



Llywodraeth Cymru  
Welsh Government

POLICY AND STRATEGY, DOCUMENT

# Welsh rates of income tax reconciliation 2021 to 2022: Joint technical note by Welsh Government and HM Treasury

An explanation of how the first Welsh rates of income tax reconciliation process affects the Welsh Government's budget.

First published: 7 December 2023

Last updated: 7 July 2022

This document was downloaded from GOV.WALES and may not be the latest version.

Go to <https://www.gov.wales/welsh-rates-of-income-tax-reconciliation-2021-to-2022-joint-technical-note-by-wg-and-hmt-html> for the latest version.

Get [information on copyright](#).

# Contents

[Introduction](#)

[Reconciliation for 2021 to 2022 Income Tax](#)

[Background](#)

**This document was downloaded from GOV.WALES and may not be the latest version.**

Go to <https://www.gov.wales/welsh-rates-of-income-tax-reconciliation-2021-to-2022-joint-technical-note-by-wg-and-hmt-html> for the latest version.

Get [information on copyright](#).

# Introduction

This statement, jointly agreed by HM Treasury and the Welsh Government, shows both governments' continued ambition to ensure full transparency in, and to improve wider understanding of, the Welsh Government's Fiscal Framework. This statement provides an explanation of how the income tax reconciliation process for 2021 to 2022 affects the Welsh Government's budget in 2024 to 2025.

## Reconciliation for 2021 to 2022 Income Tax

On 6 July 2023, HMRC published [Income Tax outturn statistics for the tax year 2021 to 2022](#).

The figures in this publication provide both the Welsh Rates of Income Tax revenues, and the equivalent Income Tax revenues for the rest of UK that are used to calculate the Welsh Government's Block Grant Adjustment, as set out in the Fiscal Framework agreed between the Welsh and UK governments. This allows the Income Tax reconciliation applying to the 2024 to 2025 Welsh Government budget to be calculated.

Calculating the reconciliation requires comparing the forecast and outturn figures for the Welsh Rates of Income Tax revenues and for the Block Grant Adjustment. The difference between the forecasts and the outturns is applied to the Welsh Government's funding in 2024 to 2025. Further background is set out below, after the calculations.

The Welsh Government's Fiscal Framework sets out that the Block Grant Adjustments are calculated on a 'by band' basis (for each of the basic, higher, and additional rates). The table below summarises the total impact of the

This document was downloaded from GOV.WALES and may not be the latest version.

Go to <https://www.gov.wales/welsh-rates-of-income-tax-reconciliation-2021-to-2022-joint-technical-note-by-wg-and-hmt-html> for the latest version.

Get [information on copyright](#).

reconciliation, while a more detailed presentation of the figures with a breakdown ‘by band’ can be found in the background section.

Due to the revision of population estimates following the Census in 2021, this reconciliation also takes account of the [updated assessment of the size of the population in Wales](#) relative to England and Northern Ireland from 2019 to the present, as published on 23 November 2023. Further detail on how the revision of population estimates has affected the reconciliation is set out below, after the calculations.

The 2 reconciliation components will have the following effects, as summarised in the table below:

- Block Grant Adjustment: The outturn is higher than was forecast at the time of the 2021 to 2022 Welsh Budget so this will increase the Block Grant Adjustment (and by implication reduce the Welsh Government’s block grant) by £213 million in 2024 to 2025.
- Welsh Rates of Income Tax: The outturn is higher than was forecast at the time of the 2021 to 2022 Welsh Budget so this will increase Welsh Government self-funding by £320 million in 2024 to 2025.

The net reconciliation effect is a £107 million increase in the Welsh Government’s funding for 2024 to 2025.

## Reconciliation for 2021 to 2022 Welsh Rates of Income Tax which will impact the 2024 to 2025 Budget

2021 to 2022 Welsh Rates of Income Tax (£m)	Revenues	Block Grant Adjustment	Net Budget Position
Forecasts as of Welsh Government Budget 2021 to 2022	2,064	-2,099	-35

This document was downloaded from GOV.WALES and may not be the latest version.

Go to <https://www.gov.wales/welsh-rates-of-income-tax-reconciliation-2021-to-2022-joint-technical-note-by-wg-and-hmt-html> for the latest version.

Get [information on copyright](#).

2021 to 2022 Welsh Rates of Income Tax (£m)	Revenues	Block Grant Adjustment	Net Budget Position
Outturn	2,384	-2,312	72
Change/reconciliation	320	-213	107

Note: numbers may not sum due to rounding.

## Background

Following the Wales Act 2017, additional tax powers were devolved to the Welsh Government. In April 2019, the UK rates of income tax on non-savings non-dividend income were each reduced by 10 pence in the pound for Welsh residents. The Welsh Government gained the power to set a Welsh rate in each band in Wales. To date, the Welsh Government has set those rates at 10 pence in the pound. HMRC is responsible for the collection of all Income Tax, including the Welsh rates.

The Welsh Government is partly funded by the UK government block grant, and partly self-funded through raising revenue from devolved taxes and borrowing.

The block grant is determined by the longstanding Barnett Formula.

The block grant is now adjusted to reflect the impact of the transfer of greater fiscal powers to the Welsh Government. These Block Grant Adjustments (BGAs) are deductions for tax powers. Alongside this, the Welsh Government retains all revenues from devolved taxes, has a Welsh Reserve and has capital and resource borrowing powers with agreed limits.

This document was downloaded from GOV.WALES and may not be the latest version.

Go to <https://www.gov.wales/welsh-rates-of-income-tax-reconciliation-2021-to-2022-joint-technical-note-by-wg-and-hmt-html> for the latest version.

Get [information on copyright](#).

For resource borrowing, the Welsh Government has the power to borrow for forecast error in relation to devolved taxes arising from forecasts of Welsh receipts and corresponding UK forecasts for the Block Grant Adjustments, with an annual limit of £200 million.

The revenues from the Welsh rates and the associated BGA used in Welsh Government budgets are based on forecasts produced by the Office for Budget Responsibility. These are both fixed in advance of the year in question.

As set out in the Welsh Government's Fiscal Framework, Income Tax outturn published in HMRC's Annual Report and Accounts, which is normally published around 16 months after the end of the financial year, will then be used to determine adjustments to account for forecast error through a reconciliation process. Any adjustments required are then applied to the Welsh Government's funding for the following financial year.

Following the outputs of the Census in 2021, HM Treasury and the Welsh Government have also taken account of revisions to population estimates for this reconciliation. Population estimates are integral to the calculation of the BGAs, as they inform an assessment of the comparability of tax revenues in Wales and the rest of the UK at the point of devolving a tax, and the indexation of the Block Grant Adjustment over time. In light of the Census in 2021, the Office for National Statistics and the Northern Ireland Statistics and Research Agency have published rebased estimates of the population in England/Wales and Northern Ireland respectively, between 2012 to 2020. HM Treasury and the Welsh Government have consequently updated the comparability factors used to calculate the Block Grant Adjustments to ensure that they reflect the most accurate understanding of relative population size at the point of tax devolution. The impact of this is shown in the tables below.

**This document was downloaded from GOV.WALES and may not be the latest version.**

Go to <https://www.gov.wales/welsh-rates-of-income-tax-reconciliation-2021-to-2022-joint-technical-note-by-wg-and-hmt-html> for the latest version.

Get [information on copyright](#).

## Changes in the comparability factors within the income tax block grant adjustment calculation

Income Tax Band	Pre-Census comparability factor	Post-Census comparability factor
Basic	79.7%	81.3%
Higher	38.2%	39.0%
Additional	11.2%	11.4%

Considering both tax revenues and population estimates, a reconciliation for 2021 to 2022 Welsh Rates of Income Tax will be applied to the 2024 to 2025 Welsh Budget. The reconciliation covers both Welsh Rates of Income Tax revenues and the BGA.

## Detailed breakdown of Welsh Government's Income Tax outturn reconciliation.

£m		Basic	Higher	Additional	Total
BGA	Forecast	-1,814	-242	-44	-2,099
	Outturn	-1,974	-279	-59	-2,312
	Reconciliation	-161	-37	-15	-213

This document was downloaded from GOV.WALES and may not be the latest version.

Go to <https://www.gov.wales/welsh-rates-of-income-tax-reconciliation-2021-to-2022-joint-technical-note-by-wg-and-hmt-html> for the latest version.

Get [information on copyright](#).

Revenues	Forecast	1,779	241	44	2,064
	Outturn	2,030	293	62	2,384
	Reconciliation	250	51	18	320
Net funding	Forecast	-34	-1	0	-35
	Outturn	55	14	3	72
	Reconciliation	89	14	3	107

Note: numbers may not sum due to rounding.

**This document may not be fully accessible.**

For more information refer to our [accessibility statement](#).

**This document was downloaded from GOV.WALES and may not be the latest version.**

Go to <https://www.gov.wales/welsh-rates-of-income-tax-reconciliation-2021-to-2022-joint-technical-note-by-wg-and-hmt-html> for the latest version.

Get [information on copyright](#).