

EXPLANATORY MEMORANDUM TO

THE DESIGNATION OF SPECIAL TAX SITES (LIVERPOOL CITY REGION, WEST MIDLANDS AND NORTH EAST INVESTMENT ZONES) REGULATIONS 2024

2024 No. 383

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 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 designate those special tax sites within, or connected to, an investment zone in which certain tax reliefs are available. An 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 in England include Stamp Duty Land Tax (SDLT) relief on qualifying acquisitions of land, a 10% enhanced rate of structures and buildings allowance, a 100% first year allowance for qualifying expenditure on plant and machinery, a zero-rate of secondary Class 1 National Insurance contributions (NICs) on earnings up to the investment zones upper secondary threshold (£25,000) for qualifying employments and business rates relief.

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 United Kingdom.
- 4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is United Kingdom.

5. Policy Context

What is being done and why?

- 5.1 The investment zones programme – which was launched at Spring Budget 2023 - will catalyse 13 high potential knowledge-intensive growth clusters across the UK, including two each in Scotland and Wales, bringing investment into areas which have traditionally underperformed economically.
- 5.2 At Autumn Statement 2023 it was announced that the investment zones programme would be extended from 5 to 10 years. Each investment zone will be provided with a £160 million envelope over 10 years which can be used flexibly between spending on interventions such as skills, research and development and local infrastructure, dependent on local need, and a single offer of tax incentives, scalable based on the number of eligible sites.
- 5.3 The first two investment zones in England were announced as South Yorkshire and the Liverpool City Region in July 2023. At Autumn Statement in November 2023, a further four investment zones across the UK were announced in Greater Manchester, West Midlands, East Midlands and Wrexham & Flintshire.
- 5.4 At Spring Budget 2024, the Government announced details of how the Investment Zones in Greater Manchester, Liverpool City Region, North East of England, South Yorkshire, West Midlands and West Yorkshire will use the funding envelope available. Funding and tax interventions will go live in these Zones in April (subject to programme business case, and the provision of year one delivery plans, as well as the laying of legislation for tax sites).
- 5.5 Legislation was included in the Finance Act 2021 for the special tax site reliefs and the National Insurance Contributions Act 2022 for the special tax site NICs relief. The power contained within section 113 of the Finance Act 2021, as amended by section 331 of, and Schedule 23 to, the Finance (No.2) Act 2023, enables special tax sites within, or connected to, freeports or investment zones to be designated and recognised in law as geographical areas where businesses can benefit from the special tax site reliefs.
- 5.6 This instrument designates the special tax sites in the Liverpool City Region, West Midlands and North East investment zones.

What was the previous policy, how is this different?

- 5.7 The areas that are designated as special tax sites by these regulations were not previously able to benefit from the special tax site reliefs. These regulations ensure that those reliefs are available to meet the policy objectives of encouraging development and investment.

6. Legislative and Legal Context

How has the law changed?

- 6.1 These regulations are made under section 113 of the Finance Act 2021 as amended by section 331 and schedule 23 Finance (No.2) Act 2023.
- 6.2 Schedule 22 to the Finance Act 2021 introduced new sections 45O to 45R into the Capital Allowances Act 2001 (CAA 2001) which provide for 100% first-year allowances for companies incurring qualifying expenditure on plant or machinery for use primarily in a special tax site.

- 6.3 Schedule 22 to the Finance Act 2021 also introduced new sections 270BNA to 270BNC into CAA 2001 which provide for an enhanced 10% rate of structures and buildings allowances for persons incurring qualifying expenditure on structures and buildings situated in a special tax site.
- 6.4 Schedule 23 to the Finance Act 2021 introduced new section 61A and Schedule 6C into the Finance Act 2003 which provide for relief from Stamp Duty Land Tax in England for qualifying acquisitions of land situated in a special tax site.
- 6.5 Sections 1 to 4 in the National Insurance Contributions Act 2022 provide for a zero-rate of secondary Class 1 NICs on earnings up to the investment zone upper secondary threshold (£25,000), that employers based in a special tax site can apply to qualifying employments from April 2022.
- 6.6 The Government is not changing the legislation relating to business rates reliefs. Instead, the Government will provide guidance to local authorities outlining eligibility criteria for relief. The Government will then reimburse local authorities that use their discretionary relief powers under section 47 of the Local Government Finance Act 1988 (as amended), to grant relief in line with that guidance.
- 6.7 These regulations are required to designate those special tax sites in which expenditure may qualify for the reliefs and to state the day on which expenditure can begin to qualify.

Why was this approach taken to change the law?

- 6.8 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

- 7.1 Since the first freeport tax sites were designated in late 2021, feedback from businesses and stakeholders in freeports has demonstrated the strength of this tax offer in attracting investment into specific sites. As such, this tax offer was considered appropriate to support the objectives of investment zones. The freeport package, including the tax offer was the subject of an extensive consultation process which ran from 10 February 2020 to 13 July 2020¹. The Government received 364 responses from a mixture of port operators, businesses, local authorities, non-governmental organisations and others.
- 7.2 These regulations have not been subject to consultation. Consultation was not considered necessary as the special tax sites which are the subject of these regulations were put forward by the relevant local authorities as part of their investment zone proposals and have undergone a robust assessment against the Government's underdevelopment criteria.

8. Applicable Guidance

- 8.1 Existing guidance is available for each of the special tax site reliefs and will be updated to reference investment zones when the regulations come into effect. This includes guidance for the first-year allowance for plant and machinery², guidance for

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

² 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>

the enhanced rate of structures and buildings allowance³, guidance for the zero-rate of secondary Class 1 NICs⁴ and guidance for SDLT relief⁵.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument was published on 15 March 2023 alongside Spring Budget 2023⁶. It remains an accurate summary of the impacts that apply to this instrument.

Impact on businesses, charities and voluntary bodies

9.2 The impact on business, charities or voluntary bodies is that eligible businesses which operate in special tax sites will begin to be eligible for the special tax site reliefs.

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 will benefit from the special tax site reliefs.

9.5 There is no, or no significant, impact on the public sector.

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. 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 investment zone package.

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 a tax).

³ 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>

⁴ 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>

⁵ 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>

⁶ Tax Information and Impact Note on investment zone special tax sites: <https://www.gov.uk/government/publications/investment-zone-special-tax-sites/investment-zone-special-tax-sites-with-enhanced-tax-and-national-insurance-contributions-reliefs>

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”).