

As discussed in our [alert](#) on 18 September 2020, the UK government has decided to abolish the VAT Retail Export Scheme (VAT RES) in Great Britain from 1 January 2021.

The policy announcement was examined by the House of Commons Treasury Select Committee (Treasury Committee) during a meeting on 7 October 2020. During that session, the Treasury Committee heard evidence on the effects that the withdrawal of VAT RES could have on the UK retail and tourism sectors. In light of the evidence provided, the Chair, Rt. Hon. Mel Stride MP (a former Financial Secretary to the Treasury and Paymaster General), wrote to the Chancellor of the Exchequer, Rt. Hon. Rishi Sunak MP, requesting a more detailed cost-benefit analysis of the merits and risks posed by the change.

To recap, although visitors to the UK will still be entitled to enjoy UK VAT-free shopping, when VAT RES is abolished, they will need to arrange for their purchases to be shipped to their overseas address, and pay any export and import tariffs and duties that arise. They will not be able to “export” the goods as accompanied baggage. At present, the scheme is only available to non-EU visitors. Similar schemes operate in the EU.

The Treasury Committee heard evidence that, in 2018, non-EU visitors spent approximately £3 billion on duty-free shopping out of an overall total spend of approximately £18 billion; i.e. the additional £15 billion of non-VAT RES by non-EU visitors will, assuming a 20% standard rate, contribute approximately £3 billion of VAT revenue for the UK. According to a [survey](#) carried out in July by Global Blue (an organisation that claims to have “pioneered the concept of Tax Free Shopping”) of 30,000 high-spending international visitors (also referred to during the session), 62% of respondents said that if VAT RES was withdrawn, they would no longer visit the UK, and 95% said they would spend significantly less.

If those figures are broadly accurate, it is unsurprising that retailers, hoteliers and restaurateurs – that is, sectors of the hospitality and leisure sectors hardest hit by COVID-19 – are so concerned that the withdrawal of VAT RES will significantly harm their businesses. However, there is also clearly a danger of a stark impact on the UK economy more broadly, and the possibility of a negative impact on VAT tax revenues post-Transition. In addition, there are questions over how the abolition of VAT RES fits with the UK government’s intention to minimise friction and tariffs at the post-Transition border.

However, there are reasons why the UK government might have concerns over retaining VAT RES. For example, unless any negotiated UK-EU trade deal allows otherwise, the scheme would probably need to treat all EU and non-EU



visitors the same from 1 January 2021 – i.e. EU visitors to the UK would also be entitled to UK VAT-free shopping on goods “exported” as accompanied baggage. That raises questions over the cost of the foregone VAT on the sale of eligible goods and the scalability of the VAT RES generally – i.e. will it attract even more visitors to the UK and even more spending. Finally, it is unclear how the EU would balance the continuation of the UK scheme with, presumably, the extension of its equivalent schemes to visitors from the UK. For instance, would a continued UK VAT RES divert luxury shopping from Paris and Milan to London (and Bicester)... or vice versa?

In the absence of an Autumn Budget, the question (bluntly raised by Mr. Stride’s letter to the Chancellor) is what the exchequer and economic impact of the proposal actually is. To answer that, the Treasury Committee has asked the Chancellor to provide it with “the cost benefit analysis behind these decisions”. It remains to be seen how quickly, and how comprehensively, (a currently very busy) HM Treasury will respond to the Treasury Committee’s request.

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