

## UK Government Seeks Economic Boost With Freeports Initiative

January 4, 2021

The Government is pressing ahead with its proposed UK 'freeports' initiative, described as a 'flagship government programme' by HM Treasury, which aims to increase the attractiveness of the UK as an international trading nation post-Brexit and boost the UK economy. Following a consultation process in 2020, which culminated in the Government publishing a response to the consultation in October 2020 (the 'Response'), the Government is now seeking bids for the first seven freeports and published a bidding prospectus on 16 November 2020 ('the Prospectus'). The Response states that freeports 'will enable UK business to access a range of benefits to boost their international competitiveness in a high productivity cluster'.

The basic concept of freeports is that they operate as custom zones within a jurisdiction's land border, but they have different customs rules to the rest of the jurisdiction. These altered customs rules should allow businesses operating in a freeport to benefit from tariff benefits and simplified customs procedures.

In other words, the Government intends that freeport trading should be both cheaper and simpler to effect in certain circumstances. They are usually located at ports, hence the name. Other features of freeports, which may differ from the usual country legislation, include tax, planning and regulatory policies.

### Proposed Key Customs and Tariff Features

1. Goods brought into a freeport will not need to have duties paid on them until they leave the freeport and enter the domestic market, and no duty will be payable at all if the goods are re-exported without entering the UK market ('duty suspension'). Import value-added tax (VAT) will also be suspended.
2. If duty payable on the component parts of a product is higher than that payable on the finished product, a company could benefit from importing components into a freeport without paying duty, manufacturing the product in the freeport and paying the duty on the finished product only when the product leaves the freeport and enters the UK domestic market ('duty inversion').
3. Instead of paying duty on the finished product in number 2 above, the finalised product could be re-exported, and no tariffs would be payable on the components at any stage ('duty exemption for re-exports').
4. Simplified customs procedures, which may include a simplified declarations procedure for goods entering a freeport.

### Proposed Key Tax Features

1. Stamp Duty Land Tax (SDLT) relief, which will be available until 31 March 2026 in England and Wales, with a clawback mechanic to be included.
2. 100 percent relief from business rates on business premises within freeports for new or relocated business from October 2021 for five years from the point at which the relief is first received.
3. 0 percent employer national insurance contributions will be available for new employees working in a freeport for up to 9 years from April 2022.

- 100 percent capital allowances relief, available for investment in new plant and machinery until 30 September 2026 and which will primarily be used in the freeport(s) will be available.
- A specific 'Structures and Buildings Allowance' relief, at a rate of 10 percent of the cost of annual investment over 10 years, for businesses constructing or renovating structures or buildings for non-residential use within freeports. The construction contract must be entered into and the structure or building brought into use by 30 September 2026.

## Further Considerations

Both the Response and the Prospectus are carefully crafted politically – they shine a light on the benefits and advantages of freeports while minimising any concerns. Furthermore, although the Prospectus provides more colour to the freeport plans than the Response originally did, we still lack specific details on the mechanics of the tax and customs advantages to be offered by freeports. As such, commitment to freeports by interested parties may be limited until further details are available.

Concerns exist around freeport security and their potential for tax evasion and abuse. Indeed, the Government cites concerns about the potential for tax abuse as the reason why a specific research and development tax incentive was not proposed in the Response. Businesses also may be worried by who will actually operate freeports and what level of oversight freeport operators will be subject to by the Government. However, cautious optimism around freeports should be encouraged, as freeports may offer a viable way for the UK to develop an internationally competitive economy and trading status outside the EU.

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## CONTACTS

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1/4/21