



Llywodraeth Cymru
Welsh Government



SERVICE LEVEL AGREEMENT

FOR OPERATION OF WELSH RATES OF INCOME TAX (WRIT) BY HMRC

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INTRODUCTION

Purpose

1. The Wales Act 2014 (“the 2014 Act”) gives the National Assembly for Wales (NAfW) the power to set a Welsh basic, higher and additional rate of income tax to be charged on Welsh taxpayers (as defined in section 116E of the 2014 Act. Welsh rates of income tax (WRIT) remain part of the UK income tax system: it will continue to be administered by Her Majesty’s Revenue and Customs (HMRC); and, responsibility for the Personal Allowance, tax base and tax reliefs remain reserved to the UK Parliament.
2. Forecast Welsh income tax receipts flow from HM Treasury into the Welsh Government’s Consolidated Fund. This amount is reconciled annually against the amount of income tax that HMRC collects.
3. HMRC remain accountable for the collection and management of Welsh income tax and need to be able to evidence that they are doing so in an efficient and effective manner.
4. The Welsh Government is required to meet any net additional costs incurred by the UK Government as a result of the introduction of WRIT.
5. The Welsh Government needs sufficient data from HMRC to:
 - Discharge its duties in respect of: forecasting, developing income tax policy, setting rates; and budgeting for any variance in Welsh income tax collected against forecasts; and
 - Assure itself of HMRC’s efficiency and effectiveness in operating Welsh rates of Income tax.
6. This Service Level Agreement (Agreement) sets down the requirements, timescales and performance measures for the operation of Welsh income tax which will ensure a consistent quality of service to Welsh taxpayers and allow HMRC and the Welsh Government to meet their respective responsibilities in respect of operating Welsh income tax.

Roles and responsibilities

7. HMRC are responsible for the collection and management of the revenues from income tax by virtue of Section 5(1)(a) of the [Commissioners for Revenue and Customs Act 2005](#). HMRC has appointed an Additional Accounting Officer with the overall responsibility for Welsh rates of income tax who is accountable for the performance of HMRC in establishing and operating Welsh income tax powers.

8. Part 3 of the [Wales Act 2014](#) provided NAFW with the power to set the Welsh Rates of Income Tax (WRIT), enabling it (NAFW) to set a rate for a proportion of the income tax paid by Welsh taxpayers.
9. Each year the NAFW must pass a Welsh Rate Resolution, which will set the income tax rates to be applied for Welsh taxpayers. This must be made in the financial year prior to which the rates are due to apply.
10. The ability to change, add or remove income tax reliefs remains reserved to the UK Parliament.
11. The ability to define, change, add or remove types of income to which income tax can be applied also remains reserved to the UK Parliament.
12. Any issues of dispute about WRIT will be matters between Welsh taxpayers and HMRC.
13. Additionally, under the [Fiscal Framework](#) agreed between the UK and Welsh Governments in 2016, the Welsh Government is required to reimburse the UK government for net additional costs wholly and necessarily incurred as a result of the administration of the Welsh income tax powers.
14. HMRC administers WRIT as part of wider UK income tax regime. It remains responsible for the preservation of customer data relating to WRIT and Welsh income tax customers in line with its usual processes.
15. To that end, HMRC also retains responsibility as the [Data Controller](#) for WRIT and adherence to wider data protection law, including the General Data Protection Regulation (GDPR) and the Data Protection Act (DPA) 2018, in line with its own organizational [Privacy Notice](#).

THE AGREEMENT FRAMEWORK

Parties to the Agreement

16. This Agreement is entered into between Her Majesty's Revenue and Customs and the Welsh Government.

Duration of the Agreement

17. Notwithstanding the date of signatures, this Agreement has effect from 6 April 2019. This document has no expiry date, but it will cease to have effect if Welsh income tax powers are repealed. The document may be brought to an end by agreement between HMRC and the Welsh Government.

Legal Effect

18. This is an agreement between HMRC and the Welsh Government. It has no formal legal force. Nevertheless, both parties expect its terms to be followed. Arrangements for dealing with disputes are set out at paragraphs 37 – 39.

Derivation

19. HMRC and the Welsh Government have agreed an overarching [Memorandum of Understanding \(MOU\)](#), which sets out HMRC and the Welsh Government's on-going respective responsibilities at an official level in relation to establishing and operating the Welsh income tax powers in an efficient and effective manner. It also provides the framework for inter-Government work at Ministerial and official level to oversee the establishment and operation of the Welsh income tax powers.
20. The Fiscal Framework agreed between the UK and Welsh Governments sets down that the Welsh Government will reimburse the UK government for net additional costs wholly and necessarily incurred as a result of the implementation and administration of the Welsh income tax powers.
21. This Agreement should be read in conjunction with the Memorandum of Understanding and the Fiscal Framework.

SERVICE REQUIREMENT

Overarching Aims

22. The overarching aims in respect of HMRC's administration of WRIT are that HMRC will:
 - Identify the Welsh taxpayer population and collect from it the correct rates of Welsh income tax to ensure the Welsh Government receives the correct amount of income tax revenue each year;
 - Account for the amount of Welsh income tax collected and report this in an extract of HMRC's Accounts to NAFW each year;
 - Continue to administer income tax for Welsh taxpayers, the employers of Welsh taxpayers and their payroll software providers in a manner equivalent to the service provided elsewhere in the UK;
 - Provide the Welsh Government with sufficient and timely data to allow it to discharge its own duties in respect of Welsh income tax; and
 - Invoice the Welsh Government for agreed net additional costs wholly and necessarily incurred as a result of the administration of Welsh income tax rates.

Key Requirements

23. The following key requirements have been identified for HMRC's operation and administration of the Welsh income tax powers:

- Identify and maintain an accurate and robust record of the Welsh income taxpayer population;
- Apply the appropriate Welsh rates to the non-savings, non-dividend income of Welsh taxpayers to enable HMRC to collect and account for the correct amount of income tax revenue due to the Welsh Government;
- Apply the same level of customer service, support and transparency to Welsh income taxpayers, and the employers of Welsh tax payers, as applied to income taxpayers in the rest of the UK;
- Treat the Welsh and English languages equally in the provision of services related to the operation and administration of WRIT, in line with HMRC's own [Welsh Language Scheme](#);
- Provide the Welsh Government with sufficient relevant and timely information and data to discharge its duties in respect of rate-setting and forecasting for Welsh income tax;
- Provide the Welsh Government with sufficient relevant and timely information and data to discharge its duties in respect of cash management due to any change between forecast and collected amounts of Welsh income tax;
- Provide the Welsh Government with sufficient relevant and timely information and data for assurance purposes and to budget effectively for any net additional costs to be recharged to the Welsh Government;
- Apply risk based compliance activity to the collection of Welsh income tax in the same way as is applied to the collection of income tax from taxpayers in the rest of the UK; and
- Provide the Welsh Government with sufficient relevant and timely information and data to assure itself of the effective use of Welsh Government money in the administration of Welsh income tax by the HMRC, including compliance and enforcement activity.

24. Performance measures in respect of these requirements are attached at [Annex A: HMRC Performance Measures](#).

MANAGEMENT ARRANGEMENTS

Costs & Reimbursement Arrangements

25. HMRC will recharge the Welsh Government for any net additional costs wholly and necessarily incurred as a result of the administration of the Welsh income tax powers.

HMRC and the Welsh Government have developed a Framework Document (“Framework”) identifying the known areas where net additional administrative costs will fall and identifying the information that HMRC will rely on to calculate these costs. This will be used as the basis for raising and agreeing invoices with the Welsh Government. This document will be kept up to date to ensure it continues to capture all areas of rechargeable work and is attached at [ANNEX B: Operation of Welsh Income Tax Rechargeable Costs Framework](#).

26. HMRC will invoice Welsh Government for costs incurred on a quarterly basis having first provided a detailed costs paper which been considered and agreed at the quarterly meetings identified at paragraph 39 and then agreed by HMRC’s Welsh Devolution Board.
27. Welsh Government will make payment to HMRC within 30 days of the invoice date or within 30 days of receipt of the invoice if there is a delay of more than 5 days between invoice date and date of receipt.
28. Where required, accrual arrangements will be agreed in advance between HMRC and the Welsh Government for Quarter 4 payments (January – March) to ensure these payments are made in the appropriate financial year.

Day-to-Day Relationships

29. It is expected that both parties will do all things reasonably within their power that are necessary or desirable to give effect to the spirit and intent of the Agreement.
30. Both parties are expected to act in good faith and use their best endeavours to resolve by agreement any disputes, differences or questions arising out of or relating to this Agreement.
31. Both parties will nominate a Single Point of Contact (SPoC) to oversee the day-to-day management of any matters relating to this Agreement.

32. Such matters will be handled in a pro-active and inclusive manner to ensure that the ongoing administration of WRIT continues at the required service levels as set out in this Agreement.
33. When a dispute arises about the operation of this Agreement, or any variation or interpretation of this Agreement, both parties will initially seek to resolve this informally through the SPoCs. Where individual SPoCs cannot resolve any such dispute, they will refer it to the relevant Deputy Director in each organisation to seek a resolution.
34. If this does not resolve the issue, it will be escalated to the signatories of this Agreement, who will work with the SPoCs and any other relevant individuals to resolve it.

Dispute Resolution

35. If the process set out above to secure resolution to any dispute between HMRC and the Welsh Government concerning the operation of this Agreement, or any variation or interpretation of this Agreement, the issue will be referred to the Additional Accountable Officers in HMRC and the Welsh Government.
36. In exceptional circumstances, where the dispute cannot be resolved by the above process, it is open to the Welsh Government to refer to the Minister for Finance and Trefnydd and HMRC to the relevant UK ministerial counterpart. The Joint Exchequer Committee provides Ministerial oversight of the programme of work, and will be the final arbiter in points of dispute.
37. Each SPoC will keep each other informed of any planned escalation, prior to the escalation happening.

Review, Monitoring and Reporting

38. Quarterly meetings will take place between the relevant Deputy Directors in each organisation (or their delegates) and the SPoCs to discuss any relevant matters arising from the delivery of any aspect of this Agreement. These will consider data provided by HMRC for this period as well as progress against Business as Usual plans, and so, should fall in line with the quarterly reporting and invoicing requirements.
39. Bi-annual meetings will be held between the signatories of the Agreement at which the overall effectiveness of this Agreement will be reviewed.
40. HMRC will publish an Annual Report each September, which will cover the activity it has undertaken in the preceding tax year relating to this Agreement and its performance measures. It will also provide the Welsh Government with in-year updates and the

quarterly/monthly provision of information as set out in detail within the delivery and reporting schedule for each performance measure at Annex A.

41. A first initial review of this Agreement shall take place no later than **March 2020**. Thereafter, the Agreement will be reviewed following the confirmation of UK and Welsh Government income tax rates and bands each year to review compliance with the stated aims and ensure that the Agreement remains fit for purpose. Any changes to the content of the Agreement arising from such a review will be marked by the issue of a new, dated, version number. While such a review will be led by the signatories to the Agreement and SPoCs, it will include input from subject matter experts and policy colleagues, as required.
42. It is open, however, for either party to request to review the Agreement at any stage.

Change or Variations to the Agreement

43. HMRC and the Welsh Government need to inform the other as soon as possible of any circumstances which might lead to the need for an alteration to the obligations of either party under this Agreement.
44. Any significant changes to the agreement shall be negotiated and signed-off by the signatory parties.
45. Any minor variations to the delivery of any of the subsidiary agreements should, however, be able to be agreed between the identified SPoCs within HMRC and the Welsh Government.

Business Continuity

46. Both parties must inform the other immediately if any issue arises relating to business continuity in respect of the administration and collection of Welsh income tax.

Signed on behalf of their relevant organisations:



Andrew Jeffrey
Director, Welsh Treasury
Welsh Government

Date:



Carol Bristow
Director Individuals Policy
HMRC

Date: 20/06/2019

ANNEX A: HMRC Performance Measures

	Requirement	HMRC Measure	Delivery and Reporting Schedule
1	Identify and maintain an accurate and robust record of the Welsh taxpayer population.	<p>HMRC annually provide an assessment of risk and planned approach, based on Welsh Strategic Picture of Risk, to Welsh taxpayer identification as a bespoke element of income tax compliance activity. Additionally provide an annual report on the outcome of that compliance activity once it has been undertaken.</p>	<ul style="list-style-type: none"> • Strategic picture of risk provided to the Welsh Government by August each year. • Annual compliance assessment and plan to address provided to Welsh Government by July each year. • Summary of the compliance plan and outcome of activity report in HMRC's annual Welsh income tax report published in September.
		<p>HMRC address data maintenance:</p> <p>i) Comparison of HMRC UK-wide data set with third party data sets e.g. the Welsh Electoral Register & credit reference agencies, to corroborate address held by HMRC.</p> <p>ii) Where individual addresses not corroborated by step (i) comparison exercises using street/ town association and postcode data with other third party and internal data sources, to establish likely WTP status.</p> <p>iii) Where corroboration of WTP status not achieved by steps (i & ii) and identify and communication sent to target individuals (PTA/email/letter) – i.e.:</p> <ul style="list-style-type: none"> • potential Welsh taxpayers where HMRC holds an address outside of Wales but third party data indicated a potential address in Wales; and, • individuals for whom HMRC hold a Welsh correspondence address but a main address elsewhere in the UK. <p>iv) Monitoring response to communications and resulting changes in taxpayer address.</p>	<ul style="list-style-type: none"> • Timeframe for third party comparison exercise to be agreed annually by HMRC and Welsh Government. • Welsh Government updated, in year, of outcome of comparison exercise and any resulting further actions and timescales. • Detail and outcome of activity reported in HMRC's annual Welsh income tax report.

	Requirement	HMRC Measure	Delivery and Reporting Schedule
1 (ctd)	Identify and maintain an accurate and robust record of the Welsh taxpayer population.	Identification and correction of corrupted or blank addresses within the potential Welsh taxpayer population: <ul style="list-style-type: none"> • Cleansing incomplete or corrupt postcodes identified from comparison exercise utilising Ordnance Survey and Royal Mail • Updating records with corrupt or blank addresses using third party data • Identifying and correcting customer records with a Welsh address but a blank and/or incomplete postcode. 	<ul style="list-style-type: none"> • Timeframe for address cleansing exercises to be agreed annually by HMRC and Welsh Government. • Welsh Government updated, in year, on the outcome of address cleansing exercises and any resulting further actions and timescales, in year. • Detail and outcome of activity reported in HMRC's annual Welsh income tax report.
		In- year changes to Welsh Address Flag status (monthly).	<ul style="list-style-type: none"> • Monthly breakdown provided in Quarterly Business Intelligence Reports (July, October, January, April). • Annual Business Intelligence Report provided in May and published in HMRC's annual Welsh income tax report.
		Conservation of accuracy of 'C' code application on records with Welsh/English Borders postcodes.	<ul style="list-style-type: none"> • Timeframe for border post code accuracy exercise to be agreed annually by HMRC and Welsh Government by the start of the tax year. • Welsh Government updated, in year, on outcome of conservation exercise and any resulting further actions and timescales. • Detail and outcome of activity reported in HMRC's annual Welsh income tax report.

	Requirement	HMRC Measure	Delivery and Reporting Schedule
1 (ctd)	Identify and maintain an accurate and robust record of the Welsh taxpayer population.	Ongoing process to ensure accuracy of 'C' codes on Welsh taxpayers.	Confirmation of activity and outcome in HMRC's annual Welsh income tax report.
		Quality Management checks on postcode data supporting the identification of Welsh taxpayers.	<ul style="list-style-type: none"> • Timeframe for post code quality management check to be agreed annually by HMRC & WG by the start of the tax year • Detail and outcome of activity reports in HMRC's annual Welsh income tax report.
2	Collect and account for Welsh income tax revenues Welsh income tax rates.	Publication of Welsh income tax receipts in HMRC Annual Accounts (published in July of each year & audited by NAO) Publication of rUK income tax receipts (equivalent figure for non-savings, non-dividends income). Note – The WRIT outturn for 2019/20 will be available in July 2021.	<ul style="list-style-type: none"> • HMRC Annual Report published in July. • We expect to develop a HMRC Welsh income tax statistics publication, to follow publication of HMRC'S Annual Accounts. We will involve WG as we develop this publication.
		Extract of HMRC Accounts provided to National Assembly for Wales and Welsh Ministers.	<ul style="list-style-type: none"> • Provided annually, with HMRC annual Welsh income tax report in September.
3	Apply the same level of customer service, support and transparency to Welsh income taxpayers as is applied to income tax payers in the rest of the UK.	Telephony (monthly)** <ul style="list-style-type: none"> • Total Calls = Number of calls received via the designated WRIT telephone line. • IVR (ITA) %deflected • Answered, total number answered by an HMRC advisor. • Average Queue time of Answered call • Abandoned in Queue, total number of calls 	<ul style="list-style-type: none"> • Monthly breakdown provided in Quarterly Business Intelligence Reports (July, October, January, April). • Annual Business Intelligence Report provided in April and published in HMRC's annual Welsh income tax report.

		<ul style="list-style-type: none"> • Average Wait Before Abandoned • Overall WRIT calls %handled. 	
	Requirement	HMRC Measure	Delivery and Reporting Schedule
3 (ctd)	Apply the same level of customer service, support and transparency to Welsh income taxpayers as is applied to income tax payers in the rest of the UK.	Post (monthly)** <ul style="list-style-type: none"> • Number of Welsh income tax post received. • Number of Welsh income tax post answered. 	<ul style="list-style-type: none"> • Monthly breakdown provided in Quarterly Business Intelligence Reports (July, October, January, April). • Annual Business Intelligence Report provided in April and published in HMRC's annual Welsh income tax report.
		Complaints (monthly)** <ul style="list-style-type: none"> • Number of Welsh income tax complaints received • Number of Welsh income tax complaints answered • Complaint category • Complaint Status 	<ul style="list-style-type: none"> • As above.
		Online calculators which rely on income tax rates and thresholds are accurate for Welsh taxpayers.	<ul style="list-style-type: none"> • Reviewed annually and updated, as required, for start of tax year • Detail and outcome of activity reported in HMRC's annual Welsh income tax report.
		Tax tables issued to digitally exempt employers reflect Welsh rates and thresholds.	<ul style="list-style-type: none"> • Annual exercise following confirmation of Welsh rate and thresholds – activity and outcome reported in HMRC's annual Welsh income tax report.

	Requirement	HMRC Measure	Delivery and Reporting Schedule
3 (ctd)	Apply the same level of customer service, support and transparency to Welsh income taxpayers as is applied to income tax payers in the rest of the UK.	Outputs to individual Welsh taxpayers (i.e. P2 coding notices and Annual Tax Summary) accurately reflect Welsh income tax.	<ul style="list-style-type: none"> Ongoing assurance processes undertaken with activity and outcomes reported in HMRC's annual Welsh income tax report.
		HMRC small business payroll tools amended for Welsh income tax.	<ul style="list-style-type: none"> Annual exercise, following confirmation of Welsh rate and thresholds – activity and outcome reported in HMRC's annual Welsh income tax report.
		Personal taxation guidance available to a Welsh taxpayer on GOV.UK is commensurate to that available to a taxpayer in the rest of the UK.	<ul style="list-style-type: none"> Reviewed annually and updated, as required, for start of tax year. Welsh Government updated, in year, of actions taken. Detail and outcome of activity reported in HMRC's annual Welsh income tax report.
		Summary of usage of HMRC's Welsh Language Service	<ul style="list-style-type: none"> Summary including number of email enquiries, calls and letters will be provided in the HMRC annual Welsh income tax report
4	Provide the Welsh Government with sufficient relevant and timely information and data for rate-setting and forecasting for Welsh income tax.	Provision of the Public Use Tape income tax data.	<ul style="list-style-type: none"> Annually - the delivery date will be determined by the end of January each year (the expectation for normal delivery is by mid to late April). Detail and outcome of activity reported in HMRC's annual Welsh income tax report.

	Requirement	HMRC Measure	Delivery and Reporting Schedule
5	Provide the Welsh Government with sufficient relevant and timely information and data to discharge its duties in respect of cash management due to any change between forecast and collected amounts of Welsh income tax.	Monthly liabilities reported by employers for Welsh taxpayers in employment (i.e. those within the PAYE system with 'C' code identifier at that point in time).	<ul style="list-style-type: none"> • Monthly provision of previous month's liabilities synchronised to publication of monthly UK income tax receipts data. • Detail of activity reported in HMRC's annual Welsh income tax report.
		<p>Welsh Government and HMRC will also:</p> <ul style="list-style-type: none"> • explore further how outturn Welsh income tax receipts may vary from both forecast and reported in year liabilities; and, • periodically review whether monthly employer RTI data on Welsh taxpayer liabilities remains the best way to meet Welsh Government real time data needs.*** 	<ul style="list-style-type: none"> • Ongoing engagement between Welsh Government and HMRC through the analytical working group. • Detail of activity and outcomes reporting in HMRC's annual Welsh income tax report.
6	Provide the Welsh Government with sufficient relevant and timely information for assurance purposes and to budget effectively for any net additional administrative costs to be recharged to the Welsh Government.	Rechargeable costs framework kept up to date to cover all identified and anticipated administrative costs	<ul style="list-style-type: none"> • Ongoing engagement between WG and HMRC. • Detail of activity and outcomes reporting in HMRC's annual Welsh income tax report.

	Requirement	HMRC Measure	Delivery and Reporting Schedule
7	Apply risk based compliance activity to the collection of Welsh income tax in the same way as is applied to the collection of income tax from taxpayers in the rest of the UK (this is additional to specific Welsh taxpayer population activity listed under requirement 1).	<p>HMRC's approach to enforcement and compliance will be applied across all income tax collection, including Welsh income tax.</p> <ul style="list-style-type: none"> • PROMOTE – designing our processes and taxpayer products to stop careless errors. Helping customers get things right first time e.g. pre-population of forms with address data • PREVENT – exploiting our digital services using our data to identify risks as they arise and giving customers the opportunity to correct their mistakes before they reach HMRC e.g. pop-up information boxes on self-assessment returns • RESPOND – intervening to address specific compliance risks through: <ul style="list-style-type: none"> i) employer level activity (real time information, submitted by employers, is monitored to ensure correct tax codes & tax tables are used – discrepancies identified are subject to further investigation). ii) agent compliance (agents represent 8m customers – HMRC therefore engages extensively with agents to impact their clients' behaviour and promote voluntary compliance). iii) enquiries into self-assessment returns iv) dedicated teams to analyse risk related to High Net Worth and Affluent taxpayers <p>The effectiveness of this work will be reported at the UK level, as the same standards are being applied to both Welsh and rUK income tax liabilities.</p>	<ul style="list-style-type: none"> • Annual compliance assessment and plan to address provided to Welsh Government by July each year. • Summary of compliance plan activity and outcomes reported in HMRC's annual Welsh income tax report.

NOTES

** These measures relate solely to enquiries on Welsh taxpayer status. Numbers of Welsh income tax specific enquiries (i.e. those regarding taxpayer status) are likely to be significantly lower than general income tax enquiries (i.e. those issues that potentially affect Welsh and rUK taxpayers equally), and therefore the potential for higher volatility in the Welsh specific figures is higher than for whole of UK income tax enquiries. HMRC's quarterly UK performance reports include any contact made by Welsh taxpayers on any other issues including any contact made via i-forms. These are published on GOV.UK.

*** Recognising that this will be a process which will be developed as outturn data is collected and a better understanding of the relative trends of when liabilities associated with any particular tax year are collected (i.e. Self-assessment liabilities are only collected following the end of the tax year in question, and equally Welsh taxpayer status can only be stated with certainty following the end of the tax year).

GLOSSARY OF TERMS AND ABBREVIATIONS

'C' code – To enable the PAYE system to operate correctly, HMRC sends employers an individual code made up of letters and numbers for every UK employee. These codes enable employers to deduct the right levels of income tax and national insurance contributions for each employee. A code prefixed by an 'C' (an C-code) tells the employer that the employee is a Welsh taxpayer so income tax should be deducted from earnings using the rates and thresholds set by the National Assembly for Wales.

Digitally exempt - the vast majority of employers must send their payroll data to HMRC online. However, a small number of '*Digitally exempt*' employers have the option of sending payroll submissions to HM Revenue and Customs (HMRC) either online or on paper. Guidance on who is eligible can be found at <https://www.gov.uk/guidance/find-out-which-employers-are-exempt-from-online-payroll-reporting>

PAYE –The Pay As You Earn (PAYE) system is a method of paying income tax and national insurance contributions. Employers deduct, and pass to HMRC, tax and national insurance contributions from their employees' wages or occupational pension, before the wages or pensions are paid.

Self-Assessment – Self-Assessment is a system of collecting taxes from those who do not contribute through PAYE, or who earn additional income apart from their main employment. Taxpayers self-assess their tax liability, and complete a tax return detailing the taxes due to HMRC and any reliefs that may apply to them.

Welsh Address Flag Status – Whether or not an individual is a Welsh taxpayer is decided by place of residence. Where it holds a Welsh address for an individual, HMRC therefore electronically marks (Welsh Address Flag) that record as Welsh - the mark/flag being removed or added if the individual moves into or out of Wales. If present and the individual is in employment, the mark/flag enables HMRC IT systems to automatically issue a PAYE 'C Code' letting the employer know that the employee is a Welsh taxpayer, so income tax should be deducted from earnings using the rates and thresholds set by the National Assembly for Wales.

SPI - The Survey of Personal Incomes (SPI) is a set of income tax data, produced annually by HMRC from the information it holds on a large sample group of UK individuals. The SPI is used to assess the potential impact of proposed changes to tax rates and thresholds in order to inform Ministerial decisions on tax policy. It is also used to provide summary information for the National Accounts that are prepared by the Office for National Statistics, in addition to providing information to Members of the National Assembly for Wales, other Government Departments, companies, organisations and individuals.

Public Use Tape income tax data for CY(-2) - The Public Use Tape is a version of the SPI, amended to ensure taxpayer confidentiality, that HMRC makes publically available to enable statistical research by organisations and individuals outside of HMRC. The SPI and therefore the Public Use Tape, are always drawn from the latest year for which HMRC has a full set of income tax data – in any given year this will always be the data from two tax years earlier (CY-2). This is due to the timeframe in which HMRC receives information from taxpayers (e.g. self-employed individuals do not have to make a return of their income for a year until January 31st of the following year).

RTI – Real Time Information (RTI) is the system through which employers send employee payroll information to HMRC at the same time as the employee is paid, usually monthly, rather than at the end of the tax year.

ANNEX B: Operation of Welsh Income Tax Rechargeable Costs Framework

Background and Purpose

1. HMRC is responsible for the operation of Welsh Income Tax as part of the UK Income Tax system. Under the [Fiscal Framework Agreement](#) between the UK and Welsh Government, the Welsh Government will reimburse the HMRC for net additional costs wholly and necessarily incurred as a result of the implementation and administration of the Income Tax powers.
2. Under HMRC's Tax Devolution Programme and Projects, HMRC has made changes to its systems and processes to ensure the effective and efficient collection and management of Welsh Income Tax. Associated with these changes are new and ongoing administrative costs to operate Welsh income tax processes and systems.
3. This framework sets out the principles that HMRC will apply when identifying the administrative costs associated with the operation of Welsh Income Tax that will be recharged to the Welsh Government.
4. It is a living document which will be kept up to date to reflect all known and anticipated administrative costs and should be read in conjunction with the Memorandum of Understanding and Service Level Agreement between HMRC and the Welsh Government.¹

Principle of Net Additional Costs

5. HMRC will use the same process for identifying the net additional costs of operating the Welsh income tax powers devolved in the Wales Act 2014 as applied to identifying the marginal costs for the Welsh Rate of Income Tax. HMRC will, therefore, look to recharge the costs of elements that relate specifically to the administration of the Welsh income tax powers and not every cost related to the administration of the Income Tax system for Welsh taxpayers. In applying this principle, the rechargeable costs are, therefore, not replacing another cost relating to that taxpayer. This means these are additional costs and there is no saving to HMRC to net against.

Examples of the net additional cost principle

- Customer contact: HMRC get a wide range of calls from Welsh taxpayers, however, the vast majority of these would not be recharged to the Welsh Government. HMRC will recharge for calls from someone asking about their Welsh taxpayer status, but not the Welsh taxpayer customer who is calling to change their name.
- Customer outputs: HMRC issue P2 coding notices throughout each year to Welsh taxpayers. However, HMRC will only recharge the Welsh Government for the print and post costs where the P2 notice has been issued a result of the customer's change in status to or from a Welsh taxpayer, or as a consequence of an additional Welsh specific

¹ The Memorandum of Understanding can be found at: <https://beta.gov.wales/sites/default/files/publications/2018-11/welsh-rate-of-income-tax-mou.pdf>

coding exercise. Therefore, the issue of annual codes or daily codes (other than because of the change of status) to Welsh taxpayers would not be recharged, as this is part of HMRC usual operating routines to support the tax system across the UK.

Recharging net additional costs

6. HMRC will identify all products and work carried out to administer Welsh Income Tax and determine whether they meet the net additional costs principle prior to recharging any associated costs to the Welsh Government.
7. Before any invoice is raised in respect of the administration costs HMRC will collate and be able to provide the relevant supporting data to assure the accuracy of the charges being levied. The Welsh Government has the right to request and query the supporting data.
8. HMRC will provide a forecast of the annual administrative costs to the Welsh Government at the end of Q1 for the following financial year to assist the Welsh Government with their budget-setting processes. This will be an indication only as it will not include any bespoke requests, subsequent tasks identified or cessation of existing tasks during the course of the following year. Changes that will affect future years will be reflected in the next annual forecast.
9. Throughout any one financial year there will be routine activities which happen once, as well as activity which will carry on throughout the year. In addition to this there may be requests from the Welsh Government which result in additional, bespoke activity
10. Operational Business Areas tasks can result in peaks of work or a small additional resource on an ongoing basis. HMRC will assess the number of annualised FTE, (or part of an FTE) that is required to perform these tasks and the most cost effective way HMRC resource can be allocated– e.g. HMRC can ‘flex’ staff in to deal with specific peaks of work or identify part of an existing FTE resource for a few hours per week across the full year. All HMRC staff resource working on Welsh income tax tasks that have been identified as attracting net additional costs, however, will be required to record the time taken on these tasks and it is this that will be used to calculate the cost recharged to the Welsh Government. This is in line with the charging mechanism for staffing resource that HMRC has in place with other government departments.
11. Some net additional costs will be governed by existing commercial contracts that HMRC has with external IT suppliers, e.g. IT Service Lines, print & post costs, IT change requests. HMRC, however, are committed to ensuring value for money and price competitiveness by awarding short term contracts and putting out to tender as and when current contracts come to a close. HMRC will provide the Welsh Government with documentation to support these costs while protecting the commercial confidentiality of any third party e.g. a redacted copy of the IT Supplier documentation. The Welsh Government bears the financial risk, in the unlikely event that the scope of work changes and/or unforeseen complexity of the IT delivery by the IT supplier.

Instances where net additional cost may not be recharged

12. HMRC will recharge the Welsh Government for net additional costs that it can identify and validate. However, HMRC will take a pragmatic approach to collecting data required to identify rechargeable costs to ensure that any charging mechanism is in itself not too costly to maintain.
13. There may also be instances where HMRC can identify costs but due to the low level of volumes it will be more onerous and costly to collect the evidence. HMRC would not be seeking recharge in these circumstances as it would fall below a de minimis level

Example of where a net additional cost may not be recharged

- Customer contact: HMRC collect information on call types via tagging within the automated telephony system (an interactive voice recognition system that incoming calls are channelled through based on what the caller states their query is concerning). In this way, direct queries relating to status can easily be uniquely identified and attract a cost to the Welsh Government. However, some calls relating to Welsh Income Tax status will come through under a different tag or as part of a wider call e.g. self-assessment. For these types of calls, the telephony system would not identify them as a Welsh Income Tax call, nor would it be possible to manually identify the amount of time incurred on the element of the call relating to Welsh income tax. Therefore, HMRC would not be seeking to recharge in these cases.

Cost drivers and charging mechanisms

14. Below is a table of identified categories of work associated with costs for administering Welsh income tax and the agreed types of charging mechanisms which will be used to validate and calculate the costs. The range of mechanisms reflects the diversity of the tasks, including HMRC staff resource recording time on task, as well as bespoke IT Change Requests being raised and impacted by HMRC IT Suppliers. A more detailed list will be maintained which identifies each administrative task undertaken by HMRC, including an agreed assessment of which charging mechanism will be applied.
15. Both the types of charging mechanisms and the list of individual tasks being charged against will be subject to change where new tasks are identified or a change in the charging mechanism emerges. For example, some of the tasks currently being initiated or carried out by HMRC's Welsh income tax implementation projects, such as the work to improve data quality, may become a business as usual type activity attracting an administrative cost in the future. A further exercise will also be undertaken to identify if there are any appropriate net additional administrative costs attributable to the Relief at Source changes from 2018/19.
16. HMRC and the Welsh Government will work together to ensure that the table below (and the separate associated detailed list of tasks) is kept up to date and agreed.

Cost Category	Additional cost driver	HMRC Validation and Evidence of costs incurred
Customer Contact	Telephone Contact	<p>HMRC Resource - Call time average</p> <ul style="list-style-type: none"> • HMRC's interactive telephony service captures number of calls with tagged words (e.g. Welsh taxpayer status). • The number of calls is multiplied by the average call time to provide the overall amount of time used. • Calculated time will be multiplied by full business costs and charged on that basis.
	Written correspondence, including Complaint handling	<p>HMRC Resource Time Recording</p> <ul style="list-style-type: none"> • HMRC record the number of written contacts/complaints received concerning Welsh taxpayer status using either an IT Work Management Item, if created, or a manual record. • Staff time taken to deal with each item will be recorded and notified to the finance team. • Charging will be based on the full business costs and time taken.
	Compliance case handling	<p>HMRC Resource Time Recording</p> <ul style="list-style-type: none"> • HMRC record the number and type of compliance cases concerning Welsh income tax using either an IT Work Management Item, if created, or a manual record. • The number of cases of each type will be multiplied by its average case handling time to provide the overall amount of time used. • Calculated time will be multiplied by the full business costs and charged on that basis.
Maintenance of Welsh Income Tax (systems and processes)	Annual non-IT supplier activities	<p>HMRC Resource Time Recording</p> <ul style="list-style-type: none"> • Annual Maintenance will cover a variety of activities designed to maintain the integrity of the Income Tax system. • These costs may cover activities such as updating specific guidance, postcode maintenance, changes to tax tables, data analysis and compliance work. • Staff time taken will be recorded and provided to Finance Team. • Calculated time will be multiplied by the full economic costs and charged on that basis • Charges will only be raised for those activities relating solely to Welsh income tax with description of output/outcome provided.

Cost Category	Additional cost driver	HMRC Validation and Evidence of costs incurred
Maintenance of Welsh Income Tax (systems and processes) (ctd.)	IT supplier impacts - Service lines	<p><i>IT Supplier Contractor Invoices</i></p> <ul style="list-style-type: none"> • HMRC challenge all IT supplier costs to ensure they are in line with agreed contracts. • SO2 Service lines - Costs relating to Business Applications, Support and Maintenance • Initial 5 year estimate provided during Final Supplier Proposals discussions. • Identification of specific Welsh Income Tax lines (currently 11) • HMRC will receive the actual costs incurred from the IT Supplier against these lines and recharge these costs.
	IT supplier impacts - Change requests	<p><i>IT Supplier Contracts Invoices</i></p> <ul style="list-style-type: none"> • HMRC challenge all IT supplier costs to ensure they are in line with agreed contracts. • Any annual maintenance activity or bespoke requests that require an IT changes will go through the Change Request process. • An IT impact will be raised, and the formal impact information and estimate costs will be shared with the Welsh Government to reach agreement on whether to proceed with the change. • HMRC will receive invoices on actual costs incurred from the IT Supplier against the Change Request deliverables and recharge these costs.
HMRC Welsh taxpayer outputs	P2 and P9 coding notices	<p><i>Print and Post costs</i></p> <ul style="list-style-type: none"> • HMRC will record numbers of coding notices generated as the result of a change of Welsh taxpayer status. • Detail of the actual print and post costs relating to these numbers will be provided by the PAYE process team to the Finance team. Charging will be based on these actual costs in line with existing HMRC contract for these services/ HMRC will receive invoices on actual costs incurred from the third party provider and the Welsh Government will be recharged.

Other administrative costs not included in the full business costs	Other administrative costs, such as, travel and subsistence and training	<p><i>HMRC Administrative Costs not included in full business costs</i></p> <ul style="list-style-type: none"> • HMRC will record T & S expenses and recharge the costs to the Welsh Government. • HMRC will record relevant training costs and will recharge to the Welsh Government.
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Cost Category	Additional cost driver	HMRC Validation and Evidence of costs incurred
Welsh Government requests	Welsh Government request	<p>By agreement</p> <ul style="list-style-type: none"> • HMRC will impact the costs of any request by the Welsh Government for HMRC to undertake additional, bespoke activity (e.g. additional compliance work allowed for under the MoU) • HMRC will undertake an impact which will cover staff resource and/or IT costs, as appropriate. • The impact information and estimated costs will be shared with the Welsh Government to reach agreement on whether to proceed with the activity. • An appropriate charging mechanism will be agreed for the activity.
Relationship Management	HMRC Customer Relations Manager (CRM) work on Welsh Income Tax, and with the Welsh Government	<p>HMRC Resource Time Recording</p> <ul style="list-style-type: none"> • This is a new role created to support the ongoing relationship between the Welsh Government and HMRC. • Staff time taken will be recorded and provided to Finance Team, alongside a quarterly summary of activities undertaken. • Calculated time will be multiplied by the full economic costs and charged on that basis
Non Chargeable time	Unable to quantify	<ul style="list-style-type: none"> • HMRC will not charge for Welsh income tax activities which cannot be separately quantified e.g. because they are part of a much broader query/activity.
	Below a de minimis	<ul style="list-style-type: none"> • HMRC may not charge for Welsh income tax activities which although quantifiable, the process to quantification will cost more to determine than the actual cost incurred.