

The positive impact of Tax Free Shopping in the EU

Tax Free Shopping in the EU

The EU has a well-functioning Tax-Free Shopping system which has been in operation for many decades. Over 45 VAT refund operators are present in the EU, offering value added services to European merchants, non-EU shoppers and EU authorities. The contribution of VAT refund operators to the Tax-Free Shopping scheme has resulted in increased expenditure from non-EU shoppers, a seamless process for all stakeholders and a more secure system to minimize and prevent fraud.

Tax Free Shopping allows non-EU shoppers to recover the VAT paid when shopping at European merchants. The process usually involves the following three steps:

1. the issuance by the merchant of a Tax-Free transaction at the point of sale;
2. the export validation of the Tax-Free transaction by customs authorities when the non-EU shopper leaves the EU; and
3. the refund of the VAT to the non-EU shopper once the transaction has been validated.

The EU VAT Directive defines the core principles of the Tax-Free Shopping scheme. Based on those principles, Member States have implemented their own national regulations, particularly in terms of defining the Minimum Purchase Amount fixed to shop Tax Free, the documents needed to prove the non-EU shopper eligibility for VAT refunds and the legal value of the Customs validation.

The business to business to consumer (B2B2C) model is the standard in the EU applied by Member States (with the exception of Belgium) and requires merchants to be involved in the Tax-Free Shopping process, in part because the involvement of merchants is a key element in minimising fraud. Merchants and VAT refund operators, like Global Blue, work together to help ensure robust verification and documentation of purchases across multiple jurisdictions.

Without their efforts, the scheme would be difficult to effectively supervise, and the costs of that oversight would fall to the public sector.

VAT refund operators simplify the complex interactions between national tax and customs authorities, merchants and non-EU shoppers. They offer several services and solutions to all stakeholders, including:

- Solutions to EU Member States:
 - Digital solutions for export validation and connection to national export validation systems for a seamless and secure validation process.
 - Fraud prevention and identification tools.
- Solutions to European merchants:
 - Technology solutions for the issuance of digital Tax-Free transactions at the point of sale. These solutions allow for a fast and seamless process and are designed to meet merchants' requirements depending on the type and size of merchant. Due to these solutions, which are mainly provided at no cost for the merchants, more than 95% of Tax-Free Shopping transactions are issued digitally despite it not been mandated by regulations across all of the EU.
 - Business Intelligence and Marketing solutions to increase retailer's sales to non-EU shoppers.

- Solutions to non-EU shoppers:
 - A wide range of mobile digital solutions to enhance their shopping experience and keep them up to date with all relevant information.
 - A large number of refund options (cash, credit cards and digital wallets) and locations (Airport, Downtown, in origin country) to facilitate and streamline the refund process. This leads to an increase in the usage of the scheme with positive benefits for European merchants.

Moreover, VAT refund operators play a key role in promoting Tax Free Shopping to merchants and non-EU shoppers:

- VAT refund operators extensively promote Tax Free Shopping to new merchants. As a result, Tax Free Shopping is offered by an increasing number of merchants, is available in more cities and is offered to more non-EU shoppers buying a wide range of products including luxury and non-luxury items. More than 230,000 merchant stores across all EU Member States offer Tax Free Shopping to their non-EU shoppers.
- VAT refund operators promote Tax Free Shopping to non-EU shoppers. For example, Global Blue works together with companies like Alipay, WeChat, Visa and Mastercard to attract more non-EU shoppers and encourage them to shop more when visiting the EU.

In exchange for these services, VAT refund operators charge a fee which is usually paid by non-EU shoppers. This fee allows VAT refund operators to continuously invest in technology, prevent and minimise fraud, ensure full compliance with regulation, offer new services to European merchants and non-EU shoppers and promote Tax Free Shopping in the EU and abroad.

Part of this fee is shared with some merchants to cover the significant investments they make in technology and training to streamline form issuance, promote their services and simplify the VAT refund process for non-EU shoppers. In the case of Global Blue, these fees have remained stable for many years, with the average charged to non-EU shoppers across the EU being 30% of the VAT recouped – and to the best of Global Blue’s knowledge other VAT refund operators with the same model operate a similar pricing structure.

Despite the key role played by VAT refund operators across many Member States in the Tax-Free Shopping scheme, their role and the legal and financial requirements to become one, are not defined neither EU level or in most Member States legislations.

Tax Free Shopping has a positive impact on tourism in Europe and on European merchants

The EU is a tourism powerhouse. In 2019, it accounted for 50% of worldwide tourist arrivals¹.

VAT refunds have been found to play an important role in increasing the attractiveness of countries for shopping trips by international travellers. The number of countries offering Tax Free Shopping worldwide has increased from only 1 in 1979 to 72 in 2021. The fact that all EU Member States offer VAT refunds to non-EU shoppers has been a key factor in consolidating the EU as the world’s largest shopping destination.

A 2022 study by Oxford Economics² indicates that in 2019 the value of all Tax Free Shopping registered sales in the EU27, reached €19.5 billion and that Tax Free Shopping enabled €12 billion of additional spend on retail and other tourism activities in the EU. It also estimates that

¹ European Parliament Factsheets – Tourism, 2022

² The Economic Impact of Tax-Free Shopping in the EU27, Oxford Economics, 2022

out of the 10 million non-EU-shoppers that have used Tax Free Shopping during 2019, 1.8 million visited a EU Member State as a direct result of the EU's Tax Free Shopping scheme, with the number of additional trips associated with the Tax Free Shopping scheme reaching 3.4 million³.

While the VAT refunded to the non-EU travellers in 2019 amounted to €2.8 billion, the Oxford Economics study shows that this amount was completely offset by the Tax Free Shopping enabled tax contributions – which reached €5.2 billion during the same period⁴.

For many merchants, Tax Free Shopping is key to attracting and increasing sales to non-EU shoppers. Merchants and therefore jobs in this sector are heavily reliant on these shoppers. In fact, it has been estimated by Oxford Economics that, in 2019, Tax Free Shopping supported 233,000 jobs, contributed to €13.9 billion to the EU's GDP and €5.2 billion in tax payments. In other words, each €1 of refunded VAT supported €5 in the EU's GDP⁵.

A 2019 study by Bain⁶ showed that during the period of 2009-2019, the annual luxury sales growth coming from domestic shoppers was on average 5%, while the annual luxury sales growth coming from international shoppers in those countries offering Tax Free Shopping was 10%.

A recent study from Bain⁷ showed that in 2019, 40% of the revenue of EU luxury goods merchants came from non-EU shoppers. In some Department Stores across Europe, this figure could reach over 70%.

Non-EU shoppers are equally important for non-luxury merchants. Tax Free Shopping is an indispensable tool for many types of merchants across the whole EU, including thousands of SME merchants located nearby the EU borders which are highly dependent on shoppers that regularly cross the border to shop in the EU, motivated by the possibility of recovering the VAT.

According to Oxford Economics, in 2019 there were almost 350 cities or towns across Europe where at least 500 visitors engaged in Tax Free Shopping. Of these, around 250 saw at least 1,000 visitors enjoying Tax Free Shopping. Further, the study indicates that approximately €3.5 billion of spending was with non-luxury retailers selling a variety of other products such as consumer electronics, sports goods, etc⁸.

By 2025, the total economic contribution of Tax Free Shopping will have done nothing but grow – supporting 247,000 jobs, €17.3 billion of GDP and leading to €6 billion in tax contributions compared to €3.8 billion in projected VAT refunds to the non-EU shoppers⁹.

The impact of the Covid pandemic on Europe's tourism sector has been dramatic. In the first four months of 2021, international tourist arrivals to Europe saw a 44% decline compared to 2019 levels. This translated into the destruction of between 14.2 and 29.5 million jobs¹⁰.

³ Including others traveling in the same party as the TFS user

⁴ The Economic Impact of Tax-Free Shopping in the EU27, Oxford Economics, 2022

⁵ The Economic Impact of Tax-Free Shopping in the EU27, Oxford Economics, 2022

⁶ Bain Study on Tax Free Shopping, 2019

⁷ ECCIA Bain Study on Tourism in Europe, 2022

⁸ The Economic Impact of Tax-Free Shopping in the EU27, Oxford Economics, 2022

⁹ The Economic Impact of Tax-Free Shopping in the EU27, Oxford Economics, 2022

¹⁰ European Parliament Factsheets – Tourism, 2022

Due to the importance of international shopping for the EU economy and European merchants, Tax Free Shopping represents a great opportunity to increase the attractiveness of the EU as a shopping destination and support the recovery of the tourism industry and retail sector.

There are clear opportunities to further improve the Tax-Free Scheme in the EU

Global Blue fully supports the EU's digital agenda and recovery plan, including the EU's goals for increased digitisation and interoperability. Global Blue has a track record of working closely with national tax and customs authorities to help deliver on their goals.

Opportunities for further Digitalisation:

- Despite several countries like France, Spain and Italy having digitalized their Tax-Free Shopping export validation process, there are still countries like Germany and Greece that have not done so.
- In those countries that have implemented a digital Tax-Free Shopping export validation process, the ratio between those travellers that were offered a VAT refund compared to those who completed the process to obtain the VAT refund is 88%, while in countries which do not have a digital export validation process, this ratio is 78%.
- Countries without a digital export validation process, have higher levels of admin costs for business and tax authorities.
- These countries are not benefiting from the opportunities digital export validation brings in terms of supporting wider efforts on VAT fraud prevention and in developing more advanced processes for processing and tracking refunds which are missed.

Opportunities to improve Interoperability:

- When we look at those countries that have digitalised Tax-Free Shopping, each of them has done it in isolation, building their own digital export validation systems that can only validate transactions issued in their country. The EU VAT Directive establishes that non-EU shoppers should obtain the export validation in their last point of departure of the EU. These two facts pose a problem of interoperability.
- When a non-EU shopper requests the validation of transactions issued in another Member State, these transactions can be only validated manually.
- The number of transactions issued in one Member State and validated in another represents approximatively 15% of all transactions validated in the EU. For these transactions, the benefits of increased security and of improved experience for the non-EU shopper, disappear.
- We appreciate that seeking to introduce a single, centrally operated Tax Free Shopping export validation solution across the EU is unlikely to be an attractive proposition for Member States both in terms of cost and complexity. However, there are options short of this that could help improve interoperability. By using a "pull" or "hybrid" model and passport as the validation token together with a common and limited amount of mandatory information, it will be possible for Member States to shift significant volumes of foreign transactions over to the digital stamping flow.

Opportunities to improve consistency among Member States:

Global Blue provides Tax Free Shopping services across 24 EU Member States, each of which has different regulations. We believe that the harmonization of certain rules will provide the EU with a stronger and more consistent operational framework for Tax Free Shopping.

- Minimum purchase amounts to shop Tax Free differ among Member States, ranging from €0 in Spain, up to €154.95 in Italy and capped by the EU VAT Directive at €175. Eliminating or reducing this threshold, will extend the usage of Tax-Free Shopping to low value transactions and increase the benefits of the scheme for small merchants across the whole EU.
- Passport should become the unique and common document across all Member States to prove the eligibility of the non-EU shopper. In the case of EU-Nationals residing outside the EU, a common rule across the EU should be defined - for example, asking for a proof of residence (non-EU of residency certificate)
- The legal value of Customs validation should be harmonized across all Member States. Customs verifies the eligibility of the non-EU shopper and the export of the goods. This provides enough evidence to allow VAT refund operators and merchants to pay the VAT refund to the non-EU shopper. No further liabilities should be imposed on them.

Opportunities to define the role and requirements to be a VAT refund operator:

The role of the VAT refund operator and the legal and financial requirements to become one, are not defined.

- The role of VAT refund operators should be clearly defined. This will contribute to the harmonization of the way in which Tax-Free Shopping is offered across all Member States and will provide clarity and accountability on their responsibilities.
- Legal and financial requirements to become a VAT refund operator within the EU should be defined. This will guarantee that EU merchants and non-EU shoppers will receive a seamless service and will guarantee that the non-EU shopper receives the VAT refund.

By doing so, EU merchants and non-EU shoppers will enjoy a seamless Tax Free Shopping experience and the peace of mind that they will receive their VAT refund.

Conclusion

The EU has a well-functioning Tax Free Shopping scheme operating for many decades. Multiple VAT refund operators offer value added services to European merchants, non-EU shoppers and EU authorities. The contribution of the VAT refund operators to the Tax Free Shopping scheme has resulted in increased expenditure from non-EU shoppers, a seamless process for all stakeholders and a more secure system to minimize and prevent fraud.

Due to the importance of international shopping for the EU economy and European merchants, Tax Free Shopping represents a great opportunity to increase the attractiveness of the EU as a shopping destination and support the recovery of the tourism industry and retail sector.

Enhanced digitalization of Tax Free Shopping across all Member States and better interoperability between the national export validation systems, represent a unique opportunity to improve the scheme. This will translate into a seamless process for European merchants, a more secure system that will allow EU authorities to minimize fraud and a better shopping experience for the non-EU shopper.

The harmonization of certain regulations will provide the EU with a strong and consistent operational framework for Tax Free Shopping, particularly those related to defining the Minimum Purchase Amount to shop Tax Free, the documents to proof the non-EU shopper eligibility and the legal value of Custom's validation.



VAT refund operators play a key role in the Tax Free Shopping scheme and their role as well as the legal and financial requirements should be defined and harmonized across all Member States.

About Global Blue

Global Blue is a leading technology company with more than 40 years of experience in Tax Free Shopping.

We are present in 44 countries worldwide (including 24 EU member states) and offer our digital solutions to merchants, international shoppers and authorities to promote and facilitate the tax-free shopping scheme helping them to become a more attractive destination.

The EU is our biggest market where we offer European merchants, European national authorities and non-EU shoppers a broad range of digital solutions to simplify the VAT refund process, to increase security and prevent fraud and to enhance the non-EU shopper experience.