

Brexit Drives UK Shoppers to Europe's Luxury Stores

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Since Brexit, British consumers have increasingly shifted their spending on luxury goods away from London's prestigious stores to European cities such as Paris and Milan. This change reflects a growing trend of UK shoppers taking advantage of VAT-free shopping across the European Union, which has had a notable impact on the UK luxury sector and tourism industry.

According to a recent report by the Association of International Retail (AIR), British consumers spent £742 million on VAT-free shopping in the EU in 2024. This figure represents a fivefold increase compared to €169 million in 2021, the year the UK formally left the EU. The report highlights that this surge is driven by an influx of new shoppers who also contribute additional spending on hotels, restaurants, and transport during their trips to Europe.

The VAT-free shopping opportunity for UK visitors emerged because, post-Brexit, British shoppers are classed as non-EU visitors or third-country travellers. Under the EU's VAT directive, retailers must offer refunds of at least 15% VAT, with most countries averaging around 20%. This refund scheme makes luxury goods more affordable abroad. The financial incentive encourages weekend trips to European cities, where buyers can enjoy tax-free purchases alongside other tourism activities.

The UK abolished its previous VAT refund scheme for international visitors after Brexit, citing complexity and administrative costs. Currently, VAT-free shopping in the UK is limited primarily to online purchases shipped abroad, and Northern Ireland maintains a VAT refund scheme for EU citizens who leave within three months.

Luxury goods purchased at UK airports, which once benefited from VAT-free status, no longer enjoy such advantages, except for duty-free alcohol and tobacco. This change reduces the incentive for UK travellers to buy expensive electronics or designer items domestically, placing the UK at a competitive disadvantage.

Walpole, the organisation representing Britain's luxury sector, which includes brands such as Rolls-Royce, Burberry, and Harrods, highlighted the economic consequences of Brexit. Its May report found that luxury exports to the EU were up to 43% lower than they might have been without Brexit, with the fashion and accessories sector alone seeing a 64% drop. The luxury industry supports more than 450,000 jobs in the UK and contributes £14.6 billion annually to public finances.

Helen Brocklebank, Walpole's CEO, emphasised the importance of strong trading links with Europe. She stated that the British luxury market has significant growth potential, projected to reach £125 billion by 2028. However, achieving this ambition requires maintaining favourable trade relations with Europe alongside expanding into other global markets.

Europe remains the historic home of luxury goods. The UK risks missing out on a share of this lucrative market if barriers persist.

The AIR report concludes that British shoppers' spending abroad generates hundreds of millions in additional tourism revenue for European countries, at the UK's expense. For the luxury sector and wider economy, adapting to these changes will be crucial to future success.