

OpenVoiceNews U.K.

Transparent. Unbiased. Yours.

Retailers Urge Government to Restore Tax-Free Shopping to Boost Tourism Economy

July 22, 2025

– Categories: Finance



Download IPFS

British retailers are ramping up pressure on the government to reinstate tax-free shopping for overseas tourists, warning that the U.K. is falling behind its European competitors in attracting high-spending visitors. The Association of International Retail (AIR) has submitted new findings to ministers, arguing that bringing back VAT (Value Added Tax) refunds could unlock billions in additional revenue and revitalise the nation's tourism economy.

According to AIR's latest report, restoring VAT-free shopping for tourists could generate an additional £3.65 billion in spending from European Union (EU) visitors alone, on top of the estimated £1.5 billion in non-EU tourist spending lost since the benefit was removed in 2021. The group's submission, sent to the Department for Culture, Media and Sport, comes as the government prepares its broader strategy to strengthen the U.K.'s so-called visitor economy.

The tax-free shopping scheme, which previously allowed international travellers to reclaim the 20% VAT on goods bought in the U.K., was scrapped by then-Chancellor Rishi Sunak following the UK's departure from the EU. He argued that the policy was fiscally unsustainable. This position has since been upheld by successive administrations, both Conservative and Labour, with the Office for Budget Responsibility (OBR) backing the view that the scheme's cost outweighed its benefits to the Treasury.

However, many in the retail sector have disputed that analysis, insisting the wider economic benefits, such as job creation, increased spending in hospitality, and enhanced competitiveness, have been grossly underestimated. Major brands, including Mulberry Group Plc, Fortnum & Mason Plc, and John Lewis, have all supported the call to reinstate the policy, signing a letter addressed to Chancellor Rachel Reeves urging her to reconsider.

Retailers argue that the U.K. is losing ground to destinations like France and Spain, both of which offer VAT refunds to non-EU visitors and are now drawing a larger share of affluent tourists. In 2023, visitor spending in the U.K. reached just 92% of pre-pandemic levels, compared to 106% in Spain and 110% in France, according to AIR. The group also noted that reintroducing tax-free shopping would make the UK the only country in Europe offering VAT rebates to the 450 million consumers across the EU, potentially giving Britain a critical competitive edge.

Despite these arguments, Chancellor Reeves is navigating a difficult fiscal landscape. Having reversed previous welfare reforms and implemented higher payroll taxes, she faces a budgetary shortfall that makes any tax reliefs politically difficult. While the Treasury remains focused on immediate revenue concerns, industry leaders warn that ignoring the long-term growth potential of the tourism and retail sectors is a short-sighted approach.

With the autumn budget on the horizon, the debate over tax-free shopping is set to intensify. For now, retailers are doubling down on their message: restoring VAT-free shopping isn't

just about appealing to tourists, it's about defending British jobs, strengthening the economy, and keeping the U.K. competitive on the global stage.