Response to the Scottish Government's Land and Buildings Transaction Tax – Green Freeports Relief consultation

May 2023

Green Freeports

As of January 2023, the Scottish and UK governments announced that Inverness and Cromarty Firth Green Freeport and Forth Green Freeport had been selected as Green Freeports.

There are a number of immediate concerns with the establishment of Green Freeports. They include:

- 'Free zones' have been used in the past to deregulate and drive down working rights, security of employment, conditions and pay. There has been no indication from either the UK or Scottish government how protections for workers (including secure work, decent pay and union rights) will be secured;
- The main impact on manufacturing is that imports into freeports are supported by lowering tariffs and avoiding paperwork and customs costs. Companies will only pay tariffs on finished products *if* they enter the UK market. If products are immediately exported, they will pay none;
- A potential effect – and well documented concern – of freeports is that they don't create new economic activity, but rather existing work in surrounding areas moves into the freeports under the promise of tax breaks. This pits regions against each other, causes other areas to lose employment and revenue for local authorities, and allows employers moving to freeports to avoid tax; and
- All of these issues result in increased pressure on local infrastructure and public services in the context of lowered tax revenue, austerity measures and public sector pay cuts.

Based on the relative success of renewable industries such as offshore wind in other European countries, we know that the answer to increasing jobs and investment is not 'legal black holes' where imports are promoted, and companies are able to maintain supply chains and gain an advantage through the avoidance of customs and tax.[1]

We have seen time and time again that public ownership of ports coupled with publicly-owned energy companies can provide the strategic investment, upgrades and direction to create secure, decent jobs and benefits for surrounding communities.

[1] https://www.unitetheunion.org/media/3649/freeports-briefing_080221.pdf

Relaxing regulation in the name of benefits for private companies, on the other hand, frequently has the effect of relaxing other regulations – such as workers' rights and conditions. Relatedly, in April 2019 the European Parliament called for freeports to be scrapped across the EU because of a report on tax evasion and money laundering.[2]

When freeports were first proposed by the UK Government, the Scottish Government noted concerns that there would be no requirements on working conditions, just transition or sustainable growth. In response to this, they settled on the creation of 'Green Freeports' which are structurally the same as freeports but recommend that employers follow principles of Fair Work, commitment to transition and sustainable growth.[3] As Common Weal explains in their report, *Scotwind: One Year On*:

"*The Scottish Government's negotiated "improvements" to the UK Freeport model are scant, including a request that companies who wish to bid for Freeport status within the Freeport zones "may" wish to align to the Scottish Government's Fair Work First criteria and "may" wish to make commitments on paying the Real Living Wage or recognising trade unions.*"[4]

Preventing the negative consequences of Freeports that are already well-known, relies on 'Green Freeports' securing decent conditions and union recognition, preventing a drain of employment from surrounding areas into the Green Freeports and ensuring the creation of sustainable manufacturing industries with benefit to local communities.

Without a clear path to ensuring these outcomes, the STUC is very sceptical that any proposed benefits of Green Freeports will not simply come at the expense of tax revenue and workers' rights on site, or the displacement of economic activity elsewhere in the country.

Land and Buildings Transaction Tax Relief in Green Freeports

As part of the creation of Green Freeports in Scotland, the Scottish Government is suggesting providing Land and Buildings Transaction Tax (LBTT) relief to non-residential buildings, which is land or property used for a commercial activity or trade, within the Green Freeport designated tax zones.

For context, the Land and Buildings Transaction Tax (LBTT) for non-residential buildings is currently:

- 0% for purchase price up to £150,000
- 1% for purchase price between £150,001 and £250,000
- 5% for purchase price above £250,000

The current combined revenue from both residential and non-residential LBTT in Scotland is around £800m (Revenue Scotland, 2022). This is a relatively small tax take given that the value of the residential sales market alone was £22.2 billion in 2021-22 (Registers of Scotland, 2022).

After a period of skyrocketing inflation and stagnant pay growth, workers across Scotland have been agitating for pay rises that at least keep pace with inflation. Nowhere is this more evident than in the

[2] https://www.unitetheunion.org/media/3649/freeports-briefing_080221.pdf

[3] https://spice-spotlight.scot/2023/03/03/green-freeports-in-scotland-opportunities-and-challenges-as-we-transition-to-a-net-zero-economy/

[4] https://commonweal.scot/wp-content/uploads/2023/02/Scotwind-One-Year-On-v2.pdf

public sector, where recent disputes have occurred across local government, education, the NHS and elsewhere.[5]

Much needed public sector pay rises – and investment in public services and decarbonisation more generally – will need to be funded by additional revenue, raised through the Scottish Government's tax-raising powers. Now is the time for the Government to be exploring new ways to fund these crucial pay rises and services, rather than cutting revenue they already receive.

In a 2022 report *Options for increasing taxes in Scotland to fund investment in public services,* the STUC laid out options for raising more money from LBTT across residential and non-residential taxation which included:

- Splitting the £750,000+ residential property band into two, covering £750,000- £1 million and £1 million+
- Increasing the £325,000-£750,000 residential rate from 10% to 12%
- Splitting the £250,000+ non-residential band into two, covering £250,000- £500,000 at 5% and £500,000+ at 10%
- Introducing a 15% surcharge for overseas entities/non-UK residents buying property, similar to what is applied to Stamp Duty in England (currently at 5%).

Our view is that tax relief for businesses in Green Freeports do the exact opposite of the Scottish Government's proposed objectives. If, as the Scottish Government claims, they would like to:

a. promote regeneration and high-quality job creation
b. promote decarbonisation and a just transition to a net zero economy
c. establish hubs for global trade and investment
d. foster an innovative environment

Then they are much better off increasing taxes in a variety of ways, see *Options for increasing taxes in Scotland to fund investment in public services*, to deliver the level of investment Scotland needs and to properly pay public sector workers.

Realising a just transition across the economy will require interventions including publicly owned energy companies, support for local authorities to take back ownership of buses and strategic upgrading and ownership of ports. An approach which provides tax relief to large companies will inhibit the ability of the Scottish Government to deliver on just transition outcomes.

Specific issues with the proposed legislation

Proposed equivalency with UK Freeports

The basis of the Government's proposed LBTT relief within Green Freeports rests on it being "broadly equivalent to the Stamp Duty Land Tax (SDLT) relief offered to Freeports in England." This is a very concerning justification. Attempting to create Green Freeports that are broadly equivalent to the business environment offered in Freeports in England is foregoing the opportunity to raise revenue through tax-raising that can benefit people across Scotland. Moreover, there is an outstanding concern that attempting to create broadly equivalent environments to England will make the request to align with principles of Fair Work even less likely.

[5] https://stuc.org.uk/files/Reports/Scotland_Demands_Better_Fairer_Taxes_for_a_Fairer_%20Future.pdf

Equality impacts

The legislation risks potentially negative impacts on equal opportunities, human rights, businesses, island communities, privacy and/or sustainable development in Scotland. As previously stated, historically ‘free zones’ have sucked economic activity away from surrounding areas and reduced working rights for workers inside the zones. If the Scottish Government is not even able to guarantee that employers inside Green Freeports will abide by Fair Work principles, it seems almost impossible that the Government will be able to direct companies to follow any sort of strategy of sustainable development.

For further information contact
Gabrielle Jeliazkov, STUC Just Transition Officer
gjeliazkov@stuc.org.uk