

ECONOMICS

Britain to end VAT refunds

Merchants worry that cost-conscious travelers will wait to buy that Rolex in Paris or Milan, for less

BY RACHEL FELDER

In recent months social media has been filled with the longings of formerly frequent travelers, people ready to pack their bags when coronavirus restrictions fade away.

But as of Jan. 1, many of those travelers going to Britain will find that buying a new watch — or most souvenirs, actually — is going to cost them more than ever before.

The VAT Retail Export Scheme, which refunds a large portion of the 20 percent sales tax, or value-added tax, on purchases taken out of Britain, is scheduled to end as 2021 begins. The government issued the decision in September.

“I don’t think anybody expected the announcement that they were abolishing tax-free shopping,” said Helen Brocklebank, chief executive of Walpole, a nonprofit membership organization that works with British luxury businesses. “That came as a really massive shock.”

But there may be some solace for travelers: Within days of the British announcement, the French government said that, beginning Jan. 1, the minimum amount visitors must spend to reclaim French VAT would drop to 100 euros (\$118) from the current €175 threshold. (Britain does not have a spending threshold.)

Observers agree that Britain’s decision was related, in large part, to its departure from the European Union.

The Brexit transition period ends Dec. 31, so Britain would have to extend the refunds to European visitors in the new year to meet World Trade Organiza-

tion rules for parity. (A request for an interview with Rishi Sunak — the government minister who, as chancellor of the Exchequer, is responsible for the British treasury — was declined.)

The annual cost of refunding just E.U. travelers, the government estimated, could be as much as 1.4 billion pounds (\$1.85 billion).

The government’s decision also took into account a study that found less 10 percent of all eligible visitors had been taking advantage of the program. Nonetheless, about £500 million was refunded in 2019, according to Global Blue, a Swiss company that processes about 70 percent of Britain’s VAT returns.

Many British retailers, especially those who sell high-end items, are worried that long-haul travelers from countries like China and the United States, as well as those from the Middle East, will simply do their travel shopping elsewhere in Europe.

“All that the U.K. government has done is hand the E.U. a gold-plated gift,” said Cameron Gray, a public affairs consultant who also is secretary general of the UK Travel Retail Forum, the trade association that represents retailers in Britain’s airports.

“If you’re a passenger flying through Heathrow,” he continued, “what incentive do you have next year to buy a Rolex when you know that you can actually travel on to Paris or to Prague or to Milan and buy that product at a cheaper price?”

Retailers say the end of British refunds inevitably may affect sales of luxury goods more than that of, say, a stack of T-shirts from Topshop.

“For watches and jewelry, it will have



a bigger impact,” said Derrick Hardman, Global Blue’s managing director for the U.K. and Ireland. “Because it’s a higher ticket price on those items, people are far more likely to reconsider where they spend their money.”

Chinese tourists — generally considered, before the pandemic, to be lavish but price-conscious luxury spenders — are of particular concern to British high-end retailers. “We’ll have Chinese visitors, because the market is growing, but they just won’t be spending money here,” said Paul Barnes, chief executive of the Association of International Retail in Britain and an adviser to both Global Blue and the New West End Company, which represents about 600 businesses in a busy area of central London.

For Chinese travelers taking a multi-country tour, as many do, “they’ll come and visit the U.K.,” Mr. Barnes said, “but they’ll wait until they get to France to do their shopping.”

Visitors from China, he pointed out, have been especially fond of buying watches and jewelry on their travels. According to a 2020 survey by the Office for National Statistics in Britain, last year they accounted for about 32 percent of its VAT refunds but represented only 5 percent of its visitors from outside the European Union.

In considering the change, the British government concluded that the impact of ending VAT returns would be felt primarily by businesses in London and, to a lesser degree, at Bicester Village, the discount shopping center about 60 miles northwest of the city that includes boutiques by watch brands like Breitling and TAG Heuer.

Some retailers say the effect will be more widespread.

“It’s not just London,” said Charlie Pragnell, managing director and chairman of Pragnell, a luxury watch and jewelry retailer with headquarters in Stratford-upon-Avon and stores in Leicester and London. “It’s the important historical towns around the U.K., like Stratford-upon-Avon, Bath, Windsor and Edinburgh.”

Even after the new rules go into effect, foreign shoppers can still reclaim VAT for what is commonly referred to as

“shop and ship,” a government policy that allows British retailers to offer tax refunds on goods that are sent to the purchasers’ homes. The process, however, doesn’t lend itself to watches.

“If you’ve got items that are literally only a few inches in size,” but they may be worth 10,000 or 20,000 pounds or more, “there’s an obvious concern over security,” said Brian Duffy, chief executive of The Watches of Switzerland Group, which has scores of monobrand and multibrand stores in Britain and the United States.

Some British watch retailers, struggling to cope with coronavirus restrictions and the effects of a tumultuous year, are focusing on sales outside Britain to — as Giles English, co-founder of the English watch brand Bremont, put it — “pick that business up somewhere.” For his company, he said, that strategy includes opening stores in Shanghai and Los Angeles next year to reach foreign shoppers at home.

Although the government’s decision has been made, some retailers are still skeptical that the VAT policy actually will die. As Mr. Pragnell put it: “I’d say it’s not concrete that it’s going to proceed in January. It’s been announced, but there is plenty of resistance to this legislation.”

About 50 Walpole members, including Mr. Pragnell, have followed the organization’s urging to send letters of opposition to the government.

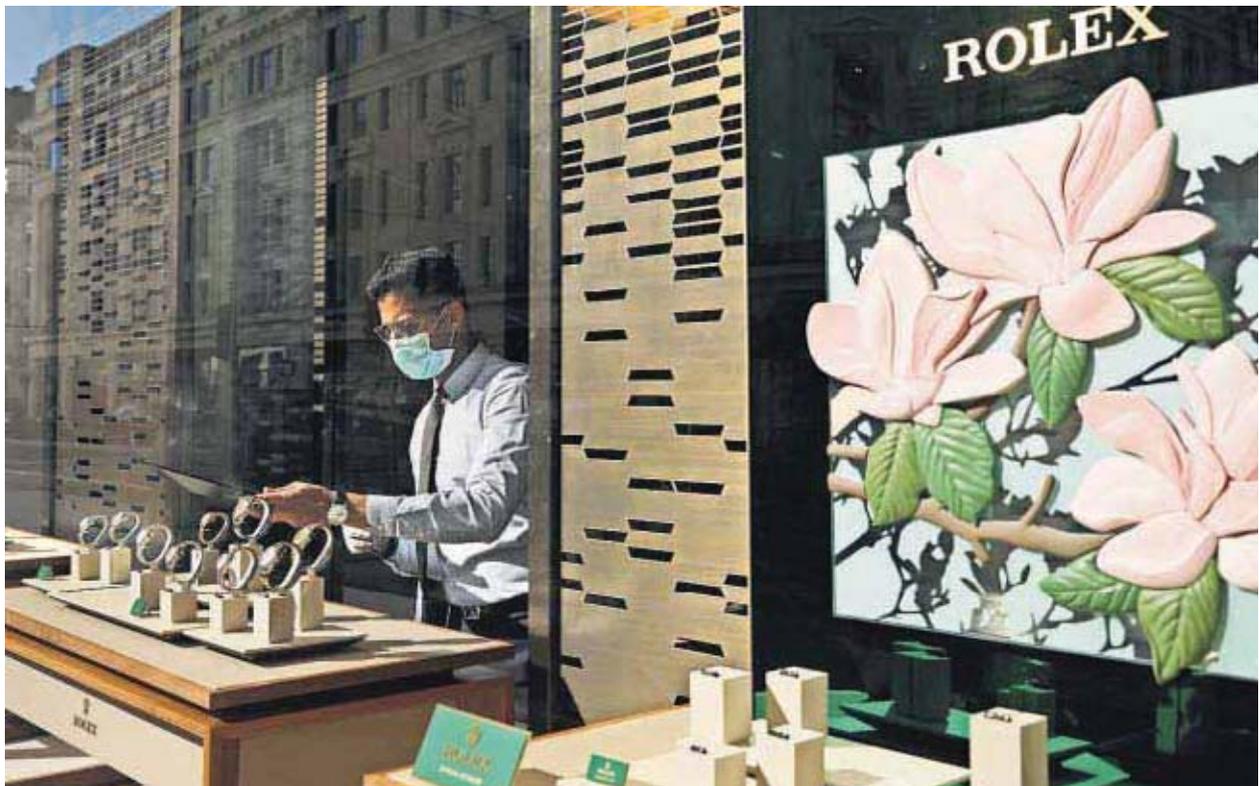
“Until there’s a done deal with the E.U. and Brexit,” he said, “there is a general impression that everything’s still on the table.”





ANDY RAIN/EPA, VIA SHUTTERSTOCK





DAN KITWOOD/GETTY IMAGES

Purchasing power
At left above, working on a display at a Rolex store on Regent Street in London as it reopened in June after lockdown. At left, Heathrow Airport in July. One analyst said visitors from China in particular liked buying watches and jewelry on their travels.

