

Explanatory Memorandum to the Land Transaction Tax (Modification of Special Tax Sites Relief) (No.3) (Wales) Regulations 2025

This Explanatory Memorandum has been prepared by the Welsh Treasury and is laid before Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Cabinet Secretary's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Land Transaction Tax (Modification of Special Tax Sites Relief) (No.3) (Wales) Regulations 2025. I am satisfied that the benefits justify the likely costs.

Mark Drakeford MS
Cabinet Secretary for Finance and Welsh Language

21 October 2025

PART 1 – EXPLANATORY MEMORANDUM

1. Description

- 1.1 These legislative amendments to the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 (“LTTA 2017”) extend the special tax sites relief provided in Schedule 21A to the LTTA 2017 to the Flintshire and Wrexham Investment Zone (IZ) special tax sites. Schedule 21A was inserted into the LTTA 2017 by the Land Transaction Tax (Relief for Special Tax Sites) (Wales) Regulations 2024¹ (the “First Regulations”), which were approved by the Senedd on 19 November 2024 and came into force on 26 November 2024.
- 1.2 The First Regulations introduced the special tax sites relief rules and provided LTT relief for qualifying land transactions within the designated areas of the Celtic Freeport². The Land Transaction Tax (Modification of Special Tax Sites Relief) (No.3) (Wales) Regulations 2025 will extend relief to the areas designated as special tax sites in the Flintshire and Wrexham IZ. A fuller explanatory memorandum and regulatory impact assessment was laid with the First Regulations³. That explanatory memorandum provides more detailed information in relation to the special tax site LTT relief.
- 1.3 On 16 October 2025, the UK government made and laid the Designation of Special Tax Sites (Flintshire and Wrexham Investment Zone) Regulations 2025⁴ for the Flintshire and Wrexham IZ. In order for the LTT relief to be available to the new special tax sites designated in the Flintshire and Wrexham IZ it is necessary for Schedule 21A to the LTTA 2017 to be amended to include the appropriate cross references to those UK government designation regulations.
- 1.4 The necessary amendments are to paragraphs 2 and 5 of Schedule 21A. The Regulations amend the meaning of special tax sites in paragraph 2 of that Schedule to include the areas newly designated by the UK government regulations for the Flintshire and Wrexham IZ.
- 1.5 Paragraph 5 of Schedule 21A is amended to provide LTT relief for qualifying land transactions within the designated areas of the Flintshire and Wrexham IZ for the period 21 November 2025 to 30 September 2034.
- 1.6 As a result of the designation of special tax sites by the UK government for the Celtic and Ynys Môn Freeports and the Flintshire and Wrexham IZ, and the provision of LTT relief, the Welsh Government and UK government are jointly supporting the Welsh freeports and IZs.

¹ [The Land Transaction Tax \(Relief for Special Tax Sites\) \(Wales\) Regulations 2024](#)

² [The Designation of Special Tax Sites \(Celtic Freeport\) Regulations 2024](#)

³ [Explanatory Memorandum to the Land Transaction Tax \(Relief for Special Tax Sites\) \(Wales\) Regulations 2024](#)

⁴ [The Designation of Special Tax Sites \(Flintshire and Wrexham Investment Zone\) Regulations 2025](#)

2. Matters of special interest to the Legislation, Justice and Constitution Committee

2.1 None.

3. Legislative Background

- 3.1 Section 113 of the Finance Act 2021, as amended by section 331 of, and Schedule 23 to, the Finance (No. 2) Act 2023, provides the UK government with a power to designate a special tax site for the purposes of Parts 2 and 2A of the Capital Allowances Act 2001 and, in relation to England, stamp duty land tax (“SDLT”). Section 113 does not allow the UK government to designate an area for the purpose of LTT as it is a devolved tax. Consequently, Schedule 21A to the LTТА 2017 specifies the areas to which the relief will apply and therefore ensures that the decision on the areas to which the relief applies ultimately rests with the Senedd.
- 3.2 Schedule 21A achieves this by defining a “special tax site” by reference to the UK government’s designation regulations (and the associated mapping) on the date those regulations come into force. The Welsh Government consider it important that the areas designated for the reserved taxes are the same as those to which the LTT and NDR tax incentives will apply, hence why this approach has been selected. Now that the UK government have made the Designation of Special Tax Sites (Flintshire and Wrexham Investment Zone) Regulations 2025, these Regulations amend Schedule 21A to include reference to these recently designated areas within the Flintshire and Wrexham IZ and thereby extend the relief to those areas.
- 3.3 Section 30 of the LTТА 2017 introduces Schedules 9 – 22 which make provision about reliefs that can be claimed in respect of certain transactions normally liable to LTT. Under section 30(6)(a), the Welsh Ministers may amend the LTТА 2017 by regulations to add a relief to LTT. The Welsh Ministers exercised this power in the First Regulations to add the new special tax sites relief to the LTТА 2017 by introducing Schedule 21A.
- 3.4 Under section 30(6)(b), the Welsh Ministers may amend the LTТА 2017 by regulations to modify a relief from LTT. The Regulations to which this Explanatory Memorandum apply amend Schedule 21A to the LTТА 2017 to extend the relief to the newly designated areas within the Flintshire and Wrexham IZ and include the relief period for those special tax sites.
- 3.5 These Regulations are subject to the Senedd’s draft affirmative procedure.
- 3.6 The relief is a subsidy in the form of a geographically limited relief provided to those businesses buying land and meeting the qualifying conditions within the designated special tax site for a limited period of time. The Subsidy Control Scheme for Welsh IZs was referred to the Competition and Markets Authority

(“CMA”) in accordance with section 31 of the Subsidy Control Act 2022⁵, and registered on the subsidy database in accordance with section 33 of that Act on 6 October 2025, Scheme SC11410.

4. Purpose and Intended Effect of the Legislation

- 4.1 Schedule 21A (Relief for Special Tax Sites) to the LTTA provides relief for the acquisition of qualifying chargeable interests in land located in special tax sites during a fixed period of time and if certain other conditions are met. These Regulations extend the areas to which the relief will apply to include those designated by the Designation of Special Tax Sites (Flintshire and Wrexham Investment Zone) Regulations 2025.
- 4.2 The Welsh Ministers have agreed to extend the window to claim special tax site tax reliefs, including the LTT relief, from 5 to 10 years. Therefore, these Regulations will provide relief to 30 September 2034.

5. Consultation

- 5.1 An eight-week public consultation began on 19 December 2023 and ended on 18 February 2024. The consultation document, which included a draft of the First Regulations, was published on the consultation pages of the Welsh Government’s website. Respondents were able to submit their views and comments by post, email or online. Details of that consultation and draft regulations were discussed with key stakeholders. The consultation applied to Wales only. A consultation response document was published⁶.
- 5.2 A consultation was not undertaken in relation to these Regulations as they only extend the scope of the LTT relief to new areas and do not amend the fundamental operation of the relief.

⁵ [Scheme SC11410 - Search for UK Subsidies - GOV.UK - Public user search subsidy scheme details page](#)

⁶ <https://www.gov.wales/land-transaction-tax-special-tax-sites-relief>

PART 2 – REGULATORY IMPACT ASSESSMENT (RIA)

A single RIA was prepared to assess the costs and benefits of designating the Celtic Freeport special tax sites, the Ynys Môn special tax sites and the IZ special tax sites. The RIA was published alongside the Land Transaction Tax (Relief for Special Tax Sites) (Wales) Regulations 2024. The RIA is replicated below; however, further information has been provided in respect of the Flintshire and Wrexham IZ:

6. Options

Option 1 – Do not provide LTT special tax sites relief – No Change

- 6.1 The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 (“LTTA 2017”) would not be amended.
- 6.2 **Advantages** - Simplicity and familiarity of rules retained and no reduction in amount of LTT collected.
- 6.3 **Disadvantages** - There would be an inconsistency in the approach in Wales compared with England and Scotland, which could cause disadvantages in terms of implementation and operation of a freeport(s) and / or investment zone(s) (“IZ(s)”) in Wales. This could result in a loss of regeneration, investment and high-quality job opportunities, thereby diminishing the impact of Welsh freeports and IZs.

Option 2 – Make new regulations for LTT special tax sites relief

- 6.4 Amend the LTTA 2017 to provide a relief from land transaction tax (“LTT”) for qualifying transactions of land within a designated Welsh special tax site for a fixed period of time.
- 6.5 **Advantages** - The LTT special tax sites relief, is one of the key drivers for the freeport and investment zone programmes, which have been designed with the intention of helping sites attract private investment to deliver the policy objectives of the freeports and investment zones including promoting regeneration and high-quality job creation. This approach would be consistent with that in England and Scotland.
- 6.6 **Disadvantages** - This option may involve changes to WRA operations, and taxpayers and external advisers will need to familiarise themselves with the new rules. There are also anticipated to be reductions in Welsh Government LTT revenues.

Options Summary

- 6.7 Option 2 is preferred.

7. Costs and Benefits

Option 1 – Do not provide LTT special tax sites relief – No Change

- 7.1 **Costs** - As with any of the options, while future costs are not fully known, with Option 1, the costs framework and categories would remain unchanged.

Option 2 – Make new regulations for LTT special tax sites relief

- 7.2 **Costs** - Cost categories are likely to be the following:

- Special tax sites relief - cost to the Welsh Government;
- WRA administrative costs;
- Tribunal and appeals costs; and
- Costs to taxpayers, conveyancers and other advisers.

Costs – Welsh Government

- 7.3 The cost of the provision of an LTT relief for special tax sites is highly uncertain. This is because:

- a. the land transactions that will occur are unknown;
- b. all of the areas to which the special tax site status may ultimately apply are not yet designated; and
- c. the nature of the transactions (grant of a lease for rent only, grant for premium and rents, assignment of lease or freehold transactions) will all have differing tax consequences because of different treatment, calculation methods and rates applied to the consideration given.

- 7.4 In respect to IZs, the UK government will make available a funding envelope of £160 million for each IZ between the 2025-2026 and 2034-2035 financial years (a period of 10 years). Each IZ will have up to £160 million flexible spend (split 40:60 between resource and capital spending), minus the cost of the tax incentives offered over a maximum of 600 hectares. The financial offer from UK government means that the costs to Welsh Government of the LTT relief in those areas should be fully recoverable as Welsh Government can extract costs from the funding provided by UK government. Through the IZ gateway assessment process, the Flintshire and Wrexham IZ estimated that the LTT relief will be between £1 million and £2 million over the period. Annual reporting arrangements will monitor costs and ensure that the LTT relief costs are met from the funds allocated by the UK government. In the event that LTT claims exceed this proposed allocation the CJC and local authorities will reimburse these costs.

- 7.5 In terms of freeports, as the relief provided in Wales will broadly be the same as that SDLT relief available to the English freeports and IZs the calculation of the block grant adjustment should take into account the relief available in England. It is therefore possible that the cost, in terms of foregone LTT revenues, may at least partly, be offset through the block grant adjustment. For the IZs this cost will be met by the UK government through the funding arrangements they have provided (see paragraph 7.4).

- 7.6 It is also possible that the transactions would not have occurred without the LTT relief being available or without the areas having special tax site status. As such the costings related to transactions that would not occur without the freeports or IZs being designated might, in some regards, potentially be seen as revenue neutral (although that assumes no displacement of transactions from outside the special tax site to within the special tax site).
- 7.7 The LTT freeport costings⁷, set out below, are for the anticipated relief amount that will be claimed during the first 5 years. This has been based on the amounts detailed in the outline business cases (OBCs) for both the Ynys Môn and Celtic Freeports:

LTT Relief Cost Estimates for Welsh Freeports

Financial year	LTT Relief Claimed	
2024-25	£800,000	
2025-26	£1,600,000	
2026-27	£2,300,000	
2027-28	£2,500,000	
2028-29	£2,900,000	£10,100,000 - 5 year total

To these figures need to be added the IZ costs as a result of the relief being extended to the Flintshire and Wrexham IZ, although they will be directly funded by the UK government. The total known estimated costing is therefore in the region of £11-£12 million, although different periods apply to the Freeport and IZ costings (5 and 10 years respectively).

- 7.8 The Welsh Ministers have agreed to extend the window to claim freeport and IZ tax reliefs, including the LTT relief, from 5 to 10 years (subject to the amount claimed being no greater than the funding provided by the UK government for IZs). In respect of freeports, as they are not being directly funded by the UK government, the extension is subject to a review in 2028 to provide assurance to the Welsh Ministers that sufficient progress is being made by each Freeport. If the Welsh Ministers decide to extend the LTT relief for freeports for an additional 5 years, to 30 September 2034, then further regulations with an accompanying EM/RIA, including costings for the additional 5 years, will need to be laid and approved by the Senedd.

Cost - Welsh Revenue Authority

- 7.9 The associated costs to the WRA of introducing the LTT relief, including system changes and guidance, alongside operational needs will be met within their existing budgets. It is expected that the number of claims for relief will be low, given the specific nature of the relief and type of transactions expected in special tax sites.

⁷ The costings presented over the 5 year period are in nominal (cash) terms, rather than discounted present values and included the two new special tax sites in North Anglesey.

- 7.10 The WRA's approach is risk based, so the addition of a new relief will naturally fall within their current operational framework; only once the relief is implemented and claims are made, will they be able to consider risk and their overall approach. However, as outlined above, given the number of claims expected for the new relief being low, they expect it will be a minor part of their tax risk and recovery work, sitting alongside their other activities.

Costs - Tribunal and appeals activity

- 7.11 It is possible some claims for the LTT relief may be challenged by the WRA. In such cases taxpayers could ultimately seek recourse from the First Tier Tribunal (Tax Chamber) and, if necessary, the Upper Tribunal (Tax and Chancery Chamber), which are reserved tribunals that fall under the jurisdiction of the Lady Chief Justice and Ministry of Justice.
- 7.12 The LTT relief will apply to very tightly defined areas of Wales (i.e. Welsh freeports and IZs) as opposed to Wales wide and for a restricted period of time. It is expected that there will be a limited number of transactions within those areas, and that the majority of claims will be correct. Most enquiries into the correct amount of LTT payable, and disagreements that may arise between a taxpayer and the WRA, are settled without recourse to the Tribunals. Therefore, we anticipate that there will be a very small number of potential claims, a minority of those will likely be enquired into, with an even smaller number resulting in appeals to a tribunal.
- 7.13 The Ministry of Justice have advised there will be a financial impact on the Tribunal system due to potential appeals. The estimated cost per appeal is £3,400, based on Financial Year 2024-25 costs.

Costs - Taxpayers, conveyancers and other advisers

- 7.14 There will be costs for solicitors, conveyancers and other tax advisers to familiarise themselves with the LTT rules, when acting for a business seeking to buy land within a Welsh special tax site. That will mean that only a relatively small number of taxpayers and advisers will be impacted by the introduction of the new relief. As there are a number of differences between the SDLT and the LTT reliefs, it will be especially important that these differences are clearly understood. The WRA will produce detailed technical guidance and provide support to solicitors, conveyancers and other tax advisers, which will assist them in understanding the LTT rules and reduce any associated costs.
- 7.15 It is anticipated that some of these costs will be passed onto clients through fees charged. Therefore, taxpayers will incur costs in order to claim the relief (as they would when undertaking any land transaction, and especially those where they wish to claim a relief). Whilst the taxpayer will incur this cost, they will benefit from paying no, or a reduced amount of, tax on their land transaction.

7.16 **Benefits** - The LTT special tax sites relief is one of the key drivers of the freeport and IZ programmes, which have been designed with the intention of helping sites attract private investment and deliver regeneration and high quality jobs. The LTT relief forms part of a wider package of incentives to help areas facing difficult economic challenges and support targeted investment with a commitment to the principles of fair work, sustainability and supporting the industries of the future.

7.17 **Option 2 Summary** - The benefits justify the likely costs.

Costs and Benefits Summary

7.18 Option 2 is preferred on the grounds of cost and benefit.

8. Integrated Impact Assessment

8.1 The Freeport Programme for Wales Integrated Impact Assessment (IIA), which includes the LTT relief and the wider package of tax incentives relating to special tax sites, can be found here:

[Freeport Programme for Wales: integrated impact assessment | GOV.WALES](#)

8.2 The Investment Zones for Wales Integrated Impact Assessment (IIA), which includes the LTT relief and the wider package of tax incentives relating to special tax sites, can be found here:

[Investment zone programme: integrated impact assessment | GOV.WALES](#)

9. Competition Assessment

9.1 The Welsh and UK governments have worked together to develop a Welsh freeports model with the following specific public policy objective: to promote regeneration and high-quality job creation in economically disadvantaged port geographies. In a similar manner the Welsh and UK governments have worked together on the development of two IZs. IZs have the objective to incentivise investment in high-potential clusters linked to strong research capabilities leading to wider productivity and economic growth. It has been agreed that Welsh IZs will focus on growing clusters in one or a mix of five priority sectors: Digital and Technology; Green Industries; Life Sciences; Advanced Manufacturing; and Creative Industries.

9.2 The Welsh freeport and IZ programmes have been carefully designed to ensure that interventions are targeted only at locations that exhibit the kind of economic disadvantage or potential the policy aims to address.

9.3 The Welsh freeport and IZ subsidies, including the LTT special tax sites relief, are firmly focused on improving the commercial attractiveness, from a business' perspective, of locations that could be more commercially viable. By increasing

the number of commercially viable locations/sites, Welsh freeports and IZs are likely in the medium term to increase competition in sectors that are already well established in the UK.

9.4 A key risk is that by increasing the commercial attractiveness of specific locations, Welsh special tax sites incentivise the relocation of businesses from elsewhere in Wales or the rest of the UK, negatively affecting other locations and leading to resources being wasted on relocation. However, the potential negative impacts of displacement have been minimised in the following ways:

- The Welsh special tax sites reliefs have been designed to support initial setup costs (in particular, capital costs), rather than business as usual costs. It is unlikely to make commercial sense for a business to make the considerable investment needed in order to benefit materially from the reliefs purely to relocate existing operations (rather than establishing new operations or expanding existing ones).
- Through the competitive selection process for Welsh freeport locations, and the subsequent business case process, Welsh freeports are required to model displacement and demonstrate net economic benefit to the Welsh and the UK economy.
- Through the assessment process for Welsh IZs, and associated business case process, IZs are also required to model displacement and demonstrate net economic benefit to the Welsh and the UK economy.
- Welsh freeport subsidies aim to address an equity rationale and are focused on economically disadvantaged locations. Where displacement does occur, then, it may nonetheless be on balance acceptable to the extent that it reduces inequality. Moreover, there is strong evidence that spatial inequalities hamper economic performance, suggesting that displacement of this nature may also be on balance a net positive at the national level.
- Welsh IZ subsidies have the potential to be distortive of various markets and have an effect on competition. Such increased financial strength in relation to competitors may have an impact on the business decisions of a company or of its competitors and may enable it to increase its position in the market, which could lead to distortion. However, the risk that government subsidies are distortive is mitigated at a scheme level by the limits placed on the size of the subsidies, other conditions in the scheme, and the limited geographical area.

9.5 Given the focus of the Welsh freeports programme on supporting decarbonisation, many of the sectors targeted by Welsh freeports are emerging sectors that are not currently well-established in the UK meaning the scope for displacing activity from elsewhere in the country is significantly reduced. Therefore, it is not considered that the changes made by these

Regulations will affect competition. Further information regarding the assessment of competition is set out in the Subsidy Control Scheme for Welsh Freeports.

[Scheme SC11215 - Search for UK Subsidies - GOV.UK - Public user search subsidy scheme details page](#)

- 9.6 In respect of the Welsh IZ programme, as a result of the tax and funding subsidies awarded, it is possible that there will be an impact on trade or investment with international partners. For example, there could be an impact if multi-national companies chose to relocate inside an IZ tax site or if businesses already located in the confines of the IZ benefit from lower costs, making them more competitive globally with increased exports. However, while this impact could occur, it is not expected to be significant, and there is an expectation that the positive outcomes outweigh any of the negative effects. Further information regarding the assessment of competition is set out in the Subsidy Control Scheme for Welsh IZs.

[Scheme SC11410 - Search for UK Subsidies - GOV.UK - Public user search subsidy scheme details page](#)

10. Post-Implementation Review

- 10.1 Post-implementation monitoring to assess the effectiveness of the legislation will include analysis of data reflecting interest in and take-up of the relief. Claims will be monitored by the WRA on an ongoing basis. A robust monitoring and evaluation process will also be established to assess the overall impact of the Welsh IZ programme and individual IZs. This will include carefully monitoring the amount of relief given so that the amount of LTT relief given matches, as closely as possible, the funding provided by the UK government.