

EXPLANATORY MEMORANDUM TO
THE SPECIAL TAX SITES (APPLICABLE SUNSET DATE) REGULATIONS 2024

2024 No. 574

1. Introduction

- 1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) and is laid before the House of Commons by Command of His Majesty.

2. Declaration

- 2.1 Nigel Huddleston MP, Financial Secretary to the Treasury, confirms that this Explanatory Memorandum meets the required standard.
- 2.2 Morris Graham, Deputy Director for Stamp Duty Land Tax and Cross-cutting Freeport Reliefs, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

- 3.1 Karl Donnison at HMRC Telephone: 03000 539308 or email: karl.donnison@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

- 4.1 These regulations extend the sunset dates for those special tax sites within, or connected to, a freeport or investment zone in which certain tax reliefs are available (known as special tax sites). A freeport or investment zone for these purposes, is an area identified as such in a document published by or with the consent of HM Treasury where special tax rules will apply. The tax reliefs available in special tax sites include a 10% enhanced rate of structures and buildings allowance, a 100% first year allowance for qualifying expenditure on plant and machinery, and a zero-rate of secondary Class 1 National Insurance contributions (NICs) on earnings up to the upper secondary threshold (£25,000) for qualifying employments and business rates reliefs. In England, Stamp Duty Land Tax (SDLT) relief is available on qualifying acquisitions of land. For reference, Land and Buildings Transaction Tax (LBTT) relief is available on qualifying acquisitions of land in Scotland. LBTT is administered by Revenue Scotland on behalf of the Scottish Government.

Where does the legislation extend to, and apply?

- 4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.
- 4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

- 5.1 Freeports were announced in March 2021 with the aim to rebalance regional economies in disadvantaged parts of the UK by promoting regeneration and job creation, laying the foundation for establishing long-term key economic assets.
- 5.2 At Autumn Statement 2022, the Government announced a refocused investment zones programme as a critical part of boosting the UK's potential as an innovation nation, growing strengths in a limited number of knowledge-intensive growth clusters to support national priorities and levelling up communities across the country.
- 5.3 At Autumn Statement 2023, the Government announced that the freeport and investment zone programmes would be extended from five to ten years, and at Spring Budget 2024, announced that this would be matched by an extension for investment zones in Scotland and Wales.
- 5.4 Extending the duration of the tax reliefs available in freeport and investment zone special tax sites from five to ten years will deliver benefits to businesses to stimulate investment and provide greater certainty to investors to maximise the programme's impact.

What was the previous policy, how is this different?

- 5.5 The relief for secondary Class 1 NICs was previously set to end for new employees after 5 April 2026, and those for SDLT, enhanced structures and buildings allowance and 100% first-year allowance were previously set to end for new investment after 30 September 2026.

6. Legislative and Legal Context

How has the law changed?

- 6.1 These regulations are made under section 332 (4) and (5) of the Finance (No.2) Act 2023. This is the first set of regulations laid under these powers.
- 6.2 These regulations are required to ensure that the sunset date in respect of special tax sites is extended to 30 September 2031 for English freeports, and 30 September 2034 for Scottish green freeports, Welsh freeports, and investment zones.

Why was this approach taken to change the law?

- 6.3 The approach was considered the most appropriate way of making this change as Parliament envisaged a change of this nature to be made using secondary legislation when it legislated for the power to change the sunset date in Finance (No.2) Act 2023.

7. Consultation

Summary of consultation outcome and methodology

- 7.1 The freeport package including the tax offer was the subject of an extensive consultation process which ran from 10 February 2020 to 13 July 2020. The Government received 364 responses from a mixture of port operators, businesses, local authorities, non-governmental organisations and others¹. The Government later determined that this tax offer was also considered appropriate to support the objectives of the investment zone programme.

¹ Freeports consultation outcome: <https://www.gov.uk/government/consultations/freeports-consultation>

- 7.2 On 17 March 2023 the Scottish Government announced a consultation on ‘Land and Buildings Transaction Tax – Green Freeport Relief’. The Scottish Government published a consultation response on 16 June 2023. In total, the consultation received 10 responses from various stakeholder groups². The Scottish Government legislated for Land and Buildings Transaction Tax – Green freeport relief which came into force 1 October 2023.
- 7.3 On 19 December 2024 the Welsh Government announced a consultation on Land Transaction Tax – freeport relief³. The consultation closed on 18 February 2024 and the consultation response is yet to be published.
- 7.4 These regulations have not been subject to consultation. Consultation was not considered necessary as the legislative change is simple and delivers on a government commitment that has already been announced.

8. Applicable Guidance

- 8.1 No guidance will be published for these regulations. However, guidance has been published for each of the special tax site tax reliefs⁴, containing the relevant sunset date for special tax sites. This guidance will be updated to reflect this change.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

- 9.1 A Tax Information and Impact Note covering this instrument will be published on gov.uk⁵.

Impact on businesses, charities and voluntary bodies

- 9.2 The impact on business, charities or voluntary bodies is that businesses will be able to benefit from the tax reliefs available in special tax sites over a longer period of time.
- 9.3 The legislation does impact small or micro businesses.
- 9.4 No specific action is proposed to minimise regulatory burdens on small businesses. The basis for the final decision on what action to take to assist small businesses is that relatively few small businesses will be affected by this legislation and those that are affected will benefit from the special tax site reliefs.
- 9.5 There is no, or no significant, impact on the public sector.

² Land and Buildings Transaction Tax – Green Freeport relief consultation outcome:

<https://www.gov.scot/publications/land-buildings-transaction-tax-proposed-relief-green-freeports-scottish-governments-response-summary-responses>

³ Land Transaction Tax – Freeport relief consultation: <https://www.gov.wales/land-transaction-tax-special-tax-sites-relief>

⁴ Guidance on enhanced capital allowances relief in special tax sites: <https://www.gov.uk/guidance/check-if-you-can-claim-the-enhanced-capital-allowance-relief-in-freeport-tax-sites> Guidance on enhanced structures and buildings allowance in special tax sites: <https://www.gov.uk/guidance/check-if-you-can-claim-enhanced-structures-and-buildings-allowance-relief-in-freeport-tax-sites> Guidance on National Insurance relief in special tax sites: <https://www.gov.uk/guidance/check-if-you-can-claim-national-insurance-relief-in-freeport-tax-sites> Guidance on SDLT relief in special tax sites: <https://www.gov.uk/guidance/check-if-you-can-claim-relief-from-stamp-duty-land-tax-in-freeport-tax-sites> Guidance on LBTT relief in special tax sites: <https://revenue.scot/taxes/land-buildings-transaction-tax/lbtt-legislation-guidance/lbtt3001-exemptions-reliefs/lbtt3010-tax-reliefs/lbtt3049-green-freeports>

⁵ Tax Information and Impact Note: <https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins>

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

- 10.1 The approach to monitoring this legislation is through information collected from tax returns and through communications with the affected taxpayer population. Freeport governance bodies will also need to monitor and evaluate business activity in each freeport. Local authorities hosting investment zones will also need to monitor and evaluate business activity in each investment zone. This measure will be monitored and assessed alongside other measures in the government's freeport and investment zone packages.
- 10.2 The instrument does not include a statutory review clause because it is exempt under section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015 (provisions relating to tax).

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

- 11.1 None.

12. European Convention on Human Rights

- 12.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation no statement is required.

13. The Relevant European Union Acts

- 13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").