

## **RESTORING TAX-FREE SHOPPING FOR INTERNATIONAL TOURISTS:**

### **A BOOST FOR LONDON AND THE UK**

BUSINESSLDN SUBMISSION, JULY 2023

BusinessLDN aims to make London the best city in the world in which to do business, working with and for the whole UK. We represent more than 170 businesses of all sizes and sectors across the economy, including retail, hospitality, leisure and tourism.

BusinessLDN supports the restoration of tax-free shopping for all international visitors. It would deliver a significant boost to London and the wider UK economy, and bring the UK into line with international competitors. In this submission, we argue that:

- There is a significant size of the prize to be gained and restoring tax-free shopping for international visitors would deliver a significant boost to jobs and growth for London and right across the UK.
- A small change would make a big difference to the capital's attractiveness to tourists and increase London's standing on the world stage.
- The benefits of restoring tax-free shopping for international visitors outweigh the costs, and the costs of inaction could be even greater.

### **There is a significant size of the prize to be gained and restoring tax-free shopping for international visitors would deliver a significant boost to jobs and growth for London and right across the UK...**

The retail, tourism and leisure sectors make a significant contribution to London's economy and employment. Retail accounts for 663,000 jobs, accommodation & food some 450,000 jobs and the arts, entertainment & recreation sector a further 223,000 jobs<sup>1</sup>. Taken together, that's over 20% of all employment in London.

Data from Oxford Economics shows that re-instating tax-free shopping for international visitors would generate £4.1bn annually and create an additional 78,000 jobs.

The UK is an outlier in not offering tax-free shopping for international visitors. American, Chinese and Indian visitors can claim back the VAT when they visit competitor nations in continental Europe, such as France, Spain and Italy. The UK is seriously losing out as a result. Figures from Global Blue show that 10 per cent of UK spending by international shoppers in 2019 has now moved to EU countries, which have kept VAT-free shopping.

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<sup>1</sup> ONS Workforce jobs by industry and region, June 2023

The UK is also lagging other European cities in attracting visitors from key markets. For example, spending by American shoppers in the UK is now back at 2019 levels, a welcome recovery from the pandemic. But the UK figure lags starkly behind France, Spain and Italy, which have virtually doubled their American spending.

The UK already missed a trick with not having this measure in place in time for national events such as the King's Coronation. A look at the forthcoming calendar highlights why it is important to act now. London has an opportunity to win retail trade from the neighbouring Paris Olympics taking place in Summer 2024. Regional and likely National elections will increase international focus on the UK in 2024. And London will play host to the usual round of sporting, musical and creative events throughout the calendar year.

### **A small change would make a big difference to the capital's attractiveness to tourists, and increase London's and the UK's standing on the world stage...**

There are, of course, many reasons why tourists visit London – for its famous landmarks, museums and theatre for example. Its world-renowned shopping areas such as Regent Street & Oxford Street, iconic department stores such as Harrods & Selfridges, and major outlets such as Westfield are a major draw. Maximising the appeal for international shoppers would give a big boost to tourism more broadly, with spillover benefits from retail to the arts, food & drink, and creative industries – parts of the economy that are in line with the government's priority sectors.

Maximising the attraction of London for tourists also translates into a big win for the UK. For many international visitors, London is often the first port of call, but it then acts as a gateway to tourists travelling across the UK with the associated opportunity to boost regional economies as well. BusinessLDN's report 'Connections not Complacency' demonstrates how London's gateway role can be further enhanced to benefit the rest of the UK <sup>2</sup>.

Leisure visits are many international visitors first touch point with the UK. But they can help to build a positive impression, helping to forge ties that last into the future – whether that be for academic study or business and commercial connections. If the UK persists with its outlier status in not offering tax-free shopping, it leaves a negative impression with international visitors that counts against the UK relative to their visits and experiences with other countries.

### **The benefits of restoring tax-free shopping for international visitors outweigh the costs, and the costs of inaction could be even greater...**

Although HM Treasury estimates the cost of restoring tax-free shopping for international visitors at £2bn per annum, analysis by Oxford Economics suggests that there could be a net positive impact of £340m tax revenues by taking a rounded view of the additional foreign spending in the UK that would happen as a result.

We recommend that the Government asks the OBR (Office for Budget Responsibility) to undertake an urgent review of VAT-free shopping to establish a true picture of the full costs and benefits.

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<sup>2</sup> <https://www.businessldn.co.uk/sites/default/files/documents/2022-11/Connections%20Not%20Complacency%20BusinessLDN.pdf>

Yet even just taking the £2bn cost figure into account, this is a relatively modest amount to support the retail, leisure and hospitality sectors compared to other support and stimulus packages in recent years.

And failure to act comes with serious jeopardy.

With the retail sector contributing around £50bn in taxes, some 6.1% of all tax receipts, it is clearly an important part of the economy for the Exchequer, as well as its broader importance to the economy and society. Yet there are risks to all this, with the sector facing several serious headwinds:

1. All consumer-facing businesses will be hit hard by reduced domestic spend across the UK because of increases in the cost of living; and with housing costs accounting for a greater share of income in the capital than elsewhere, London will be particularly hard hit.
2. Rising rates, rent & mortgages, input prices through supply chains and ongoing elevated energy prices will all have a disproportionate impact on the retail sector.
3. Retail store closures may have slowed from the height of the pandemic but remain in negative territory. Across the UK, a total of 11,530 chain outlets <sup>3</sup> (those with five or more outlets) exited GB high streets, shopping centres and retail parks – equivalent to 32 closures per day. In London alone, there are just over 5 store closures a day.

Many companies, including several BusinessLDN members, support the restoration of tax-free shopping for international visitors, and believe that the UK is missing out on growth opportunities while the measure is not in place. They include retailers and luxury goods firms such as Mulberry and Fortnum & Mason, as well as firms from the leisure & tourism sector, such as British Airways, many major airports and the Royal Opera House. The move is supported by several London Business Improvement Districts and by a wide array of sector bodies such as the British Retail Consortium, UK Hospitality and Walpole.

With the headwinds facing the economy, and a big size of the prize available to London and the rest of the UK, now is the time for government to act by restoring tax-free shopping for international visitors.

**BusinessLDN**

**July 2023**

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<sup>3</sup> <https://www.pwc.co.uk/industries/retail-consumer/insights/store-openings-and-closures.html>