of the 2020 forecasts, based on substantial new evidence, aligns with the Government's key policy objectives of working with business to explore every possible measure for promoting growth, focussing on regional growth and job creation and supporting high streets and regional airports.

Objectives:

- To assess the actual economic and fiscal impact of restoring and extending tax-free shopping to all international visitors, including EU residents.
- To inform evidence-based policy that supports high streets, regional economies, airports and UK competitiveness.

2. Economic Case

Options Appraisal:

- **Do Nothing:** Maintain current policy, with no tax-free shopping for international visitors. This keeps Britain at a competitive disadvantage when all EU countries offer tax-free shopping, and

the evidence shows a significant diversion of international visitors spending from the UK to EU destinations.
- **Review Only:** Commission a Treasury review, with no commitment to policy change.
- **Restore Scheme:** Reintroduce tax-free shopping for non-EU and extend to EU visitors, based on a positive outcome from a review.

Evidence of Benefits:

- Around £5.65 billion of additional foreign spending annually based on 1) data of actual spending levels of non-EU visitors to UK, France, Italy and Spain in 2019 1nd 2024 and 2) data on increases in spending by British residents now able to shop tax-free in the EU.
- Creation of over 110,000 new jobs across the UK based on accepted BRC ratio of 1 job per £50,000 spending
- Net benefit to the Exchequer of over £500 million in VAT receipts alone. Based on 1) evidence provided by retailers of actual spending levels on shopping by EU visitors to the Uk in 2019 suggesting of deadweight cost of extending the scheme of £34m, £866m less than the Treasury worst-case scenario and 2) evidence of a new shopping-led tourist market created by additional British visitors in the EU paying VAT from spending on additional accommodation, hospitality and travel
- Regional impact: £2 billion additional spending outside London, creating over 40,000 new jobs and supporting regional airports and manufacturing. Based on 1) £3.65 bn new EU market and VisitBritain evidence 50% of EU visitors spend outside London and 2) regional share of additional non-EU spending.

Risks and Uncertainties:

- Potential 1) administrative costs and 2) fraud risks. These are mitigated by the introducing an end-to end digitalised system which is 1) designed, installed and managed by industry at no cost to the Exchequer, built to Government requirements and funded through a small fee on users and 2) designed to minimise fraud by spotting issues and directing refund claimant to customs officers
- Uncertainty in behaviour change. This is mitigated by the extensive range of new data, from many different sources including government agencies, which is consistent in demonstrating significant positive behaviour change from introducing a tax-free shopping scheme.

Value for Money:

- A Treasury-led review itself is cost-free and will have access to substantial new data from many sources at no cost.
- Agreement to a review does not include any commitment to act on its findings.
- The scheme is projected to deliver high benefit-cost ratios, with significant direct and indirect fiscal gains, based on recent and extensive data from many sources which are consistent in demonstrating clear benefits to the Exchequer

3. Commercial Case

Delivery and Procurement:

- The review would be conducted by HM Treasury, drawing on industry evidence and independent analysis. The OBR would be asked to scrutinise the new forecasts.
- If implemented, refund agencies have committed to designing and managing a fully digitalised system at no cost to government, funded by small administration charges per refund.
- The new scheme could be implemented in major points of exit – Heathrow, Gatwick, Manchester, Edinburgh, St Pancras – within 9-12 months and rolled out to all other exit points in a further 6-9 months

Market Engagement:

- Engagement with industry leaders and stakeholders to ensure robust evidence and practical delivery.

4. Financial Case

Affordability:

- The review requires no new funding or commitment to future actions.
- If the scheme is restored, costs are covered by administration charges; Border Force resources would be minimal; the net fiscal impact is positive.

Funding Sources:

- No direct Treasury expenditure for the review.
- Future scheme costs offset by increased VAT receipts and economic activity.

5. Management Case

Governance:

- AIR proposes to work with Treasury officials and bring industry leaders for consultation.
- Review to be managed according to HM Treasury standards, with transparent reporting and stakeholder engagement.

Monitoring and Evaluation:

- The review will establish baseline metrics and evaluation criteria for future policy decisions.
- Ongoing monitoring of international visitor numbers and spending levels, both absolute and relative to EU competitor destinations; job creation; inward investment; and fiscal impacts if the scheme is implemented.

Conclusion:

This Green Book-aligned submission requests a cost-free, commitment-free Treasury review of tax-free shopping, based on robust new evidence. The review will enable an objective, evidence-based appraisal of the scheme's potential to deliver regional growth, jobs, and fiscal benefits, supporting the Government's strategic priorities for high streets and airports and UK competitiveness.