HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Huw Merriman MP

Transport Committee

House of Commons

London

SW1A0AA

9 December 2020

Dear Chair,

Thank you for your letter to Robert Courts MP about the Government's recent announcements on the withdrawal of tax-free airside sales under the extra statuatory concession. As this was a HM Treasury decision, I am replying as the Minister responsible for this policy area.

You are right to champion Britain's airports; I fully recognise their importance and share your desire to see them prosper. The change to tax-free airside sales follows a consultation on the potential approach to duty-free and tax-free goods that would apply in Great Britain following the end of the transition period. The consultation was announced at the Budget in March 2020 and ran from 11 March to 20 May 2020. It explored a broad number of options, including the potential withdrawal of tax-free airside sales.

The Government raised concerns as part of the consultation that the benefit of the scheme is not always passed on to consumers, that it is applied inconsistently by retailers and that the concession is also not consistent with international tax norms, for example, where snacks and drinks are consumed in the airport or goods are brought back into the country by UK residents with tax unaccounted for. The Government has also put together a technical note to provide further detail, a copy of which is enclosed.

Announcements of this nature would usually be made at a fiscal event with the accompanying costings. However, the Government announced these changes on 11 September to give individuals and businesses as much time as possible to prepare ahead of these changes coming into effect from 1 January 2021.

The independent Office for Budget Responsibility (OBR) have now set out their assessment of the fiscal impact of the withdrawal of the scheme. The OBR's assessment supports HM Treasury's analysis that the withdrawal of airside tax-free sales will will raise around £170 million per year for the Exchequer, after behavioural responses are taken into account and passenger numbers recover from the impacts of Covid-19.

I have enclosed the policy costing note[1], which describes the general method used on page 43, and the OBR's commentary, which contains specific references to the measure on page 183.

The withdrawal of the scheme is also a part of a wider package of changes to our 'passengers' policy, with significant benefits for UK consumers. For the first time in over 20 years, the Government is providing duty-free sales for individuals when they leave the UK to visit the EU (around 67 million individuals visit the EU from the UK). This also boosts regional airports, the majority of which primarily deal in EU travel – that is 24 out of 25 airports in the UK.

We have also roughly quadrupled alcohol allowances for individuals arriving in Great Britain (GB) – introducing one of the most generous alcohol allowances in the world. This will benefit a significant number of UK residents a year by allowing them to bring into GB, for example, three crates of beer, two cases of wine and one case of Champagne for personal use, without having to pay the relevant taxes – a saving of up to £120 of UK excise duty.

I am delighted that we are able to use the new-found freedoms of Brexit to achieve these benefits for our constituents.

[1] Policy Costings: November 2020
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/937937/Policy_costings_2020_final.pdf

I hope you find this information helpful. I am copying this letter to Minister Courts.

Yours sincerely,

Kemi Badenoch

Kemi Badenoch MP
Exchequer Secretary to the Treasury and Minister for Equalities