

**Debate Pack**

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# Tax-free shopping for international visitors

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# 1

## Background

A debate on tax-free shopping for international visitors is to be held in Westminster Hall on 7 September 2023 at 3pm. The subject has been chosen by the Backbench Business Committee, and the debate was requested by Sir Geoffrey Clifton-Brown. The debate will last 90 minutes.

### 1.1

## What does ‘tax-free shopping’ mean?

Tax-free shopping (TFS) is an arrangement whereby products bought but not consumed in the country of purchase are ultimately VAT-free. This can happen either via the product being tax-free at the point of purchase, or via the buyer having to obtain a VAT refund.<sup>1</sup>

TFS arrangements are restricted to people who are not resident in the country or economic jurisdiction (such as the EU) where the purchase happens. There are also restrictions on the types of goods that qualify for the relief.<sup>2</sup>

## Is there a difference between tax-free shopping and duty-free shopping?

Yes. ‘Duty free’ means a complete exemption both from excise duties and VAT, whereas ‘tax free’ is only a VAT exemption.

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Among other products, alcohol and cigarettes are usually subject to excise duties.

Duty-free shopping allows people to buy products that would normally incur excise duty and VAT completely tax-free.<sup>3</sup> Duty-free shops usually exist in airports, ports, and international air links, after security checks.

Instead, tax-free shopping applies to VAT only. Tax-free shopping can happen at certain shops at travel points where products are already sold VAT-free, or elsewhere in the country, such as in a high street store. In the latter case, the buyer initially pays the product’s full price (including tax) and then reclaims VAT at customs controls at the state’s border (usually at airports, seaports, and international rail links).<sup>4</sup>

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<sup>1</sup> Wang T and Stewart M, [The law and policy of VAT tourist tax refund schemes: A comparative analysis](#) (PDF; Working Paper 19/2021), Tax and Transfer Policy Institute, November 2021

<sup>2</sup> As above

<sup>3</sup> As above, footnote 79, p21

<sup>4</sup> As above

## 1.2 Why do tax-free shopping schemes exist?

World Trade Organisation (WTO) rules and Organisation for Economic Cooperation and Development (OECD) guidelines state that VAT and excise duties should be paid in the country where goods are consumed.<sup>5</sup> Therefore, there should be no tax liability for goods that are entirely consumed in a different jurisdiction.<sup>6</sup>

For example, a tourist buys a £1,200 jacket in country A. They pay the full price, inclusive of VAT at 20%. Because they live in country B, they can claim the VAT back given they will only be using the jacket at home. They are able to claim £240 back.

There are also arguments that TFS schemes exist as effective tax incentives. This means that they stimulate economic activity that would otherwise not have happened. In the case of TFS, this is an increase in retail purchases by tourists. Several case studies (including ones on a TFS pilot in China and a scheme in Thailand) have shown that removing tax from certain goods for tourists has had a positive effect on retail expenditure.<sup>7</sup>

## 1.3 How many tax-free shopping schemes are there?

Several countries implement a type of TFS scheme. A 2021 study by the Australian National University found that 63 countries globally, including the 27 EU member states, apply a TFS scheme.<sup>8</sup>

The University also assessed that only about one third of countries that charge VAT or a similar consumption tax implement a TFS scheme.<sup>9</sup> In other words, most countries that charge VAT or another consumption tax do not have a TFS scheme.

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<sup>5</sup> HM Treasury and His Majesty's Revenue and Customs (HMRC), [A consultation on the potential approach to duty- and tax-free goods arising from the UK's new relationship with the EU: Summary of responses](#) (PDF), GOV.UK, September 2020, Q12, p13

<sup>6</sup> Wang T and Stewart M, [The law and policy of VAT tourist tax refund schemes: A comparative analysis](#) (PDF; Working Paper 19/2021), Tax and Transfer Policy Institute, November 2021, p6

<sup>7</sup> As above, p14

<sup>8</sup> As above, p4

<sup>9</sup> As above, p62

## 1.4 Tax-free shopping in the EU

EU member states are required to implement a TFS scheme under Article 147 of Council Directive 2006/112/EC (the EU VAT Directive).<sup>10</sup> The Directive states that Member States have to exempt goods from VAT if:

- They are bought by a visitor who resides outside of the EU
- The goods are removed from the country of purchase by the end of the third month following purchase
- The total value of the goods (including VAT) exceeds €175, or the equivalent in the national currency
  - However, individual countries are allowed to exempt goods of value lower than this threshold<sup>11</sup>

This used to apply to the whole of the UK until 31 December 2020.

## 1.5 Tax-free shopping in the UK

A TFS scheme (the VAT Retail Export Scheme) and an airport VAT-free shopping scheme (the airside Extra Statutory Concession) used to operate in the UK. They were withdrawn at the end of the EU exit transition period on 1 January 2021.<sup>12</sup>

Under the terms of the Northern Ireland Protocol, they still operate in Northern Ireland.<sup>13</sup>

### The VAT Retail Export Scheme

The VAT Retail Export Scheme (VAT RES) allowed international visitors (from outside the EU) to reclaim VAT on goods purchased in the UK that would be consumed outside of the EU. VAT RES allowed for tourists to reclaim VAT paid at customs control points such as airports. The system was fully paper based, which was criticised for creating queues at the border.<sup>14</sup>

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<sup>10</sup> [O.J.L 347, 28 November 2006](#)

<sup>11</sup> As above

<sup>12</sup> HM Treasury and His Majesty's Revenue and Customs (HMRC), [A consultation on the potential approach to duty- and tax-free goods arising from the UK's new relationship with the EU: Summary of responses](#) (PDF), GOV.UK, September 2020, Q12, pp11-15.

<sup>13</sup> HMRC, [Retail Export Scheme \(Northern Ireland\)](#), GOV.UK, 20 August 2021

<sup>14</sup> HM Treasury and His Majesty's Revenue and Customs (HMRC), [A consultation on the potential approach to duty- and tax-free goods arising from the UK's new relationship with the EU: Summary of responses](#) (PDF), GOV.UK, September 2020, Q12, p11

At the end of the Brexit transition period, the Government had to decide whether to maintain VAT RES, with an expansion to cover EU visitors as well, or to abolish it altogether. WTO rules prevent the UK from applying a differential treatment to EU and overseas visitors.<sup>15</sup>

The Government withdrew the scheme in Great Britain at the end of the transition period on 1 January 2021.

The Government's decision was debated in the House when the Statutory Instrument which effected the change was laid. Section 2 of the Library research briefing on [passenger purchases of alcohol and tobacco](#) outlines and discusses the parliamentary debate on the decision in more detail.<sup>16</sup>

### Why was VAT RES withdrawn?

The Government explained its rationale for abolishing VAT RES in September 2020, ahead of the end of the Brexit transition period on 31 December 2020. The Government argued that:

- VAT RES was not the only scheme through which WTO rules and OECD guidelines on paying tax in the country of consumption could be fulfilled
- The impact of the scheme across the UK was unclear, and data suggested that a majority of purchases under the scheme happened in London and in Bicester Village. It therefore did not benefit the whole of the UK equally. The Government argued VAT RES to be “a costly system to maintain with unclear economic benefits, and [...] burdensome for exit points”<sup>17</sup>
- Concerns were raised about the administrative difficulties of the VAT RES paper-based system
- It was argued there was a risk that fraud and non-compliance would increase if VAT RES was extended to passengers travelling to the EU<sup>18</sup>

### Response to the decision to withdraw VAT RES

There was widespread negative reaction by sections of the retail industry which operated VAT RES. This is unsurprising: the Government's consultation's summary of responses document shows that although many respondents had highlighted their concerns about the administration of the scheme, most

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<sup>15</sup> HM Treasury and HMRC, [A consultation on the potential approach to duty- and tax-free goods arising from the UK's new relationship with the EU: Summary of responses](#) (PDF), GOV.UK, September 2020, para 3.19, p13

<sup>16</sup> Commons Library research briefing CBP-1223, [Passenger purchases of alcohol and tobacco](#), 2 March 2021

<sup>17</sup> HM Treasury and HMRC, [A consultation on the potential approach to duty- and tax-free goods arising from the UK's new relationship with the EU: Summary of responses](#) (PDF), GOV.UK, September 2020, paras 3.15-3.20, pp12-13

<sup>18</sup> As above, pp12-13

opposed abolition. They argued the scheme incentivised overseas spending and feared that retail spending could be displaced to other countries.<sup>19</sup>

## 1.6 Debate on the economic impact of tax-free shopping schemes

### Economic impact and cost of VAT RES

When forecasting the impact of the withdrawal of VAT RES, the OBR said that VAT refunds worth £500 million had been given via the scheme in 2019.<sup>20</sup>

The OBR said that whilst a direct saving would result from ending the scheme, this could be offset by a reduction in luxury shopping, who may prefer to shop in destination where a similar scheme exists (all other EU countries). Taking this into consideration, the OBR forecast in November 2020 that the withdrawal of VAT RES would result in a £1.8 billion cumulative saving by 2025/26, adding that the figures were highly uncertain.<sup>21</sup>

The Treasury Committee received oral evidence surrounding the withdrawal of VAT RES in October 2020. Evidence from the witnesses was not conclusive on the overall impact of the withdrawal, nor of the economic impact of VAT RES. However, there was consensus among witnesses that the measure would impact certain retailers.<sup>22</sup> Following the session, the then Chair of the Committee, Mel Stride, wrote to the then Chancellor of the Exchequer, Rishi Sunak, asking the Treasury to provide a cost-benefit analysis of the decision to withdraw VAT RES.<sup>23</sup>

### OBR and Treasury cost-benefit analysis

The Government responded to the Treasury Committee on 2 December.<sup>24</sup> Then Financial Secretary to the Treasury Jesse Norman referred to an assessment conducted by the OBR in November 2020, relating to the withdrawal of VAT RES. The OBR had concluded that:

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<sup>19</sup> HM Treasury and HMRC, [A consultation on the potential approach to duty- and tax-free goods arising from the UK's new relationship with the EU: Summary of responses](#) (PDF), GOV.UK, September 2020, p12

<sup>20</sup> [Economic and fiscal outlook - November 2020 \(obr.uk\)](#) para A.22 p183

<sup>21</sup> As above, table A.16, p181

<sup>22</sup> Treasury Committee, [Oral evidence: Tax after coronavirus](#) (PDF), 7 October 2020, HC 664 2019-21, Qq169-182

<sup>23</sup> Treasury Committee, [Government should provide cost benefit analysis of its VAT increase](#), 8 October 2020

<sup>24</sup> HM Treasury, [Response to Chair of the Treasury Committee by the Financial Secretary to the Treasury](#) (PDF), 2 December 2020

- Once passenger numbers had recovered from Covid-19, the Government would save around £400 million a year by withdrawing the scheme
- The number of tourists would be reduced by between 20,000 and 30,000. This would reduce the withdrawal-related revenue by about one quarter
- After behavioural responses and Covid-related passenger recovery were incorporated, the saving from the withdrawal of the airside tax-free scheme would save the Government £170 million per year<sup>25</sup>

HMRC also published these figures in a Tax Information and Impact Note on 3 December 2020, the day that secondary legislation to withdraw VAT RES was laid.<sup>26</sup>

## Are studies on the cost-benefit of tax-free shopping schemes conclusive?

No. The only official forecast available is the one the OBR conducted for the November 2020 Economic and Fiscal Outlook. The OBR estimates were rated as highly uncertain: estimated figures should be therefore treated with caution.

Other studies argue that a TFS scheme in the UK would significantly boost retail expenditure and wider economic activity. For instance, research by economic consultancy Oxford Economics suggests that the re-introduction of the VAT RES scheme in the UK will have a significant positive effect in terms of GDP, tax yield, and job creation.<sup>27</sup>

At the time of the withdrawal of VAT RES, the Treasury sent a ‘myth-buster’ document to stakeholders affected by the changes. Although the document was not published, the UK Travel Retail Forum (UKTRF) and the Association for International Retail (AIR), two professional bodies in the industry, published a response to the myth-buster, directly quoting the Treasury document itself.<sup>28</sup>

The Treasury argued that most visitors to the UK were from the EU, and they were coming to the UK without a VAT RES scheme available to them. Overall, the Treasury assessed that the VAT RES scheme, if extended to EU tourists, “would result in a large amount of deadweight loss by subsidising spending from EU visitors which already happens without a refund.”<sup>29</sup> Contrastingly, the

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<sup>25</sup> HM Treasury, [Response to Chair of the Treasury Committee by the Financial Secretary to the Treasury](#) (PDF), 2 December 2020

<sup>26</sup> HMRC, [The Travellers’ Allowances and Miscellaneous Provisions \(EU Exit\) Regulations 2020](#), GOV.UK, 3 December 2020. See also, [The Travellers’ Allowances and Miscellaneous Provisions \(EU Exit\) Regulations 2020](#)

<sup>27</sup> Oxford Economics, [Assessing the impact of tax-free shopping in the UK – a report for the Association of International Retail \(AIR\)](#), November 2022

<sup>28</sup> As above

<sup>29</sup> As above, p2



UKTRF and AIR disagreed with the Treasury's assessment and argued that the extension would result in positive consequences for the tourism and hospitality industry.<sup>30</sup>

## 1.7 The Growth Plan and tax-free shopping, September 2022

The re-introduction of a tax-free shopping became subject of interest and debate again in September 2022. As part of the Truss administration's Growth Plan, then Chancellor Kwasi Kwarteng announced in a statement to the Commons that the Government would re-introduce VAT-free shopping for overseas visitors. He also said that the scheme would be fully digital.<sup>31</sup> The Treasury estimated that the scheme would cost around £2 billion a year by 2025/26. The policy proposal was not implemented, as Kwarteng's successor, Jeremy Hunt, announced on 17 October 2022 that the scheme would not go ahead, "saving [...] £2 billion a year".<sup>32</sup> The overall economic and fiscal impact of the proposal was not independently assessed, as the OBR did not publish an Economic and Fiscal Outlook in conjunction with the Growth Plan statement.

The £2 billion figure quoted by the Chancellor was an estimate published by the Treasury for Kwasi Kwarteng at the time of the Growth Plan.<sup>33</sup> Following Hunt's the announcement that the scheme would not go ahead, the Chancellor's use of the £2 billion figure was criticised by supporters of the scheme, who argued that the forecast did not include the positive effects on retail and hospitality resulting from an increase in tourism.<sup>34</sup>

## 1.8 Campaign to reinstate a TFS scheme

### Campaign launch, April 2023

In April 2023, the Daily Mail launched a campaign to re-instate the TFS scheme originally announced by Kwasi Kwarteng.<sup>35</sup> The paper reported that Sir Rocco Forte, a hotelier, had organised a letter to Chancellor Jeremy Hunt asking the Government to reinstate the TFS scheme. the Mail reported that,

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<sup>30</sup> As above,

<sup>31</sup> HC Deb [23 September 2022](#), c937

<sup>32</sup> HC Deb [17 October 2022](#), cc396-397

<sup>33</sup> HM Treasury, [The Growth Plan 2022](#) (PDF), GOV.UK, p26

<sup>34</sup> UKTRF and AIR, [UKTRF and AIR response to HM Treasury's Myth buster on the VAT Retail Export Scheme and tax-free airside sales document](#) (PDF), November 2020

<sup>35</sup> ["Time to scrap the 'Tourist Tax' and get Britain booming again: Business leaders call on Chancellor to reinstate tax-free shopping for overseas visitors – as research shows scheme would bring £4.1 BILLION to UK's economy"](#), Daily Mail, 24 April 2023

among around 90 others, the chair of British Airways and the chief executives of Mulberry, the Royal Opera House and Fortnum & Mason had signed the letter.<sup>36</sup>

## Recent developments

Since the campaign launched, more retailers have called for the Government to re-instate the TFS scheme. In August, the Mail on Sunday stated that 350 brands, including Harrods, Marks & Spencer, Burberry, and Harvey Nichols, had backed the campaign.<sup>37</sup>

The Daily Mail reported in May 2023 that over 40 Conservative MPs had written to the Prime Minister asking for a tax-free shopping scheme to be re-introduced.<sup>38</sup>

The Evening Standard reported on 7 August 2023 that retailers had argued the lack of a THS scheme could impact their Christmas trading.<sup>39</sup> The article also quotes a Treasury spokesperson, who said that the TFS scheme did not benefit the British people. He added that the £2 billion per year cost was not feasible in the current context:

[...] we've already had to take difficult decisions to get debt falling and fewer than one in ten non-EU visitors used the previous scheme, showing it's not a significant attraction to tourists.

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<sup>36</sup> [“Time to scrap the ‘Tourist Tax’ and get Britain booming again: Business leaders call on Chancellor to reinstate tax-free shopping for overseas visitors – as research shows scheme would bring £4.1 BILLION to UK’s economy”](#), Daily Mail, 24 April 2023

<sup>37</sup> [“Zut alors! French stores cash in as shoppers snub UK over tourist tax”](#), Daily Mail, 7 August 2023

<sup>38</sup> [“Tourist tax backlash heats up as 40 Tory MPs tell Rishi Sunak that it’s time to ditch the much-criticised levy”](#), Daily Mail, 15 May 2023

<sup>39</sup> [“Retailers fear tourist tax will hurt UK Christmas trade”](#), Evening Standard, 7 August 2023

## 2 Press articles

### 2.1 Press articles

The following is a selection of news and media articles relevant to this debate.

Please note: the Library is not responsible for either the views or the accuracy of external content.

**[It's time to act on tourist tax](#)**

Walpole

3 August 2023

**[350 Business leaders join call on government to reintroduce tax-free shopping](#)**

Fashion United

31 July 2023

**[Loss of tax-free shopping costing the UK £4.1bn, say London bosses](#)**

City A.M.

26 July 2023

**[Luxury goods sector sounds alarm over hit from loss of VAT-free shopping](#)**

Evening Standard

19 July 2023

**[Burberry in new warning on tourist tax as minister breaks ranks; Burberry chief's salvo at ministers over duty free shopping](#)**

Evening Standard

18 May 2023

**[Retail bosses call on chancellor to bring back VAT-free shopping for tourists to boost economy](#)**

Boutique

24 April 2023

**[Love it or loathe it, VAT free shopping only makes our tax system even more unwieldy](#)**

City A.M.

7 March 2023

**[Mulberry warns rich shoppers shunning London for Europe](#) [subscription required]**

Financial Times

30 November 2022

**Businesses' ask for the next budget? Make a decision and stick with it, for all our sakes**

City A.M.  
26 October 2022

**British retailers welcome planned return of VAT-free shopping for tourists**

The Guardian  
23 September 2022

**Decision to end tax-free shopping for visitors is hurting retailers - Roddy Smith**

The Scotsman  
30 June 2022

**C'est un shakedown! Expats unfairly given huge customs bills**

The Daily Telegraph  
5 February 2022

**Dixons Carphone to close all airport stores after tax-free shopping scrapped**

The Guardian  
28 April 2021

**Is this the end of duty free retail in the UK?**

Retail Gazette,  
6 January 2021

**Ending VAT-free shopping 'will hit UK tourism and retail'**

BBC News  
21 September 2020

**VAT: Is 'tax-free shopping' taxing?**

Tax Insider  
February 2020

## 2.2

## Press releases

**Removal of tax-free shopping costing £10.7bn in lost GDP and deterring two million tourists a year, report concludes**

Centre for Economics and Business Research  
4 August 2023

**Government should provide cost benefit analysis of its VAT increases**

Treasury Committee  
8 October 2020

**Duty Free extended to the EU from January 2021**

HM Treasury

11 September 2020

## 3

# Parliamentary material

### 3.1

## Parliamentary Questions

### Exports: VAT

**25 July 2023 | 194331**

**Asked by: Sir Geoffrey Clifton-Brown**

To ask the Chancellor of the Exchequer, what recent assessment he has made of the impact of the removal of the VAT Retail Export Scheme on the economy.

**Answering member: Victoria Atkins | Department: Treasury**

The Chancellor has been clear that being responsible with the public finances is a priority. Government analysis done in 2022, which took increased tourist spending into account, found that introducing worldwide VAT-free shopping would come at a fiscal cost of around £2 billion each year.

The Government engaged with varied stakeholders and produced analysis on the cost of VAT-free shopping before withdrawing the previous scheme, and the OBR's assessment of the previous VAT Retail Export Scheme showed that its withdrawal would have a limited behavioural effect on decisions to visit, or spend, in the UK.

### Duty Free Allowances: Northern Ireland

**24 July 2023 | HL9369**

**Asked by: Lord Rogan**

To ask His Majesty's Government, further to the Written Answer by Baroness Penn on 12 July ([HL9073](#)), how enabling duty-free shopping between Northern Ireland and the EU would "undermine frictionless trade with the EU"; and why this is not the case in relation to trade between Great Britain and the EU.

**Answering member: Baroness Penn | Department: Treasury**

Introducing duty free shopping between Northern Ireland and the EU (which includes the Republic of Ireland) would require implementing allowances for the movement of these goods, to stop the uncontrolled flow of tax-free goods into either Northern Ireland or the EU (including the Republic of Ireland). These allowances would require enforcement. Therefore, if this were to be implemented, controls on the movement of goods between NI and the Republic of Ireland would be required, contravening the shared ambitions of the UK, Ireland and the EU.

By contrast, the movement of goods between the EU and Great Britain is subject to full third-country controls. This enables the enforcement of allowances for duty-free goods for passengers travelling into and out of Great Britain.

### **Tourism: VAT**

**11 July 2023 | HL8896**

**Asked by: Lord Taylor of Warwick**

To ask His Majesty's Government what assessment they have made of the potential economic impact of the return of tax-free shopping for tourists.

**Answering member: Baroness Penn | Department: Treasury**

The Government engaged with varied stakeholders and produced analysis on the cost of the VAT Retail Export Scheme (RES) before withdrawing it. Our analysis, which took increased tourist spending into account, found that introducing worldwide VAT-free shopping would come at a fiscal cost of £2 billion each year.

Furthermore, the Office for Budget Responsibility's assessment of the previous VAT RES shopping scheme showed that its withdrawal would have a limited behavioural effect on decisions to visit, or spend, in the UK.

Although there are no plans to re-introduce VAT RES, the Government keeps all taxes under review and welcomes representations to help inform future decisions on tax policy, as part of the tax policy making cycle and Budget process.

### **Tourist Spending: VAT**

**24 May 2023 | 830 c864-5**

**Asked by Baroness Wheatcroft**

My Lords, it is not the number of tourists that is important but the type of tourist. The higher-spending tourists are being deterred from coming to this country because of the lack of VAT-free shopping, as the figures quoted by the noble Baroness, Lady Doocey, made clear. Those tourists are heading to Spain and France and spending their money there. I declare an interest as chairman of the Association of Leading Visitor Attractions. Our members are losing out because these high-spending tourists are not coming to this country, doing their retail therapy and then taking in museums, galleries et cetera. Will the Minister undertake to take into account our cultural heritage when she looks at this issue?

**Answering member: Baroness Penn**

I do absolutely appreciate the point that the noble Baroness is making. As part of the research that we did in considering this question, HMRC surveyed VAT RES users and the scheme did not make the top 10 in their list of reasons for visiting Britain—and that was for the 8% of visitors who qualified for the scheme who actually used it. We also asked them whether they would continue to purchase in the way they had previously. Two-thirds of those surveyed said that they would have purchased the same items regardless of the scheme, and 95% of people said that they would still shop. I appreciate that there is a wider impact, but we considered that when taking this decision.

**24 May 2023 | House of Lords | 830 cc863-865**

### **Retail Trade: VAT**

**21 February 2023 | 142890**

**Asked by: Dr Kieran Mullan**

To ask the Chancellor of the Exchequer, what assessment he has made of the implications for his policies of the conclusions of the report by Oxford Economics entitled Assessing the impact of tax-free shopping in the UK, published in November 2022.

**Answering member: James Cartlidge | Department: Treasury**

Following the initial withdrawal of VAT-free shopping in November 2020, the independent Office for Budget Responsibility (OBR) published their assessment of the withdrawal of the schemes. Their assessment showed that withdrawing the scheme would raise a significant amount of revenue and have a limited behavioural effect on decisions to visit, or spend, in the UK.

The Treasury has reviewed the Oxford Economics report and remains confident in the OBR's analysis.

In particular, the findings of the Oxford Economics report are underpinned by an assumption that introducing VAT-free shopping will generate an additional 1.6 million visitors to the UK.

We do not recognise these figures. The OBR, using a higher than usual price elasticity of demand to account for VAT-free shopping being targeted at luxury goods, put this figure at 20,000-30,000 for non-EU visitors, which would imply a figure of 60,000-80,000 of total visitors (EU and non-EU). That is about 5% of the report's 1.6 million estimate. Reflecting this difference in estimates of additional visitors could lead to their report overstating the potential extra revenue by around £1 billion.

### **Tax-free Shopping**

**Asked by: Lord Vaizey of Didcot**



My Lords, is my noble friend the Minister aware that, far from costing the Treasury £2 billion a year, reintroducing tax-free shopping would net the Treasury some £350 million a year? Tax-free shopping supports many important industries in our country, such as Harris tweed—as so brilliantly sported by my noble friend Lord Pickles in support of my Question. The introduction of tax-free shopping is supported by the left-wing Mayor of London and the left-wing SNP. In this country we are lucky to have numerous new Governments; whether it is levelling up, growth or economic stability, tax-free shopping supports all three. Will the Minister reconsider the Treasury’s nonsensical decision to abolish it?

**Answering member: Viscount Younger of Leckie**

Well, what I can say is that, on 28 November, HMRC and HMT officials held a round table with industry stakeholders to collate feedback on the Chancellor’s decision to withdraw the introduction. As I indicated in my initial Answer, evidence from VisitBritain continues to show that the key motivators for tourists visiting the UK are our rich history and heritage and vibrant towns and cities, and less so shopping.

**15 December 2022 | House of Lords | 826 cc759-762**

### [Tax-free Shopping](#)

**Asked by: Baroness Kramer**

My Lords, will the Government consider doing a proper cost-benefit analysis of this, which they have never done? Small shops are very much reporting that the actual spend has dropped very significantly. At a time when retail is under so much pressure, that additional loss will drive people out of business.

**Answering member: Viscount Younger of Leckie**

We do not have any plans to analyse this further. As I have said before, fewer than one in 10 non-EU visitors used the previous VAT-free shopping scheme, indicating that it is really not a pull factor for tourists. Canada and New Zealand also do not offer this type of tax-free shopping on the high street, and the USA does not have a countrywide system, yet all these countries are popular tourist destinations.

**15 December 2022 | House of Lords | 826 cc759-762**

### [Retail Trade: VAT](#)

**13 April 2021 | 175951**

**Asked by: Dr Rupa Huq**

To ask the Chancellor of the Exchequer, what plans he has to review the effect of changes to VAT-free shopping on jobs across different sectors and parts of the country.

**Answering member: Kemi Badenoch | Department: Treasury**

On 11 September 2020, the Government announced the VAT and excise duty treatment of goods purchased by individuals for personal use and carried in their luggage arriving from or going overseas (passengers) following the transition period. The following rules were implemented on 1 January 2021:

- Passengers travelling from Great Britain to any destination outside the United Kingdom (UK) can purchase duty-free excise goods once they have passed security controls at ports, airports, and international rail stations.
- Personal allowances apply to passengers entering Great Britain from any destination outside of the UK, with alcohol allowances significantly increased.
- The VAT Retail Export Scheme (RES) in Great Britain has not been extended to EU residents and has been withdrawn for all passengers.
- The concessionary treatment on tax-free sales for non-excise goods has been removed across the UK.

The Government published a consultation which ran from 11 March to 20 May 2020. During this time the Government held a number of virtual meetings with industry stakeholders to hear their views and received 73 responses to the consultation. The Government has also met and discussed these changes with many stakeholders following the announcement of these policies.

The detailed rationale for these changes are included in the written ministerial statement and summary of responses to the recent consultation: <https://questions-statements.parliament.uk/written-statements/detail/2020-09-11/hcws448>(opens in a new tab) and <https://www.gov.uk/government/consultations/a-consultation-on-duty-free-and-tax-free-goods-carried-by-passengers>(opens in a new tab). A technical note has also been issued to stakeholders to expand on this document and to respond to issues raised by stakeholders.

On 25 November 2020 the independent Office for Budget Responsibility (OBR) set out their assessment of the fiscal impact of the withdrawal of the VAT RES.

Factoring in a higher-than-usual elasticity of 1.9 to account for spending on luxury goods, the OBR estimate that the withdrawal of the VAT RES will result in a significant direct Exchequer saving of around £400 million per year, once passenger numbers recover from the impacts of Covid-19. Based on the 1.2 million users of the scheme who received a refund in 2019, this includes an assumption that approximately 20,000 – 30,000 fewer tourists visit Great Britain a year. That is 0.07% of the 40 million visitors to the UK in 2019.

The OBR also looked at this package in the round when assessing the indirect impact on the economy – including the effects of extending duty-free sales – alongside the substantial support provided to the economy and retail industry.

## 3.2 Statements

### Treasury Update

11 September 2020 | Written Statement | House of Commons | HCWS448

## 3.3 Early Day Motions

### VAT RETAIL EXPORT SCHEME

EDM (Early Day Motion) 1176 (session 2019-21)

23 November 2020

Tracey Crouch

This motion has been signed by 29 Members.

That this House expresses its concern at the Government's decision to abolish the VAT Retail Export Scheme, otherwise known as tax-free shopping, from 1 January 2021 with inaccurate determinations having been made of the impact of that decision; acknowledges that since that decision was announced, businesses have been facing the challenges posed by new covid-19 restrictions and that that decision will worsen that situation; believes that by implementing that decision thousands of job losses could be caused around the UK; recognises that since that announcement, France has lowered its threshold for international shoppers to claim back VAT and Ireland has extended its scheme to include the UK, making the UK the least competitive market in Europe for international shoppers; notes that no businesses have spoken up publicly in favour of that move but many have warned of its consequences; calls on the Government to avoid causing significant damage to the retail and hospitality sector in the UK and to not bring forward the required legislation to implement that decision; and further calls on hon. Members to vote to annul any Statutory Instrument on that matter if it is laid before this House.

### DUTY AND TAX-FREE SHOPPING

EDM (Early Day Motion) 1099 (session 2019-21)

4 November 2020

Gavin Newlands

This motion has been signed by 34 Members

That this House notes the recent Government consultation on the continuation of duty and tax-free shopping for visitors from outside the EU, including the published summary of responses which indicated a majority of respondents supported the continuation of the VAT Retail Export Scheme (VAT RES) and the airside Extra Statutory Concession (ESC); expresses concern that despite those responses, HM Treasury has indicated that it plans to scrap the RES and ESC schemes at the beginning of 2021; further notes that those schemes support hundreds of jobs at Glasgow, Edinburgh, and Aberdeen Airports and across the wider Scottish retail and aviation sectors at a time when the economy faces its biggest set of challenges since World War Two; understands the removal of RES and ECS will directly result in the loss of hundreds of jobs in Scotland and thousands around the UK; and calls on the Government to abandon its plans to end RES and ECS and engage in real dialogue with businesses and trade unions on how best to support retail and aviation employment in the future.

### **TAX-FREE SHOPPING**

EDM (Early Day Motion) 1037 (session 2019-21)

19 October 2020

Jon Cruddas

This motion has been signed by 7 Members.

That this House expresses its alarm at the decision to end the VAT Retail Export Scheme commonly known as Tax-free shopping at the end of 2020, apparently without any assessment of the direct and wider impact on the retail, hospitality and tourism sectors in Edinburgh and across Scotland; notes that visitors to Edinburgh and Scotland from international destinations such as China, USA and other countries make a valuable contribution to our economy including through the purchase of iconic Scottish goods and holidaying here; further notes that the UK would be the only country in Europe not to operate tax free shopping if the scheme ends; acknowledges that the Scottish Retail Consortium, Scottish Tourism Alliance, Essential Edinburgh business improvement district and others have voiced their concerns over the end of tax free shopping; and calls on UK Ministers to reconsider or postpone the ending of the tax relief until a full impact assessment is undertaken and discussions are held with industry on possible alternative solutions.

## 4

# Further reading

## HMRC guidance

### [VAT Notice 48: Extra Statutory Concessions](#)

HMRC

10 February 2022

### [Retail Export Scheme \(Northern Ireland\)](#)

HMRC

20 August 2021

### [Claim VAT back on tax-free shopping in Northern Ireland](#)

HMRC

20 August 2021

### [Retailer's checklist for purchases made after 1 January 2021 in Northern Ireland \(VAT407 notes\)](#)

HMRC

31 December 2020

### [Revenue and Customs Brief 21 \(2020\): withdrawal of the VAT Retail Export Scheme and the tax-free shopping concession](#)

HMRC

11 December 2020

## House of Commons Library research briefings

### [Passenger purchases of alcohol and tobacco](#)

House of Commons Library

2 March 2021

## European Commission guidance

### [Guide to VAT refund for visitors to the EU](#)

European Commission

Accessed on 23 August 2023

## Reports

### [Assessing The Impact Of Tax-Free Shopping In The UK](#) (PDF)

Oxford Economics

November 2022

**Economic and fiscal outlook – November 2020**

Office for Budget Responsibility

November 2020

**A consultation on the potential approach to duty- and tax-free goods arising from the UK's new relationship with the EU: Summary of responses**

HM Treasury and HMRC

September 2020

## **Committee inquiry evidence**

**Revisiting Abolishing VAT Retail Export Scheme House of Commons Treasury Committee Requests a Cost Benefit Analysis** (PDF)

Squire Patton Boggs

October 2020

**Oral evidence: Tax after coronavirus** (PDF)

Treasury Committee

7 October 2020

## **Websites**

**Association of International Retail**

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