

New Government research suggests Treasury decision to end tax-free shopping will result in a net loss of VAT

- New research finds that removal of tax-free shopping expected to put Britain at a competitive disadvantage, with 9% of non-EU international visitors choosing destinations that offer tax refunds
- 35% of non-EU international visitors state that they would reduce their amount of shopping in the UK
- Association of International Retail predicts a fall in spending of over 16% would wipe out the Treasury's forecast of an additional £400 million and result in a net loss of VAT

April 2022: Figures released by the Government's Visitor Marketing Agency, VisitBritain, suggest that the Government's decision to end tax free shopping will lead to a net loss of VAT for the Treasury.

The Government ended the VAT Retail Export Scheme (VAT RES) and Airside Tax Free shopping on December 31st 2020. Britain is now the only European country not to offer tax free shopping to non-EU visitors, putting the country at a severe competitive disadvantage as prices increased by 20%.

Although much international travel is only starting to return following the pandemic and many visitors are not yet aware that Britain no longer offers tax-free shopping, VisitBritain's new research shows that 9% of non-EU international visitors will choose an alternative destination that offer tax refunds. 35% of these visitors would reduce their amount of shopping, while 11% did not yet know how it would affect their travel and purchasing decisions.¹

For high spending visitors the figures are even more damaging. Of visitors from Saudi Arabia, who spend over four times more than other international visitors, 15% will choose alternative destinations that offer refunds. 34% stated that they would reduce their amount of shopping and 16% of those surveyed are undecided.

The independent Office for Budget Responsibility (OBR) forecasts that ending the VAT RES will cut previous tax-free sales by 38%, wiping out £1.2 billion of sales annually as international visitors divert their spending to other countries. The Treasury estimates that the VAT collected on remaining retail sales will raise £400 million per year.

However, many in the wider retail, leisure and tourism industries argue that most spending by international visitors is on items such as hotel stays, restaurant visits, travel, culture and other shopping on which VAT is charged. Spending on these items raised around £2.5 billion in 2019, but - if international travellers visit the UK less often, spend less time on British shores and spend less money - the Treasury will lose much of that VAT.

¹ Inbound COVID-19 Sentiment Tracker, March 2022 VisitBritain P 175



It is predicted by the Association of International Retail (AIR) that any fall in spending of over 16% would wipe out the Treasury's forecast of an additional £400 million and result in a net loss of VAT for the Treasury.

Both the Treasury and the OBR have confirmed that theirs are gross calculations, which do not take account of any loss of VAT as spending is reduced in other areas.

Paul Barnes, Chief Executive of the Association of International Retail said: "The impact of the Government's decision is even worse than we feared. These figures show that, far from raising tax revenues, this decision will cost the Treasury millions of pounds in lost VAT.

"The Government has severely damaged Britain's attractiveness, particularly to high spending international visitors without any benefit to the economy."

Figures presented by AIR to the DCMS Select Committee inquiry on 'Promoting Britain Abroad' in March showed how the removal of tax-free shopping is holding back the UK's recovery. While spending on all shopping by visitors to the EU from GCC states in the last quarter of 2021 was over 153% of 2019's levels, in Britain it was at just 60%. Spending in the EU by visitors from the USA was at 91% of spending in 2019 but at just 49% in the UK.²

Despite the Treasury insisting that shopping is not a major draw for international visitors, the latest VisitBritain report also shows that it is a major motivator, with 45% of all long-haul travellers stating that shopping is a priority. This trend is even more apparent elsewhere, with 65% of visitors from India, 57% of Saudi Arabia and 54% from the UAE revealing that shopping is a key priority when deciding where to visit.³

Barnes continued: "Few in the industry believed the Treasury when it insisted that ending tax-free shopping would have little or no impact on the behaviour and spending of international visitors. Now that we are seeing the tangible figures, it's clear the consequences are more devastating for the UK economy than we had imagined.

"The Government has clearly misunderstood the negative impact on the economy and VAT receipts. Simply put, the Treasury will be losing money, while simultaneously damaging the valuable international visitor economy. It is imperative that the Government and businesses come together to devise a new scheme that puts Britain back on top."

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Notes to Editors

² Figures from Global Blue based on actual reports on sales from 11 international brands with stores in the UK and EU. Oct-Dec 2021.

³ Inbound COVID-19 Sentiment Tracker, March 2022 VisitBritain P 88



About Association of International Retail (AIR)

Launched in March 2020, AIR works together with businesses, organisations and Government to ensure that the policy and economic environment allows international retail in the UK to realise its full growth potential.

Our aim is to help retailers throughout the UK enhance their sales to international visitors. AIR's focus is on communicating the importance to the sector, identifying and promoting policy changes that will help drive growth and providing market and international competitor research.