National Assembly for Wales
Finance Committee

The implementation of fiscal devolution in Wales

March 2018

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Finance Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Tel: **0300 200 6565**
Email: **SeneddFinance@assembly.wales**
Twitter: **@SeneddFinance**

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About the Committee

The Committee was established on 22 June 2016 to carry out the functions of the responsible committee set out in Standing Orders 18.10, 18.11, 19 and 20 of the National Assembly for Wales.

Under Standing Orders 19 and 20, the committee's responsibilities include considering any report or document laid before the Assembly concerning the use of resources, or expenditure from the Welsh Consolidated Fund. This includes undertaking budget scrutiny of the bodies directly funded from the Welsh Consolidated Fund.

Under Standing Orders 18.10 and 18.11, the committee's responsibilities include oversight of the governance of the Wales Audit Office, as set out in the Public Audit (Wales) Act 2013.

The committee also considers any proposals for, and the progress of the devolution of fiscal powers to Wales as part of its responsibilities.

The committee may also scrutinise legislation introduced to the Assembly.

Committee Chair:

Simon Thomas AM
Plaid Cymru
Mid and West Wales

Current Committee membership:

Neil Hamilton AM
UKIP Wales
Mid and West Wales

Mike Hedges AM
Welsh Labour
Swansea East

Jane Hutt AM
Welsh Labour
Vale of Glamorgan

Steffan Lewis AM
Plaid Cymru
South Wales East

Nick Ramsay AM
Welsh Conservatives
Monmouth

David Rees AM
Welsh Labour
Aberavon

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1. Committee approach and Background

Committee approach

1. The Finance Committee (the Committee) undertook a short focused inquiry to consider the progress made with regards to the implementation of fiscal devolution in Wales. The Committee took evidence from:

- The Wales Audit Office;
- The Cabinet Secretary for Finance;
- The Welsh Revenue Authority;
- HMRC.

2. The Committee also requested the Secretary of State for Wales give evidence to the Committee, given his requirement to report annually under section 23 on the implementation and operation of the Wales Act 2014. The Committee is disappointed that the Secretary of State declined the request to give evidence.

Background

3. The **Wales Act 2014** (the Act) devolved certain tax and borrowing powers to Wales. The Act enables the Welsh Government to legislate in respect of Stamp Duty Land Tax (SDLT) and Landfill Tax (LT). The Act also legislates for the partial devolution of income tax to Wales, the Welsh Rate of Income Tax (WRIT).

4. Three Welsh Acts have been passed in relation to Welsh Taxes;

- **Tax Collection and Management (Wales) Act 2016**;
- **Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017**;
- **Landfill Disposals Tax (Wales) Act 2017**.

5. The Act requires Welsh Ministers and the Secretary of State for Wales to report annually on the progress made under Part 2 (Finance) of the Act. In December 2017 the Welsh Government published its **Third annual report by Welsh Ministers about the implementation and operation of Part 2 (Finance) of the Wales Act 2014**, whilst the UK Government published **The UK Government's Third Annual Report on the Implementation and Operation of Part 2 (Finance) of the Wales Act 2014**.

6. Additionally, in December 2017 the Wales Audit Office (WAO) published a report, **Fiscal Devolution in Wales: An update on preparations for its implementation**.

7. Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT) will become taxes in Wales from 1 April 2018, and will be administered and collected by the Welsh Revenue Authority (WRA). From 1 April 2019, Welsh Ministers will set an annual rate of income tax for those identified as "Welsh Taxpayers", which will continue to be collected by HMRC and allocated to the Welsh Government.

8. In December 2016, the WAO published a report on the review of Welsh Government's preparations for fiscal devolution in Wales. The report made one key recommendation that, in order to meet the key milestones of its critical timetable, the Welsh Government needed to finalise its detailed delivery plans as soon as possible.[1]

9. The WAO emphasised that this recommendation was taken on board by Welsh Government:

> "I'm pleased to see that the Welsh Government have acted very fully, I think, in response to our recommendation, which they accepted at the time. In my work as an observer on the programme board, I've seen those plans come through, and I think the fact that in our latest report we've made actually no recommendations probably itself speaks volumes and is something of a statement of confidence that the programme is in a pretty good place at the moment."[2]

10. In broader terms, the Cabinet Secretary for Finance, Mark Drakeford (the Cabinet Secretary), issued a written statement in January 2018 outlining the agreement between himself and the Chief Secretary to the Treasury, confirming that "HMRC, the Welsh Government and WRA are ready to go live with the move to Welsh devolved taxes on 1 April 2018".[3]

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[1] **Wales Audit Office, Preparations for the implementation of fiscal devolution in Wales, December 2016**

[2] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 13

[3] **Welsh Government, Written Statement - Finance Secretary and Chief Secretary to the Treasury agree new Welsh tax process for first devolved taxes for 800 years ready to go, 26 January 2018**

2. Taxation

Block grant adjustment

11. The devolved tax revenues will provide the Welsh Government with a direct source of funding independent of the Welsh block grant.

12. Consequently, an **adjustment to the block grant** will be required to take account of the additional revenue controlled by the Welsh Government. In December 2016, new funding arrangements were agreed between the Welsh Government and the UK Government under a new fiscal framework.[4]

13. With regards to the fiscal framework the Cabinet Secretary commented:

> "… over the three-year period 2018-19 to 2020-21, we expect the impact of the fiscal framework, on what we know so far, that that will bring about £70 million to Wales that otherwise would not have come to Wales. So, we can see that 105 per cent multiplier beginning to make a difference there. The way we have chosen to use our tax responsibilities I think adds another £30 million into that over a three-year period. So, there's £100 million now available in revenue for Welsh public services."[5]

Tax policy

14. In June 2017, the Cabinet Secretary published the Tax Policy Framework[6] and a 2017 tax policy work plan[7]. The Framework sets out how the Welsh Government intends to use its tax powers, including five tax principles:

- Raise revenue to fund public services as fairly as possible;
- Deliver Welsh Government policy objectives, in particular supporting jobs and growth;
- Be clear, stable and simple;
- Be developed through collaboration and involvement;

[4] **The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework, December 2016**

[5] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 242

[6] **Welsh Government, Tax Policy Framework, June 2017**

[7] **Welsh Government tax policy work plan 2017, June 2017**

- Contribute directly to the Wellbeing of Future Generations Act goal of creating a more equal Wales.[8]

15. The Cabinet Secretary was confident that the Welsh Government was addressing the priorities set out within the established timescales, he said:

> "We're on time with the things that are within the plan. There are some things within the plan that are down to be carried out in the short term—rates and bands, suggestions for new taxes, and so forth—and then there are other things in the plan that are looking a little further ahead than that."[9]

Land Transaction Tax

16. The initial tax rates and bands for LTT were published in the Welsh Government's draft budget 2018-19. However, following the UK Government's autumn budget, which included changes to SDLT for first time buyers, the Welsh Government announced new residential rates and bands. The regulations in relation to the rates and bands where debated and voted on by the Assembly in January 2018.[10]

Landfill Disposals Tax

17. The proposed tax rates were published in the Welsh Government's draft budget 2018-19, and were debated and voted on by the Assembly in January 2018.[11]

Public engagement

18. In terms of awareness of the two devolved taxes – LTT and LDT – being introduced on 1 April 2018, the WAO felt that it was more important for the Welsh Government to prioritise engagement with conveyancers who deal with LTT and landfill site operators for LDT, rather than the public:

> "In terms of the general public, I think, for these two initial taxes, the level of personal public engagement with paying the taxes is relatively

[8] **Welsh Government, Tax Policy Framework, June 2017, Page 1**

[9] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 140

[10] **Plenary, Record of Proceedings, Item 9, 30 January 2018**

[11] **Plenary, Record of Proceedings, Item 9, 30 January 2018**

> limited, because it's at third hand; it's your solicitor conveyancing who handles the stamp duty payments for you."[12]

19. The WAO noted that that Welsh Government's engagement with stakeholders on both taxes was timely:

> "… with the two taxes coming on stream immediately, they [Welsh Government] engaged very promptly with the various landfill operators and with the players in that particular industry. With stamp duty and the property tax, they were engaging then with the profession, with solicitors, the Law Society, estate agents and things."[13]

20. The WRA has worked with conveyancers on both sides of the border to ensure awareness of LTT in particular and its role in collecting and managing this tax:

> "We've done lots of work with solicitors on both sides of the border. So, for example, we were doing something in Manchester. I'm not sure that it was this week, but it's happened, or about to happen. … Interestingly, we've spent quite a lot of time in London because, actually, quite a lot of the big solicitors supporting people about making the transactions are based in London. So, my team have been out, speaking to forums there."[14]

21. HMRC is also working with the Land Registry to identify cross-border properties:

> "We're also doing specific guidance on cross-border properties where there are some properties that actually span the border, where we're working with the Land Registry about, first of all, the rules for taxing those and also for making sure that the Land Registry is able to identify them and make sure that's picked up at the time of the transaction."

22. HMRC has also engaged with conveyancers and has plans in place to deliver joint communications with the WRA:

> "…From February, next month, [we will] do joint communications with the Welsh Revenue Authority to people who will need to understand the new rules and who they will need to direct their transactions to.

[12] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 51

[13] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 50

[14] Finance Committee, Record of Proceedings, 17 January 2018, Paragraph 140

We've already been engaging with bodies like conveyancers and solicitors… Formal communications will happen over the next couple of months, starting in February."[15]

LTT and LDT – Transition costs & savings

23. Estimated costs for transitioning to LTT and LDT have increased significantly from £1m to £1.8m since original estimates. HMRC commented that these costs are due to:

- Changing its IT systems to make sure it does not collect returns or payments in relation to land transactions in Wales.
- Ensuring HMRC can securely transfer data between itself and the WRA.[16]

24. HMRC commented that the original estimates were based on what had been done during tax devolution in Scotland. However, IT systems have changed since then in order to add resilience to HMRC systems, particularly in relation to data security from cyber-attack.[17]

25. The Welsh Government claimed that the majority of costs were due to HMRC gaining access to transaction data in Wales:

> "… most of the costs are to do with them getting access to our data and ensuring that that data flows through HMRC systems in the way that it needs to. So, you kind of think, 'all you're doing is disapplying it in Wales, that can't cost very much', but it's all the continuing interest that HMRC have in transactions in Wales that is really where the costs arise."[18]

26. HMRC confirmed that it is confident these systems will be in place:

> "We are confident that we will have systems in place that will prevent Welsh transactions being wrongly reported to us and vice versa. We have facilities in place to exchange data between the two authorities to make sure that we can properly maintain compliance and have the right statistical information."[19]

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[15] Finance Committee, Record of Proceedings, 31 January 2018, Paragraph 118
[16] Finance Committee, Record of Proceedings, 31 January 2018, Paragraph 104
[17] Finance Committee, Record of Proceedings, 31 January 2018, Paragraph 104
[18] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 210
[19] Finance Committee, Record of Proceedings, 31 January 2018, Paragraph 96

27. There will be annual cost savings of "switching-off" SDLT and LT in Wales of between £115,000 and £160,000 a year.[20]

Committee view

28. The Committee is interested in how the fiscal framework affects public spending in Wales and views the block grant adjustment as an important aspect of fiscal devolution in Wales.

29. The Committee notes the evidence in relation to preparation for the devolution of Welsh taxes and is generally assured that preparations are progressing well.

30. The Committee is concerned with the increase in HMRC costs of £0.8m but notes the reasons for this increase and recognises that there will be annual cost savings going forward.

Recommendation 1. The Committee notes that the estimated transition costs for devolved taxes of £1.8m are not finalised and recommends that the Welsh Government continue monitoring these costs and challenging any further increases.

[20] Letter from Director General, Customer Strategy and Tax Design, HMRC to the Cabinet Secretary for Finance and Local Government, 6 December 2017

3. Independent tax forecasting

31. Bangor University was given one-year contract to independently scrutinise the tax forecasting models used by the Welsh Government. The Committee considered the work of Bangor University during its scrutiny of the Welsh Government Draft Budget 2018-19.

32. The Cabinet Secretary, Mark Drakeford, in his **letter to the Finance Committee** on 21 September 2017 outlined his preference for the "OBR to undertake the independent forecasting responsibilities for Wales" in the longer term.

33. During the Finance Committee session with the Office for Budget Responsibility (OBR) in December 2017, when asked whether the OBR could produce independent forecasts, the OBR said:

> "There are particular challenges for us around the coincidence of the timing of your draft budget timetable plus a whole set of other documents we have to produce in the UK, because it coincides with the full set of national accounts, the first set of decent UK-wide public expenditure numbers we get in. So, I think the chances of us being in a position, even with more resource, to be able to present you with a fully bells-and-whistles publication ahead of a draft budget timetable is quite difficult, but I think what would be possible would be to provide scrutiny support, and then obviously to return to that more comprehensively when we do our November forecast and you get the equivalent of the devolved taxes publication, which could probably be expanded somewhat."[21]

34. The Cabinet Secretary attempted to address these concerns by saying:

> "If we were to conclude that what the OBR is able to do in that practical sense doesn't match what we need, then we've always had other possibilities for this. The good news here is that the Bangor work that we had this year has turned out to be, I think, of good calibre and the Treasury are less anxious about us continuing to use that route for the time being while we set up something else. So, I hope the OBR will still be the route we can go down."[22]

[21] Finance Committee, Record of Proceedings, 13 December 2017, Paragraph 38

[22] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 239

Welsh-specific data

LTT & LDT

35. With regards to the availability of Welsh-specific data to forecast devolved tax revenues, the Cabinet Secretary believed that, with the WRA administering devolved taxes in 2018-19, the WRA will be producing Welsh-specific information that has never been obtained before. He stressed that the WRA will be a "very important source of that information".[23]

36. The WRA commented on the data it will be collecting:

> "…we're collecting the characteristics of the individual and the characteristics of the transactions involved, and we will be creating from that the best analysis we possibly can that protects, of course, the confidentiality of taxpayers."[24]

37. The WRA further stated:

> "We will also be able to report on data by local authority area. So, we will be able to do that as well. And, obviously, because we will be collecting data from Wales, we will have a better handle on what's the nature of the tax base in Wales, and the behaviour of individuals, et cetera. So, we will hold those data in a way that perhaps HMRC are not quite able to disaggregate for understandable reasons, yes."[25]

Welsh Rate of Income Tax

38. HMRC will be responsible for collecting WRIT revenue, which will then be passed to the Welsh Government. When asked what information they could share for forecasting purposes, HMRC said:

> "There are two types of data that we're going to be able to share with [Welsh Government]. One is something we call the survey of personal incomes, which is a large sample of all income tax payers, where we will have a Welsh extract from that. It is anonymised, so in the sense that it is put into a state where you couldn't easily identify an individual taxpayer, and so that means that we will group together some income levels so that you haven't got very small numbers in any bracket, but it

[23] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 240

[24] Finance Committee, Record of Proceedings, 17 January 2018, Paragraph 159

[25] Finance Committee, Record of Proceedings, 17 January 2018, Paragraph 161

still is equivalent to the information that the Treasury have to get their forecasting."[26]

Committee view

39. The Committee recognises that there is uncertainty in all forecasting, particularly with LTT. However, the Committee believes robust tax forecasting to be a vital part of the Welsh Government's budgetary process and effective forecasting will be vital for our future draft budget scrutiny.

40. The Committee welcomes the work which has been undertaken by Bangor University in considering the models and forecasting used by the Welsh Government.

41. The Committee questions the Welsh Government's proposal to use the OBR for future forecasting and, whilst appreciating the benefits of this approach, the Committee is not reassured by the OBR's views regarding its ability to deliver comprehensive forecasts alongside the Welsh Government's draft budget.

Conclusion 1. The Committee would welcome regular updates from the Welsh Government on its plans for independent tax forecasting.

[26] Finance Committee, Record of Proceedings, 31 January 2018, Paragraph 178

4. Welsh Revenue Authority

42. The Committee asked the WRA for an update on its preparations for administering the devolved taxes in April 2018. The Chief Executive commented:

> "… we've been doing a great deal of work to ensure that the people who will be using our services will be prepared to do that, and I am certainly clear in my own mind that that work has been delivered and achieved."[27]

43. He also elaborated on what was still to be done:

> "Between now and 1 April, there are two phases to the work. First of all, registration: do people know what they need to do to get through the registration process? And that depends on whether they are registering for land transaction tax or landfill disposals tax… We are now working to finish the necessary guidance so that people know what they need to do with the two taxes."[28]

Guidance

44. The Committee was interested in the progress of guidance. The WRA stated:

> "The majority has already gone out, that's the point. LTT guidance—the full extent of it—has been shared with stakeholders. By that, I mean the Law Society, CIOT and stakeholder groups of people who are the big users of that guidance. We have had feedback from them and we're just responding to that feedback. So, actually, it's not a case of when—it's already out there; it's already been shared. It's just that it's not on the website yet and all published. But the people who will actually in practice be using it—. And the same applies to LDT. So, it's a reasonably small number of people, and we have very close contact with them. They've already seen lots of it already."[29]

Digital services

45. The WAO report noted that "the timescale for delivery by 1 April 2018 is now extremely compressed with little or no margin for any further slippage; and that

[27] Finance Committee, Record of Proceedings, 17 January 2018, Paragraph 8

[28] Finance Committee, Record of Proceedings, 17 January 2018, Paragraphs 9-10

[29] Finance Committee, Record of Proceedings, 17 January 2018, Paragraph 48

there remains a major risk that successful delivery of the Digital Tax Collection and Management System (DTCMS) may not be achieved by that date".[30]

46. However, in evidence, the WAO commented:

> "What I think we can say is that it's clear to us that they [WRA] have robust plans in place to get them to that finish line, or, indeed, to activate contingency should it be necessary. So, they are in about as good a place as we could reasonably expect, given where they were a year ago."[31]

47. The Welsh Government clarified that the risk relates to the back-office systems and the user would not notice any issues when submitting a tax return:

> "The risk really lies behind the back-office systems that the Welsh Government will have, because we've implemented a finance system in a very short period of time, and the integration between those two systems. So, the customer will see a form to complete, and they will complete it. It's the amount of work we need to do behind. We've taken the risk to try and integrate those systems, because the benefit of that is of huge benefit to the WRA going forward."[32]

48. The Committee asked about contingency plans in case the system experienced issues after its launch. The WRA provided an example of how it will integrate contingencies into its work plan:

> "… we have 15 milestones [between now and 1 April], so what we're doing is putting contingency plans in place for all of those and then we have 25 scenarios. So, there will be contingency plans for each of them too and that shows that there is a specific individual who will have to be responsible for those. We have something that demonstrates what would happen if, for example, there were to be an outage in one of our systems for half an hour, for 24 hours, for a week, for a month. So, everything that you could do in preparation has been done. It doesn't mean that nothing could go wrong, but at the moment we've covered all our bases."[33]

[30] **Wales Audit Office, Fiscal Devolution in Wales: An update on preparations for its implementation, 21 December 2017, Paragraph 2.29**

[31] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 79

[32] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 170

[33] Finance Committee, Record of Proceedings, 17 January 2018, Paragraph 19

49. The Cabinet Secretary further commented on contingencies:

> "…the WRA, working with HMRC, have been putting into place a series of fallback measures so that if things don't work out in the way that we hope—so, for example, if the digital tax system were to fail on 1 April—then there is, ready and capable of being immediately deployed, an online form that taxpayers and agents could use to complete their tax return in LTT."[34]

Recruitment

50. In its report, the WAO cited the high number of secondments to the WRA.

51. The WAO noted that this could lead to a loss of key skills when staff return to their original post.[35]

52. The Cabinet Secretary revealed recruiting staff through secondments was a "deliberate part of the strategy".[36] A Welsh Government official commented:

> "…it's much easier to attract a wide field if people have the ability to hedge their bets and go on secondment or loan rather than commit permanently to a new organisation where they don't really know much about how it's going to develop. So, to widen the field, you definitely want to be able to offer jobs on secondment and loan, but that doesn't mean those people will necessarily be going back to the previous place after two or three years."[37]

53. When asked about recruitment, the WRA Chief Executive mentioned:

> "We are, relatively, a very small organisation, and therefore, we have to have an approach to how we retain the skills and knowledge that we need… It's about making sure that we can retain a flow of people who come in and out of the organisation. It's above all else about ensuring that we are an attractive place to work, and that we're able to attract people."[38]

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[34] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 169

[35] **Wales Audit Office, Fiscal Devolution in Wales: An update on preparations for its implementation, 21 December 2017, Paragraph 2.15**

[36] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 181

[37] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 183

[38] Finance Committee, Record of Proceedings, 17 January 2018, Paragraph 101

54. The WRA Board is aware of the retention issue and will be establishing a committee to monitor this:

> "The board is particularly cognisant of the importance of this issue and has already had some discussions with the human resources lead about these matters. One of the two permanent committees that the board will establish—we haven't established it yet—is likely to be what used to be called a remuneration committee, but more properly would probably be called an organisation and staffing committee, so that there is board-level focus on these very important aspects."

55. The WAO noted in its evidence that succession planning and knowledge transfer will be key to retaining skills within the WRA. The WAO noted that the WRA is developing learning and development plans to share knowledge:

> "…recognising the extensive use of secondees and getting robust succession planning in place, whether that is through internal promotion or further recruitment or indeed extension of secondments. But then it's the knowledge transfer, as people leave, that they're not simply walking out of the door with the knowledge in their heads. So, they have recognised the need for that to happen. They are, I think, putting in place plans to ensure that that happens, but clearly we've flagged in our report that there is more they need to do in managing that risk. You're absolutely right; with so many secondees, particularly in senior posts, succession planning and knowledge transfer will be key."[39]

Working arrangements

56. General comments were made relating to strong partnerships between the WRA and its partners such as HMRC, Revenue Scotland, Land Registry and Valuation Office Agency. For example, the WRA is utilising Revenue Scotland's experiences delivering devolved taxes:

> "Even though we're working on the information agreement with Revenue Scotland, we have regular monthly discussions with them around—you know, they're actually operating now; what does that actually mean?"[40]

57. The Welsh Government updated the Committee on working arrangements:

[39] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 93

[40] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 196

> "HMRC will have put the necessary legislation in place to share data with the WRA from 1 April. We are developing memorandums of understanding (MoU) and information-sharing agreements with those other bodies (VOA & Land Registry). We'll have a near-final draft of the MOU with HMRC in place, and we hope to be able to share that formally with HMRC by the end of this month."[41]

58. The Chief Executive of the WRA was confident that the MOUs and information sharing agreements will be in place by April 2018:

> "I was only talking yesterday to Revenue Scotland's chief executive, making sure that we've got what we need to have in place—we will do—to be able to make that work as well, because there will be need for us to share data with them. So, the MOUs and the information sharing agreements that need to be in place before April will all be in place by April."[42]

59. The WRA will also be working with Natural Resources Wales (NRW) on compliance of LDT with the Chief Executive of the WRA stating:

> "Actually, I signed a memorandum of understanding just before Christmas with Kevin Ingram, who's the interim chief executive of NRW. So, we have that in place and we're now just working on the finer details of the information-sharing agreement, making sure that that's in place appropriately."[43]

Costs

60. The Cabinet Secretary wrote to the Finance Committee in December 2017 refining WRA costs.[44] He noted that the implementation costs would be at the top of the estimated range at £6.3m but operational costs were underestimated by £0.5m in 2017/18 and £1.7m in both 2018/19 and 2019/20.

61. There was a consensus during the sessions that the increase in operating costs was due to the implementation of higher rates for additional properties as part of LTT. The Cabinet Secretary mentioned that managing the higher rates would be administratively intensive as "one of the complexities of the tax and one

[41] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 193

[42] Finance Committee, Record of Proceedings, 17 January 2018, Paragraph 152

[43] Finance Committee, Record of Proceedings, 17 January 2018, Paragraph 155

[44] **Letter from the Cabinet Secretary for Finance and Local Government to the Finance Committee, 4 December 2017**

of the reasons it costs money to administer is that you hand back quite a lot of this tax to people too".[45]

62. The WRA agreed:

> "… it's not about the implementation cost; it's about the running cost of the additional rate, mostly. So, for example, 58,000 transactions is the estimate, I think, for next year of how many transactions we would have, but of those, 7,000 of them, additionally, it's estimated, would be taxable, because of the additional rate that wouldn't have been there had you not have had an additional rate. So, that provides us with more work, basically—more things to do. Plus, that work is a lot more complicated. Because it's not just about the transactions, but about the circumstances of the individual, and therefore we will require more investigation following that, quite possibly."[46]

63. The WAO commented that it was not a case of the original estimates being incorrect, it is more that the WRA's role has evolved:

> "I think that in essence what's happened here is that the original estimates for building a thing called 'the WRA' were made at the outset. The thing that is being created now looks rather different to that original thing and, accordingly, the estimations for costs for that WRA have evolved. It's not, I think, that the original estimates were inaccurate; it's that what is being built is different: it is bigger, it is more complicated and it has greater functionality. That is inevitably more expensive."[47]

Committee view

64. The Committee has taken a keen interest in the establishment of the WRA and is content with the progress.

65. The Committee is keen to see steps being taken to ensure the retention of tax-specific skills in Wales. Whilst appreciating the benefits of recruiting a number of seconded staff, this heavy reliance on on-loan staff is not without risks. The Committee welcomes the reassurance that this is being considered by the WRA and would welcome an update on this in due course.

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[45] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 198

[46] Finance Committee, Record of Proceedings, 17 January 2018, Paragraph 66

[47] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 133

66. The Committee acknowledges that digital services are progressing and will be ready before the 1st April 2018. The Committee intends to undertake a visit to the WRA offices following the devolution of Welsh taxes to assess how these services are performing.

67. The Committee welcomed the establishment of strong partnerships by the WRA to ensure effective working relationship in the future, particularly in ensuring properties along the border are identified.

68. The Committee is reassured that succession planning and knowledge transfer are key priorities for WRA and would welcome an update on this in due course.

Recommendation 2. The Committee recommends that detailed proposals for succession planning and knowledge transfer within the Welsh Revenue Authority are developed and implemented as soon as possible.

5. New taxes

69. The Cabinet Secretary repeated his intention to test the mechanism for developing a new Welsh tax:

> "I think it's important just to say again that what we are doing in the very first potential tax that we will select is to test the new machinery. So, that's also in my mind as to whether this is the sort of tax that is suitable for that machinery-testing purpose."[48]

70. He outlined his timescales for proposing a new tax to put forward:

> "My ambition is to be able to come to the Assembly before half term and to say, 'This is the one that I've now decided on, for now. That doesn't mean to say that other things on the list are just forgotten, but we've got to test the system for the first time. This is one of the four that I think will be most suitable for doing that."[49]

71. The Welsh Government has started preparing to test the "new machinery":

> "We've had a series of discussions with the UK Government about the part that they will then play… I hope, to an agreed protocol with the UK Government that will set out how they will respond. I will send the tax up the line, the first action then lies with them, and I hope that we will have an agreed document with them that will set out how they will then go about responding."[50]

72. The Cabinet Secretary indicated how long he expected the process to take:

> "But it shouldn't take more than 12 months for them to complete everything that we would expect them to complete. After we've done it the first time and we've all learned from that, I would hope that, after that, the process would be considerably shorter."[51]

73. Following the Committee's scrutiny of the draft budget 2018-19,[52] the Committee agreed to write to the Assembly's Business Committee with a view to

[48] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 227

[49] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 228

[50] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 229

[51] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 231

[52] **Finance Committee, Scrutiny of the Welsh Government Draft Budget 2018-2019, December 2017**

being involved in the process for agreeing new taxes, and has since received correspondence inviting the Committee to comment on the proposed process.

Committee view

74. The Committee welcomes the consultation by Business Committee and looks forward to working with the Welsh Government to ensure the successful implementation of potential new taxes in Wales.

6. Welsh Rate of Income Tax

Cross-border issues

75. In response to the potential issue of an individual living in Wales but working across the border, both the WAO and HMRC highlighted that a Welsh taxpayer will be determined by their place of residence and not where they work. HMRC commented:

> "it doesn't matter where you work. We're not interested in where you work; it is where you live. So, for most people, they will only have one main place of residence, and that should be the address that we have, so that will determine their status."

76. In terms of identifying Welsh taxpayers for income tax purposes, it was made clear by the WAO and Welsh Government that this was HMRC's responsibility with the Cabinet Secretary commenting:

> "They [cross-border issues] are the things that we should be concerned about, and we will work with HMRC on those things. But these are things for which they are responsible."

77. The Committee asked HMRC what processes were in place to identify Welsh taxpayers with particular emphasis on those living close to the border. HMRC explained:

> "…there is no definitive database of Welsh residents against which we can benchmark our own database of taxpayers. But, we can look at credit reference agencies, and there are a variety, and electoral rolls [and council tax]."

78. HMRC further commented on other sources that can be accessed:

> "…we get address information from employers, from the Department for Work and Pensions, so we've got other sources of address information."

79. When asked about how HMRC would identify people who move properties across the border, HMRC stated:

> "The key thing that we need people to do is to keep us up-to-date when they move and tell us when they have moved, and that is really all that the vast majority of people will need to do in order for us to keep the database up-to-date."

Engagement

80. The WAO noted in its evidence that public engagement would be essential leading up to the introduction of WRIT in April 2019:

> "The Welsh rate of income tax is where it's really going to hit home that there is something that is new and different and people will need to respond differently to it. So, that's where the public engagement is really going to need to ramp up over this next 12 to 15 months."

81. The WAO emphasised the danger of Welsh Government engaging with the public too soon:

> "There is almost a danger of starting too soon with that process in that you can put an announcement out and that loses currency quite quickly. So, actually, timing that phased communication and building up of awareness, understanding, realisation of what it means for them has got to be accompanied by clear guidance, a user-friendly website. The Welsh Government have plans in place for those things… They've got some quite sophisticated communications expertise, I think, within the programme, which they're drawing on with their plans."[53]

82. The Committee also asked how HMRC would be engaging with the public. It stated:

> "…we are talking to the Welsh Government about the possibility of issuing notification letters to all Welsh taxpayers in advance of that.. That will give people an opportunity to be aware of what's coming… Otherwise, the formal thing they will receive is the coding notice, starting from December 2018."[54]

Transition costs

83. HMRC confirmed that transition costs for WRIT would be between £5m and £10m. This is significantly less than the currently estimated £20-25 million for Scotland. The **reason for this difference** is due to HMRC being able to take advantage of system changes already made to accommodate Scottish Rates of Income Tax (SRIT):

[53] Finance Committee, Record of Proceedings, 11 January 2018, Paragraph 51

[54] Finance Committee, Record of Proceedings, 31 January 2018, Paragraph 100

> "I think in this instance, whilst, as I say, there are particular challenges in relation to the Welsh rates of income tax, it's not identical. Nevertheless, a lot of what we did when devolving income tax to Scotland we can reuse for your purpose and that's why our cost estimate is already much, much lower than the cost estimate for the Scottish devolution."[55]

Committee view

84. The Committee believe public engagement in the lead up to WRIT as being essential and considered public awareness of WRIT a key priority as changes to income tax would directly impact on Welsh taxpayers.

85. The Committee welcome HMRC's approach of utilising different sources to identify Welsh taxpayers, particularly for those living close to the border.

Recommendation 3. The Committee recommends that a public awareness campaign should be made a key priority when preparing for the introduction of Welsh Rate of Income Tax in April 2019.

[55] Finance Committee, Record of Proceedings, 31 January 2018, Paragraph 113

Annex – List of oral evidence sessions

The following witnesses provided oral evidence to the Committee on the dates noted below. **Transcripts of all oral evidence sessions** can be viewed on the Committee's website.

Date	Name and Organisation
11 January 2018	Mark Drakeford AM, Cabinet Secretary for Finance Andrew Jeffreys, Director, Welsh Treasury Claire McDonald, Implementation Programme Manager, Welsh Revenue Authority
11 January 2018	Richard Harries, Director, Financial Audit, Wales Audit Office Mike Usher, Director and Sector Lead, Health and Central Government, Wales Audit Office Matthew Coe, Audit Manager, Wales Audit Office
17 January 2018	Kathryn Bishop, Chair, Welsh Revenue Authority Dyfed Alsop, Chief Executive, Welsh Revenue Authority
31 January 2018	Jim Harra, Second Permanent Secretary, HM Revenue and Customs Sarah Walker, Deputy Director, Devolution, HM Revenue and Customs