Llywodraeth Cymru
Welsh Government

Welsh Government

Welsh Tax Policy Report 2022

December 2022

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Foreword

This is the second annual report against the Welsh Government Tax Policy Work Plan 2021-26 and it delivers on my commitment to report annually on progress in taking forward our tax policy priorities.

This Report outlines the key developments over the last year in line with our transparent approach to developing tax policy in Wales. This ensures our stakeholders are able to identify where, when, and how they can best engage with our tax agenda and work collaboratively with us to co-deliver our tax policy priorities for Wales.

The Report outlines the progress made on our tax related Programme for Government commitments, including major consultations issued in the areas of local government finance reform, and the visitor levy.

In relation to the existing devolved taxes, the Report covers some key milestones delivered this year including:

- the commissioning of the independent reviews of our two fully devolved taxes due to report in the coming months, fulfilling the commitment for the two taxes to be reviewed within six years of their introduction;
- the changes introduced to Land Transaction Tax main residential rates and bands in October. These changes were brought forward and implemented within two weeks of the UK Government's announcement on Stamp Duty Land Tax, minimising any uncertainty;
- the publication of the 2020-21 outturn for Welsh Rates of Income Tax, the first year where the outturn impacted on the revenues available to the Welsh Government;
- the passing of the Welsh Tax Acts etc. (Power to Modify) Act 2022, providing the tools to allow Welsh Government to be able to respond to changes to the tax landscape and supporting our commitment to clear and stable tax devolution.

A key aspect of the tax policy workplan is evaluating the impact and effect of our decisions. The Report includes an evaluation of previous changes made to Land Transaction Tax as an annex.

I hope you find this report useful. You are welcome to input, contribute your ideas, and forward your views on any of the subjects covered in this report by contacting the Welsh Treasury through one of the channels listed at the end of the document.

Rebecca Evans.

Rebecca Evans MS

Minister for Finance and Local Government

Background

1. There are three devolved Welsh taxes – Land Transaction Tax (LTT), Landfill Disposals Tax (LDT), and Welsh Rates of Income Tax (WRIT).

2. These three taxes generate revenue directly for the Welsh Government, with the remainder coming from the UK Government in a block grant.

3. It is essential the devolved Welsh taxes – together with the two local taxes, council tax and non-domestic rates (NDR) – are operated efficiently and effectively to generate the revenue needed to fund Wales' vital public services, such as health, social services, education, and transport infrastructure.

4. Our Tax Policy Framework[1] underpins our work on taxes in Wales. We published our update to the Tax Policy Framework[2] in November 2021 which includes our five tax principles and our 'tax policy approach'. Our tax principles bring consistency and coherence to the way in which we develop and deliver tax policy in Wales and affirm that Welsh taxes should:

    - Raise revenue to fund public services as fairly as possible.
    - Deliver Welsh Government policy objectives.
    - Be clear, stable and simple.
    - Be developed through collaboration and involvement.
    - Contribute directly to the Well Being of Future Generations Act goal of creating a more equal Wales.

5. The Tax Policy Framework update sets out how we will ensure we continue to embed sustainability, fairness and equality considerations in the way in which we address our priorities.

[1] Tax policy framework | GOV.WALES
[2] Tax policy framework update | GOV.WALES

6. The Welsh Government published its Tax Policy Work Plan 2021 - 2026[3] in November 2021. The Tax Policy Work Plan is an important mechanism through which we seek to raise awareness among stakeholders and other interested people and organisations about what the Welsh Government is investigating, enabling them to engage with the tax agenda in Wales.

7. To further enable stakeholders and partners to work collaboratively with the Welsh Government to develop and deliver tax policy that reflects Welsh needs and priorities, consultation and other tax policy specific engagement activity is undertaken as appropriate. In addition, we host an annual tax conference to provide the opportunity to explore some of the work streams and other tax issues in more detail.

8. This Tax Policy Report presents progress with the tax policy agenda in Wales. This is the second report since the publication of the Tax Policy Work Plan 2021 – 2026 and forms part of the package of documents published to accompany the Welsh Government Draft Budget for 2023/24.

[3] Tax policy work plan 2021 to 2026 | GOV.WALES

Welsh tax rates

Background

9. LTT and LDT were introduced on 1 April 2018 and are collected and managed by the Welsh Revenue Authority (WRA). WRIT was introduced on 6 April 2019 and is collected and managed by His Majesty's Revenue and Customs (HMRC).

Welsh Rates of Income Tax

10. Income tax is partially devolved to Wales, which means that while the Welsh Government is able to vary the three income tax rates (basic, higher and additional) for Welsh taxpayers[4], all other aspects of the tax remain the responsibility of the UK Government, and HMRC continues to administer income tax in Wales.

11. The process involves the UK Government reducing each of the three UK income tax rates for Welsh taxpayers by 10p and making a corresponding reduction to the Welsh block grant, which funds devolved public services in Wales. Through a vote at the Senedd, the Welsh Government decides whether to set WRIT at 10p, thereby retaining parity between Welsh and English taxpayers, or to set different rates.

12. In line with its commitment not to take more in WRIT from Welsh taxpayers for at least as long as the economic impact of coronavirus lasts, the Welsh Government intends to set the WRIT for 2023-24 at 10p, maintaining the current levels. This proposal must be confirmed by the Senedd, through a motion prior to the agreement of the final 2023-24 Budget.

13. In the UK Government's 2022 Autumn Statement the additional rate threshold was reduced from £150,000 to £125,140. Figure one shows the proposed rates and thresholds, based on the 2023-24 Income Tax thresholds and personal allowance.

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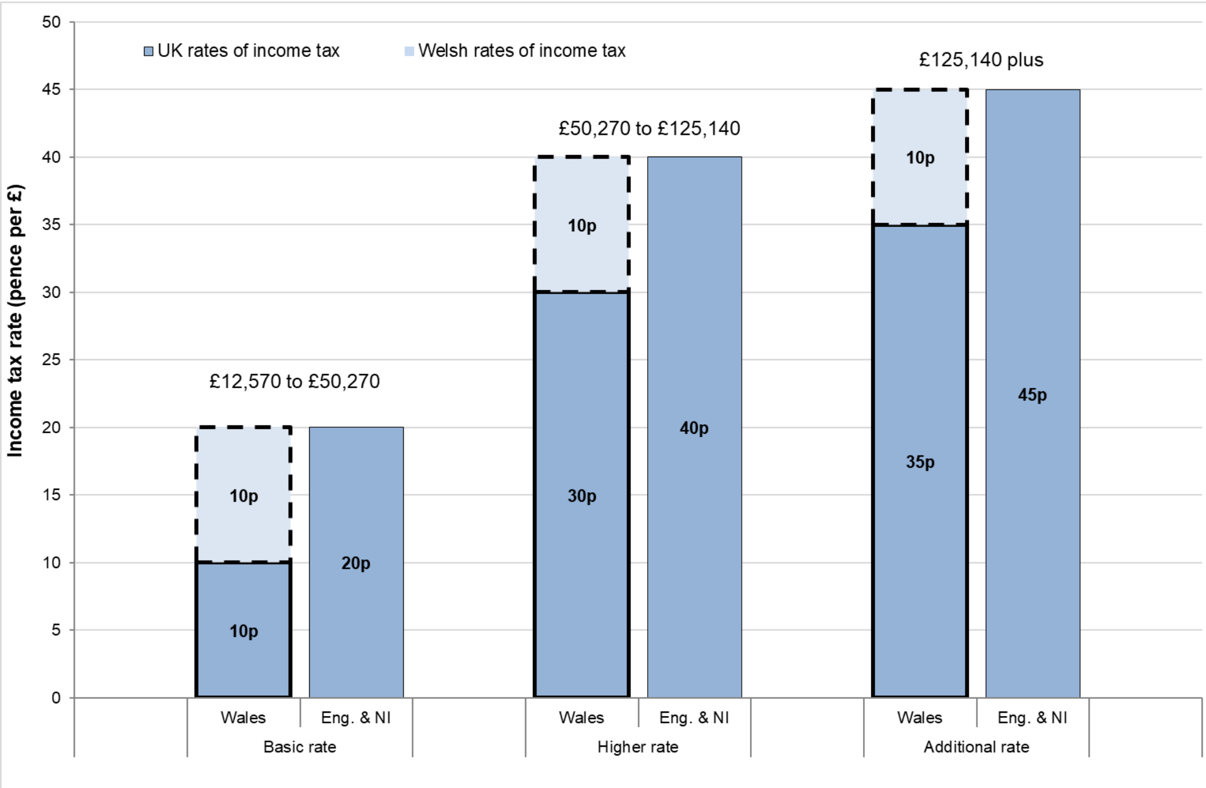
[4] In most cases, Welsh taxpayers are defined as people who live in Wales, however a full definition is provided under s.8 of the Wales Act 2014:

http://www.legislation.gov.uk/ukpga/2014/29/section/8/enacted

Figure one: Proposed Income Tax rates in Wales, 2023-24*



* As set out in the UK Autumn Statement 2022.

Land Transaction Tax

14. Changes to LTT rates were being considered as part of the Draft Budget. However, in light of the UK Government changes to Stamp Duty Land Tax (SDLT) rates on 27 September and the potential uncertainty around possible change to LTT rates, these changes were brought forward to take effect from 10 October 2022.

Table one: LTT residential main rates (from 10 October 2022)

Price threshold	LTT rate
£0 to £225,000	0%
More than £225,000 to £400,000	6%
More than £400,000 to £750,000	7.5%
More than £750,000 to £1,500,000	10%
£1.5m-plus	12%

Table two: LTT residential higher rates (from 22 December 2020)

Price threshold	LTT rate
£0 to £180,000	4%
More than £180,000 to £250,000	7.5%
More than £250,000 to £400,000	9%
More than £400,000 to £750,000	11.5%
More than £750,000 to £1,500,000	14%
£1.5m-plus	16%

Table three: LTT non-residential main rates (from 22 December 2020)

Price threshold	LTT rate
£0 to £225,000	0%
More than £225,000 to £250,000	1%
More than £250,000 to £1,000,000	5%
£1m-plus	6%

Table four: LTT non-residential lease rent rates (from 22 December 2020)

Price threshold	LTT rate
£0 to £225,000	0%
More than £225,000 to £2,000,000	1%
£2m-plus	2%

Landfill Disposals Tax

15. The Draft Budget proposes that the LDT rates increase in line with Retail Price Index (RPI) inflation, as forecast by the Office for Budget Responsibility (OBR) in Autumn 2021, with effect from 1 April 2023. This continues the policy of maintaining consistency with the UK Government's approach to landfill tax rates and increasing in line with forecast inflation at the start of each financial year.

Table five: LDT rates (rate per tonne)

Rate	From 1 April 2021	From 1 April 2022	From 1 April 2023
Standard	£96.70	£98.60	£102.10
Lower	£3.10	£3.15	£3.25
Unauthorised disposals	£145.05	£147.90	£153.15

A. Delivery of strategic government objectives including Programme for Government commitments

1. Development of Welsh Rates of Income Tax

Purpose

16. Continue to examine how potential changes to Welsh Rates of Income Tax (WRIT) could impact on Welsh taxpayers. The Welsh Government has committed[5] to not take more in WRIT from Welsh taxpayers for at least as long as the economic impact of coronavirus lasts.

Background

17. WRIT was introduced on 6 April 2019. The UK rates on non-savings, non-dividend income were reduced by 10p in each band for Welsh taxpayers and the Welsh rates were set at 10p. As long as the Welsh rates are maintained at this level in each band, Welsh taxpayers will pay the same overall income tax rates as those in England and Northern Ireland.

18. Welsh Government has an arrangement with HMRC for the collection of WRIT on behalf of Welsh Ministers. The WRIT Board, chaired jointly by the Welsh Government and HMRC, oversees the Service Level Agreement (SLA) between Welsh Government and HMRC. The SLA sets out requirements and performance measures for the operation of WRIT. The SLA is reviewed annually.

19. As set out in the SLA, HMRC is required to report annually on its delivery of WRIT. The report provides information about HMRC's administration of WRIT, covering:

   - Compliance activity (including address assurance);
   - The collection of, and accounting for, revenues;
   - Customer service and support;

[5] Welsh Government Programme for government: update [HTML] | GOV.WALES

- Data for rate setting and forecasting;
- Data for Welsh Government cash management; and
- The costs of delivering WRIT and recharging of HMRC costs.

Evidence and analysis

20. The National Audit Office (NAO) independently audits HMRC's work to ensure good governance and value for money. The latest report[6], published in January 2022, indicated the NAO is satisfied with the arrangements which HMRC has in place for administering WRIT, and it is also satisfied that the governance arrangements and the costs paid by Welsh Government are accurate and fair.

21. A devolved income tax analytical working group oversees the analysis of devolved income tax statistics, including the outturn publications. This group comprises officials from HMRC, the Welsh Government, the OBR, the Scottish Fiscal Commission, and the Scottish Government.

22. In July 2022, HMRC published its second set of outturn statistics relating to WRIT. The outturn statistics showed that WRIT in 2020-21 raised £2,140m, up 4.9% on 2019-20[7].

23. The income tax outturn statistics provide both WRIT revenues and the equivalent revenues for the rest of the UK. These figures are used to calculate the Welsh Government's block grant adjustment - the reduction in funding from the UK Government to take account of revenues the Welsh Government receives directly from the devolved taxes. This is the first year that the outturn impacts on the Welsh Government Budget.

24. Revenues from the Welsh rates in 2020-21 exceeded the associated block grant adjustment, providing an additional £62m to fund public services in Wales. The

[6] The National Audit Office report can be found at: Administration of Welsh rates of income tax 2020-21 - National Audit Office (NAO) report

[7] https://www.gov.uk/government/statistics/welsh-income-tax-outturn-statistics-2020-to-2021

forecasts used in the 2020-21 Budget assumed that revenues would exceed the block grant adjustment by £13m. In accordance with the Fiscal Framework Agreement, the difference between the outturn and the forecasts used in the 2020-21 Budget will be added to the block grant for 2023-24 as a reconciliation adjustment. An additional £48m will therefore be added to the Welsh Government's funding for 2023-24.[8] (The numbers do not sum due to rounding.)

25. The OBR produces forecasts of devolved tax revenues, including WRIT, for the Welsh Government. Its latest *Welsh Taxes Outlook* is published alongside the Welsh Government's Draft Budget.

26. The Welsh Government intends to set WRIT for 2023-24 at 10p. This proposal is due to be presented to the Senedd, through a motion prior to the consideration of the final 2023-24 Budget.

27. To accompany the Draft Budget, we have published an updated Ready Reckoner for WRIT. This provides estimates of the potential revenue impact from changes to each of the three Welsh Rates of Income Tax in 2023-24 and 2024-25.

Outcome and next steps

28. The ongoing management of WRIT will take place through the WRIT Board, with reference to the SLA between the Welsh Government and HMRC.

29. This process will be informed by our Programme for Government commitments as well as tax forecasts and the wider economic and fiscal outlook.

[8] https://gov.wales/welsh-rates-of-income-tax-reconciliation-2020-to-2021-joint-technical-note-by-wg-and-hmt-html

2. Reforming local government finance

Purpose

30. To improve local government finance and local taxation systems so that they are fairer, more progressive, sustainable and accurate, while continuing to support vital local services such as education, social care, housing, local transport, policing and community safety. We will also make changes which contribute to delivering our wider ambitions for a stronger, greener and fairer Wales.

Background

31. In our Programme for Government and the Cooperation Agreement[9] we commit to a fairer and more progressive council tax. Our programme also contains commitments which are relevant to local government finance and to non-domestic rates, including making the case for clear and stable tax devolution for Wales, and strengthening the autonomy and effectiveness of local government to make them more effective in delivering services.

32. On non-domestic rates, we continue to invest significant amounts of support in targeted relief for small businesses, the retail, leisure and hospitality sectors, charities, high streets, and childcare premises. We will deliver a revaluation exercise in 2023 to update and maintain the integrity of the non-domestic tax-base for Wales.

Evidence and analysis

33. The phased reforms we have outlined for council tax and non-domestic rates are underpinned by a detailed evidence base published in a Summary of Findings[10] in 2021. This summary applied new information about the particular socioeconomic circumstances of Wales to a range of ideas, from incremental changes in the short to medium term, to options for alternative arrangements over a longer timeframe.

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[9] The Co-operation Agreement: 2021 | GOV.WALES

[10] Reforming local government finance in Wales: summary of findings | GOV.WALES

34. We have continued to supplement our evidence throughout 2022 with additional in-depth analysis, including:

- findings from the Wales Omnibus Survey[11] into people's attitudes to council tax
- progressively developing the data we hold on non-domestic rates to inform policy choices
- further insights from the Institute for Fiscal Studies into the impact of the pandemic[12] on the domestic tax-base
- an evaluation by Policy In Practice of interventions to support vulnerable people to meet their council tax liability (to be published in due course).

35. We have also engaged further on our plans with partners in local government, the Valuation Office Agency, the Valuation Tribunal for Wales, and a range of other key stakeholders including Citizen's Advice Cymru and business communities.

Outcome and next steps

A fairer council tax

36. The Minister for Finance and Local Government launched a Phase 1 consultation[13] on 12 July, outlining a broad set of proposals as a first step towards meeting the Programme for Government and Cooperation Agreement commitments. The consultation sought views on updating property values to restructure the bands, including considering adding bands to help redistribute the tax burden more fairly. It is unfair and inaccurate to continue basing council tax bills on property valuations from 2003, nearly twenty years ago. The consultation also considers putting in place rolling revaluation cycles to keep the tax updated in the future. We also sought views on our Council Tax Reduction Scheme, on discounts and exemptions, and on administrative aspects of the system. We have been clear that

[11] Public attitudes to council tax | GOV.WALES

[12] Updated analysis of the effects of revaluing & reforming council tax across Welsh local authorities | Institute for Fiscal Studies (ifs.org.uk)

[13] A Fairer Council Tax | GOV.WALES

the purpose of creating a fairer council tax is not to increase the total amount of council tax raised from taxpayers.

37. The consultation closed on 4 October 2022 and we are considering the responses ahead of developing detailed proposals for a Phase 2 consultation in due course. Any decisions we take during this Senedd term will keep open the potential for going further in the future, and we are continuing to explore other ideas such as a local land value tax and un-banded systems.

Non-domestic rates

38. On 29 March we set out a programme[14] of non-domestic rates reform that will be delivered over the next four years. Our ambition for a fairer, greener and stronger Wales forms the basis of any potential changes to the non-domestic rates system.

39. Our aim is that reform will deliver a rates system which is demonstrably better for Wales, not just different from the current one. We have made significant progress in recent years and further developments will require close working with all our partners and extensive engagement with ratepayers.

40. Building on the statement we made in March, on 21 September we published[15] a consultation seeking views on reforming non-domestic rates in Wales. The consultation covers a wide range of proposed changes to the non-domestic rates system, seeking views on:

- more frequent revaluation cycles to ensure the tax distribution remains fair and accurate
- the potential to vary the multiplier
- improved information flows between ratepayers and relevant organisations

[14] Oral Statement: Non-Domestic Rates Reform (29 March 2022) | GOV.WALES

[15] Written Statement: Consultation on the reform of non-domestic rating in Wales (21 September 2022) | GOV.WALES

- reviewing the existing package of reliefs and exemptions to ensure our choices remain aligned to policy goals
- addressing issues of fraud and avoidance.

41. As with council tax, alternative approaches to non-domestic rates remain under consideration for the longer term. The consultation also seeks views on the possibility of a local land value tax, and the responses from this will be used to inform further work in this area.

42. Together with our plans for a fairer council tax, our plans for the reform of non-domestic rates comprise a significant programme of work which will span a number of years. The changes will have an extensive impact on the £10bn local government finance system and will affect household and business finances in a very direct way. We must, therefore, be able to assess the full impact of any proposals before making further changes.

3. Development of a visitor levy

Purpose

43. To introduce legislation permitting local authorities to raise a tourism levy[16].

Background

44. The Programme for Government sets out our commitment to 'introduce legislation permitting local authorities to raise a tourism levy'. This work is proceeding in collaboration with Plaid Cymru as part of the Co-Operation Agreement.

45. We have moved to referring to this proposal as a visitor levy rather than tourism levy. Many areas host short-stay visitors who are visiting for a wide variety of reasons that may not necessarily be recognised as tourism (for example business travellers). Therefore, we are using the term visitor to recognise that all visitors may be subject to a levy unless otherwise exempted.

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[16] As contained in the [Welsh Government Programme for government: update [HTML] | GOV.WALES]

46. Levies are used across many countries to support sustainable tourism, with funds reinvested into local infrastructure and services which are integral to the visitor experience. Evidence demonstrates that where they are used, they provide an important revenue stream for local areas to: protect natural assets, reduce visitor impacts and to enhance or promote the tourism offer.

47. Work in this area is progressing with the formal consultation published on 20 September 2022. Extensive engagement with local authorities, accommodation providers, tourism industry representative groups, booking platforms and third-sector organisations took place ahead of the consultation launch. This helped us to design and prepare the consultation, narrative and impact assessment. Ongoing collaboration, consultation responses and further evidence gathering will support any finalised proposals.

Evidence and analysis

48. We are reviewing opportunities for further research to gain insight on perceptions and impacts if a visitor levy was to be implemented at a local level in Wales. We are committed to continuing engagement with local partners and the wider tourism industry to help shape the design of a levy, and to support our proposals going forward.

49. In September 2022, we published an independent study exploring price elasticities relevant to a visitor levy in Wales[17], alongside the consultation documentation and our provisional Regulatory Impact Assessment. An additional piece of comparative research of taxation systems facing visitor economies was published in November 2022. We will continue to develop our impact assessment following consultation feedback. This work will inform any final proposals for a discretionary visitor levy.

Outcome and next steps

50. The consultation closed on 13 December 2022 following which an analysis of responses will take place to help inform the substance of the policy. It is likely that primary legislation will be required for the visitor levy proposals and this would require the development of a bill to take forward.

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[17] Evidence review of elasticities relevant to a visitor levy in Wales | GOV.WALES

4. Progressing the case for clear and stable tax devolution

Purpose

51. Make the case for clear and stable tax devolution in Wales[18] whilst pursuing agreement with the UK Government on a fit for purpose mechanism for devolving new tax powers to Wales.

Background

52. Devolved taxation can be a powerful lever for influencing behaviour change, as well as generating revenue to support public spending to meet the needs of Wales and enabling us to develop more progressive taxes. It also allows us to develop a more strategic approach to central and local taxation in Wales, ensuring it is better able to meet the needs and priorities of citizens, businesses and communities.

53. Since 2018, the Welsh Government has been seeking new tax powers for a potential Vacant Land Tax. The purpose of a Vacant Land Tax would be to help bring about the development of land which already has permissions or is within the local development plan, but is not currently being developed. In pursuing these new tax powers, we are aiming to secure powers which could provide an additional lever with which to achieve our housing and regeneration ambitions and testing the Wales Act mechanism by which new tax powers can be devolved.

Evidence and analysis

54. Little progress has been made with the UK Government since it was agreed the proposals were sufficiently developed and a formal request for the powers to be transferred was made in 2020. As a test case, seeking powers for a Vacant Land Tax has made clear that the process for the devolution of new tax powers is not fit for purpose. If the process cannot deliver the devolution of a relatively small, narrow and targeted tax which is closely aligned to devolved responsibilities, it is difficult to envisage a scenario whereby the Welsh Government could successfully make the case for further tax competence under existing arrangements.

[18] Welsh Government Programme for government: update [HTML] | GOV.WALES

Outcome and next steps

55. While we will continue to seek powers for a Vacant Land Tax, we will also make the case to the UK Government for the review and reform of the process for agreeing the devolution of new tax powers.

56. The first draft of the Independent Commission on the Constitutional Future of Wales is expected later this calendar year. Part of the Constitutional Commission's wider work will involve considering the fiscal implications of different constitutional options, and is relevant to this issue.

5. Consider the case for developing new environmental taxes for Wales, working where appropriate with the UK Government

Purpose

57. Continue to work with the UK Government on the development and implementation of a UK-wide plastic packaging tax; and develop an evidence base to better understand the opportunities and impact of other environmental related taxes in existing devolved and reserved areas, as well as new taxation areas.

Background

58. Our tax policy presents a potentially important lever through which to support wider government objectives. This is particularly the case in respect of considering the case for developing new environmental taxes for Wales, and as a means through which we can support wider efforts to tackle the climate and nature emergency. However, we have been careful to adopt a clear strategic and evidence-based approach, working with stakeholders to determine where to focus efforts to achieve policy objectives and maximise any impact, particularly in establishing lasting behavioural changes.

Evidence and analysis

59. We have worked with the UK Government on development of UK-wide legislation to introduce a plastics packaging tax, which came into force on 1 April 2022. This new tax provides a clear economic incentive for businesses to use recycled plastic in the manufacture of plastic packaging, which will create greater demand for this material. In turn this will stimulate increased levels of recycling and collection of plastic waste, diverting it away from landfill or incineration.

Outcome and next steps

60. We will continue to work collaboratively with UK Government in relation to any impact evaluation of the plastics packaging tax in Wales. We will continue to work with key partners in growing the evidence base to better understand the opportunities and impact of other environmental related taxes in existing devolved and reserved areas, as well as new taxation areas. This includes learning from the Scottish Government as they move forward in developing their approach to a Scottish Aggregates Levy.

B. Ongoing policy review and implementation of our existing taxes and other related policy areas

6. Development of land transaction tax policy

Purpose

61. To ensure Land Transaction Tax (LTT) continues to meet the Welsh Government's policy aims, while achieving its primary purpose to raise revenue to support delivery of public services in Wales.

Background

62. LTT is a tax on the purchase or lease of land and buildings that is primarily designed to raise revenues to help pay for Welsh Government spending. It can also potentially support other Welsh Government policy aims through, for example, reliefs or adjusting the rates charged.

63. LTT brings significant revenue to the Welsh Government. LTT generated revenue of £402m in 2021-22 and is forecast to raise £395m in 2022-23.

64. LTT higher rates are charged on additional residential properties bought by individuals who already own a residential property – for example second homes, buy-to-let properties, and on the purchase of any residential property where the buyer is not an individual, such as a company.

Evidence and analysis

65. The WRA publishes regular and timely LTT data, on a monthly and quarterly basis. It also publishes annual data, with the fourth annual statistical release for LTT covering the period 2021-22, providing a range of information about residential and non-residential property transactions.

66. Research on the prevalence and impacts of second home ownership on communities across Wales has also been undertaken. This research highlights the localised nature of second homes, which are predominantly concentrated around coastal, rural authorities and within Cardiff and Swansea. It also highlights that within local authorities, the distribution of second homes is more concentrated in some communities than others.

67. According to the Office for National Statistics house price index, the average house price when LTT rates first came into effect in 2018-19 was £159,000. In 2021-22 the average has price had risen by 24% to £197,000.

Outcome and next steps

68. The Welsh Government has recently made changes to LTT main residential rates and bands which came into effect on 10 October 2022. The starting threshold has been raised from £180,000 to £225,000, an uplift of 25%. The first tax rate is now set at 6% and applies to the portion of the price between £225,000 and £400,000. These changes respond to house price growth and mean home buyers with purchases of less than £345,000 there is either no tax payable or tax is reduced by up to £1,575. Therefore 85% of transactions liable to the main residential rates will pay no tax or less tax than under the previous rates. For transactions costing more than £345,000, there is a maximum increase of £550 in tax payable. This will affect around 15% of residential property purchases.

69. No changes have been made to other rates, including the higher residential rates. Companies buying residential properties, and individuals buying additional residential properties, such as second homes and buy-to-let properties will therefore not benefit from the starting threshold increase for main residential rates. Equally, they will not be liable to the additional £550 payable on transactions costing more than £345,000 as the rates and bands paid on higher residential rates transaction were not changed at this time. The two sets of residential rates now have different tax bands applying to them, as was the case during the temporary tax reduction period (27 July 2020 to 30 June 2021).

70. As part of the Programme for Government commitment to “Develop further effective tax, planning and housing measures to ensure the interests of local people are protected” the Welsh Government is committed to exploring how changes to the higher rates of LTT could help give an advantage to people buying homes for permanent occupation. We consulted on local variation of LTT rates for purchases of second homes and holiday lets in early 2022. There was strong support for increasing LTT rates for second homes and holiday lets in areas where there is an evidenced case to do so. There was also significant support for local authorities to have a role in determining where increased rates should apply. We are now working with local authorities to develop a national framework within which they can request for increased LTT rates for second homes and holiday lets to be applied in their local area.

71. The Welsh Government will bring forward legislation to allow extensions to the 36-month LTT higher residential rates refund period where exceptional circumstances apply. The provision will allow taxpayers to claim a refund of the higher rates where they are replacing their main residence and have sold their previous main residence more than three years after purchasing the new property, if truly exceptional circumstances, mainly related to issues with unsafe cladding, prevented the sale being completed more quickly.

72. We will continue to keep the rates and bands under review to ensure LTT continues to meet the Welsh Government's policy aims and generate revenue for our important public services.

7. Development of landfill disposals tax policy

Purpose

73. Ensure Landfill Disposals Tax (LDT) policy is operating as intended and consider opportunities for the tax to support wider government policy objectives.

Background

74. The WRA has been collecting and managing the LDT successfully since its introduction in April 2018. To date, LDT rates have matched UK Landfill Tax (LfT) rates. By setting rates that are consistent with UK LfT, public services in Wales continue to benefit from tax revenue, while ensuring the risk of the movement of waste across borders is reduced. This approach is reviewed each year as part of the annual rate-setting process where consideration is given to the benefits and dis-benefits of changing the rates in the future to advance wider environmental objectives.

75. Remaining consistent with the rest of the UK, the Landfill Disposals Tax (Wales) Act 2017 introduced a standard and lower rate of tax which applies to disposals at authorised landfill sites. The lower rate applies to materials that meet the conditions set out in the LDT Act and the standard rate applies to all other materials. In addition, the LDT Act introduced a third rate of tax for waste disposed of at places other than authorised landfill sites, known as the unauthorised disposals rate. The UK and Scottish Governments do not have a separate rate for unauthorised

disposals – the standard rate applies to all disposals made at unauthorised sites, which is supported by a penalty regime.

Evidence and analysis

76. The approach to setting LDT tax rates is guided by the Welsh Government's tax principles and the objective to reduce landfill disposals in Wales. Delivering stability and certainty for taxpayers and the wider waste industry has also been a key factor in setting the rates to date. The approach has been for tax rates to only diverge from those of the predecessor tax rates as much as is required to reflect Welsh circumstances and priorities and the principle of raising revenues to support public services as fairly as possible.

77. The LDT unauthorised disposals rate seeks to support the policy ambition to deter unauthorised disposals which blight our communities. It ensures the increased negative impact of unauthorised disposals is recognised. It serves to support the creation of a level playing field for legitimate operators and it better reflects the enforcement costs for the WRA. The policy intention is to encourage illegal operators to manage their waste more sustainably and as a minimum take it to an authorised landfill site and pay a fair share of tax, which supports public services in Wales.

78. The Welsh Government's Draft Budget for 2023-24 includes plans to raise LDT rates to ensure consistency with UK LfT. We will continue to work with the WRA to monitor the implementation of LDT to ensure its effective operation.

79. An independent review of LDT is now underway and will consider the impact that LDT rates have had on behaviours in the waste sector (including unauthorised disposals) as well as the extent to which the LDT legislation has influenced behaviours.

Outcome and next steps

80. Wales is at the forefront of waste policy, and we recognise LDT is a useful additional lever to support Welsh Government waste policies and achieve our ambitious goal of a zero waste Wales. Maintaining our approach to LDT rates for 2023-24 will continue to complement wider environmental policy initiatives and allow them to work alongside each other to continue to incentivise behaviour change and drive forward the Welsh Government's environmental goals.

81. Going forward, we recognise that there may be a number of different ways to leverage LDT to further wider government objectives and address a number of emerging issues which have been identified as part of our ongoing engagement work with key stakeholders. We expect the findings of the LDT review to provide us with a solid evidence base to support our ongoing considerations around the future of LDT.

82. As we consider our options, we will take a cross-government approach to ensure any changes to LDT rates will complement initiatives which are currently in development, for example, the introduction of Non-Domestic Premises Business Recycling Regulations, and the introduction of an Extended Producer Responsibility Scheme, both of which will have an impact on waste which is sent to landfill.

83. It will be important to take account of all these factors, assessing their potential impact and implications as we seek to explore with stakeholders the future scope of LDT to deliver Welsh Government's wider environmental objectives.

8. Land transaction tax review

Purpose

84. To undertake an independent review to evaluate the effectiveness of LTT and Anti-Avoidance of Devolved Taxes (Wales) Act 2017 (hereafter referred to as LTTA).

Background

85. There is a statutory obligation for Welsh Ministers to make arrangements for an independent review of LTT to be carried out within six years of the LTTA receiving Royal Assent. The review must therefore be completed by May 2023.

86. The Review is underway, and is focusing on the specific changes made when the LTTA was introduced and subsequently compared to SDLT in England. In particular, it is considering whether the policy intent behind the specific changes has been achieved and whether those changes are still appropriate for Wales.

Evidence and analysis

87. The review is focussing on the most significant changes made to the legislation to ensure it is still appropriate for Wales. Areas for review include:

    - The changes made to LTT (compared to SDLT) and if they have delivered improvements;
    - Whether the changes make the legislation more appropriate for Wales;
    - Identifying opportunities for improvement;
    - Considering operational practicalities; and
    - The impact of the absence of first-time buyers' relief.

88. The independent review includes a review of existing legislation, evidence and data, surveys and interviews with key stakeholders.

Outcome and next steps

89. Following a full and open procurement exercise, a contract was awarded to undertake the review which started in March 2022 and must be concluded prior to 24 May 2023.The review is likely to conclude in March 2023 with the final report due to be published in April 2023.

9. Landfill disposals tax review

Purpose

90. To undertake an independent review to evaluate the effectiveness of the Landfill Disposals Tax (Wales) Act 2017.

Background

91. There is no statutory obligation for the Welsh Ministers to make arrangements for an independent review of LDT. However, a commitment was made by the former Cabinet Secretary for Finance, during the Stage 3 plenary debate on the Landfill Disposals Tax (Wales) Bill, that there would be an independent review of LDT. The

Explanatory Memorandum[19] published alongside the LDT Bill contained a commitment to undertake a post implementation review. The Explanatory Memorandum[20] published alongside the tax rate regulations for 2021-22 also signaled the Welsh Government's intention to review the legislation.

92. The non-statutory commitment to undertake the independent review of LDT means there is no firm deadline for this work to take place. The Ministerial commitment does however suggest a similar timescale to that of the independent review of the LTT legislation. Therefore, for the purposes of setting a timetable for the review, this commitment is being interpreted as intending to conclude the review by the final date within six years of the day the LDT legislation receiving Royal Assent, which is September 2023.

93. The review is evaluating the effectiveness of the Landfill Disposals Tax (Wales) Act in supporting environmental policy since 2018. It will cover the period the tax received Royal Assent in September 2017 to April 2023.

Evidence and analysis

94. The review's focus is on the evaluation of the effectiveness of the Landfill Disposals Tax (Wales) Act. Areas for review include:

- What impact have LDT rates had on behaviours in the waste sector (including unauthorised disposals)?
- To what extent has the LDT legislation (i.e. other than tax rates) influenced behaviours?

95. The review will not consider the performance of the WRA in collecting and managing the tax which is outside the scope of the review. The WRA publishes on its website its annual report and accounts along with regular statistical bulletins.

[19] https://senedd.wales/laid%20documents/pri-ld10839-em-r/pri-ld10839-em-r-e.pdf

[20] http://www.seneddtest.assembly.wales/documents/s97675/CLA5-03-20%20Paper%203.pdf

Outcome and next steps

96. Following a full and open procurement exercise, a contract was awarded to undertake the review which started in June 2022 and must be concluded prior to 19 June 2023. The review is likely to conclude in April 2023 with the final report published in May 2023.

10. Developing the Welsh tax-base

Purpose

97. To ensure the Welsh Government's policies are developed with consideration to the short, medium, and long-term impacts on the Welsh tax-base.

Background

98. The devolution of tax powers to Wales means around one-fifth of Welsh Government spending is funded from these tax revenues. The evolution of the tax-base in Wales will have medium to longer-term implications for tax revenue and the money available to spend on public services in Wales.

99. The Programme for Government sets out a commitment to consider new ways to grow our tax-base and consider the funding implications of any recommendations from the Constitutional Commission.

Evidence and analysis

100. The Chief Economist's report, published alongside this document, sets out the challenging outlook with many commentators expecting continuing high inflation and little or no growth in the UK's overall economic output in the near term.

101. Unless reversed, the marked increase in the high number of people without a job and not actively seeking one (the 'economically inactive'), particularly among people aged 50 to 64, will have implications for the tax-base for WRIT over the next few years.

102. The Office for National Statistics (ONS) has started publishing results from the Census 2021 for Wales and England. On Census Day, 21 March 2021, the size of

the usual resident population in Wales was estimated to be 3,107,494, the largest population ever recorded through a census in Wales.

103. The population of Wales was estimated to have increased by 44,000 compared with Census Day 2011. The rate of population growth in Wales (1.4%) was considerably lower than in England, where the population grew by 6.6%. Population growth was also lower in Wales than in all English regions.

104. Population change varied between local authorities in Wales. Newport saw the highest rate of population growth since 2011 (at 9.5%). The next highest rate of population growth was in Cardiff (4.7%), followed by Bridgend (4.5%). Several local authorities had lower populations in 2021 than in 2011. The greatest rates of population decline since 2011 were in Ceredigion (5.8%), Blaenau Gwent (4.2%) and Gwynedd (3.7%).

105. Trends in fertility and mortality in Wales since 2015/16 have resulted in an increasing excess of deaths over birth in Wales. However, the Welsh population has continued to increase due to net migration, with UK internal net migration somewhat larger than international net migration. There is chance of continuous and rapid population decline, especially for younger and working age population, if in-migration falls.

Outcome and next steps

106. Recognising the risks posed to the Welsh tax-base by the current economic environment and the long-term demographics, we continue to take wide-ranging actions to strengthen our tax-base and make Wales an attractive place to live, study, work and invest.

107. Our approach includes:

- investing in our people, through the Young Person’s Guarantee and a strong employability and skills offer, including apprenticeships.
- supporting those furthest away from the labour market to find work.
- accelerating the adaptation to new skills required for skilled, secure jobs, not least in the area of low carbon.
- exploring how we retain our graduates and talent in Wales by building strong linkages with universities, and between universities and businesses

- supporting start-ups, including graduate start-ups
- ensuring we have firms grounded in Wales who can provide future opportunities
- taking advantage of the opportunities for greater remote working and flexible commuting options
- making Wales a fair work nation, where all workers are fairly rewarded, heard and represented and can progress in a healthy, inclusive environment with their rights respected
- making people from other countries who reside in Wales feel welcomed and helping them to stay in Wales.

Developing the Evidence Base

108. Over the next year we will continue to develop the evidence underpinning our understanding of the Welsh tax-base and the policies to strengthen the tax-base. We are providing funding to support the work of Wales Fiscal Analysis at Cardiff University.

109. We have commissioned the Wales Centre for Public Policy (WCPP) to review the international evidence on the effectiveness of policies to address the issues arising from an ageing or declining population.

110. In conjunction with the Ministerial Advisory Board for the Minister for Economy, the Welsh Government is reviewing which policy measures could be used to attract skilled workers to Wales and to support businesses in employing those workers. The Welsh Government will be publishing an updated position paper on migration in the coming months.

11. Enabling changes to the Welsh Tax Acts

Purpose

111. To introduce and secure Senedd approval of a Bill to provide the Welsh Ministers with regulation making powers to respond to external circumstances that impact on the Welsh Tax Acts.

Background

112. A Bill to provide that the Welsh Ministers have the right tools in place to respond to external circumstances that impact on the Welsh Tax Acts was introduced in the Senedd on 13 December 2021.

113. The Bill sought to address concerns that our powers to amend devolved taxes are not sufficient to respond quickly to unexpected events, such as court judgments, loopholes or changes in equivalent English taxes, which could have a significant impact on the liabilities of individuals and on our revenues. The Bill will provide the Welsh Ministers with an agile, flexible way of responding, and the Senedd with the opportunity to scrutinise and approve changes.

114. The Bill provided the Welsh Ministers with a regulation making power (exercisable via either the draft or made affirmative procedure) to make changes to the Welsh Tax Acts, and regulations made under those Acts, where the Welsh Ministers considered it is necessary or appropriate to make changes for or in connection with the following purposes:

a) ensure LDT and LTT are not imposed where to do so would be incompatible with any international obligations;

b) protect against tax avoidance in relation to LDT and LTT;

c) respond to changes to ‘predecessor’ UK taxes (that is, stamp duty land tax or landfill tax) which impacts or could impact the amount paid into the Welsh Consolidated Fund; and

d) respond to decisions of the courts/tribunals which affect or may affect the Welsh Tax Acts, or regulations made under them.

115. The Bill as introduced also placed a duty on the Welsh Ministers to publish a statement of their policy with respect to the exercise of the regulation making power to make regulations that have retrospective effect.

116. This intervention is primarily needed to respond to external events and protect revenues available for essential Welsh public services. For example, every time there is a UK budget cycle or other fiscal event, the Welsh Government takes the risk that there may be a change which impacts on a devolved tax and has a direct budgetary impact on resources. An intervention of this kind may also be

appropriate where the Welsh Treasury need to promptly 'close-down' tax avoidance schemes or maintain compliance with international obligations.

Evidence and analysis

117. The Welsh Government consultation: 'Tax Devolution in Wales – Enabling changes to the Welsh Tax Acts' was published in July 2020, and a summary of consultation responses published in December 2020. The consultation responses were, broadly, supportive of the Welsh Government's proposals as set out in the consultation document. Views were sought from key stakeholders on the specific proposals in the Bill as drafted in autumn 2021, and feedback was incorporated into the final drafting of the Bill.

Outcome and next steps

118. The Bill was introduced to the Senedd on 13 December 2021. The four stages ended on the following dates:

- Stage 1 – 26 April 2022
- Stage 2 – 9 June 2022
- Stage 3 – 5 July 2022
- Stage 4 – 12 July 2022

119. The Welsh Tax Acts etc. (Power to Modify) Act 2022 received Royal Assent on 8 September 2022.

120. There were a number of amendments to the Bill during these stages. Most significantly a sunset clause is now provided. It applies five years after the Act came into force (the day after the Act received Royal Assent). Therefore, new regulations cannot be made using the power provided by the Act after 8 September 2027. The Welsh Ministers may lay regulations that extend the time that regulations using the power in the Act can be made, up to a maximum date of 30 April 2031 (the end of the Seventh Senedd term).

121. Furthermore, the Act was amended to include an obligation for the Welsh Ministers to review the operation and effect of the Act and to publish the conclusions of that review. The conclusions of the review must be published by 8 September 2026. That review must also "include an assessment by the Welsh

Ministers of alternative legislative mechanisms for making changes to the Welsh Tax Acts and regulations made under any of those Acts". The Welsh Government will commence work on this in the next year.

122. The Act also placed the Welsh Ministers under a statutory duty to publish the Statement on Policy with respect to the exercise of the power to make retrospective legislation within 3 months of the Act receiving Royal Assent. That obligation was met on 24 October when the Minister for Finance and Local Government issued a Written Statement that included the Statement of Policy.

123. There are no other direct impacts or implementation required from the Act receiving Royal Assent. The Act operates to enable changes to be made to the Welsh Tax Acts through regulations in response to certain external circumstances. It is therefore not possible to predict with certainty when the powers may be used, but the frequency and use of these powers will be monitored by the Welsh Government and form part of the review by the Welsh Ministers.

C. Continued focus on working with partners and citizens to embed our distinct Welsh tax approach and raise awareness of Welsh taxes

12. Managing Welsh taxes with our partners within a wider UK and international context

Purpose

124. Establish a distinct Welsh approach to the way Welsh taxes are managed which reflects the full spectrum of responsibilities and activities that tax administrators undertake at both national and local levels whilst recognising inter-relationships with the UK-wide tax system.

Background

125. In Wales there are five taxes in operation with some degree of devolved responsibility, which are collected by different tax authorities:

- the two fully devolved taxes, LTT and LDT, are collected and managed by the WRA;
- partially devolved income tax, WRIT, is collected by HMRC on behalf of the Welsh Government; and
- the two local taxes – council tax and NDR – which are collected and spent by local authorities in Wales.

126. Although the different tax collection authorities have developed differently, being supported and shaped by a range of different structures, processes, requirements and therefore, ways of working, there is an opportunity to develop a strategic, coherent and distinct approach to the way taxes are administered in Wales.

Evidence and analysis

127. The work to date has broadly focused on testing the case for developing a more strategic approach to the management of taxes in Wales with partners. The range of work undertaken by Welsh Government, local authorities, the Valuation Office Agency, the WRA and other bodies in the management and implementation of the Welsh taxes and related tax policy development also point to an evolving

landscape, where there may be opportunity to collectively establish common principles to underpin tax administration and implementation practice.

Outcome and next steps

128. Supporting the development of a distinct Welsh approach to the management of taxes remains a priority. Work will be progressed to explore and enable the establishment of a Welsh tax administrators' community of practice, working collaboratively with Welsh Government's delivery partners to reflect on different approaches and processes with the intention for best practice to emerge and evolve.

13. Increasing awareness and knowledge of taxes in Wales through wider engagement activities

Purpose

129. To raise awareness of devolved taxes and the relationship with the Welsh Government's Budget considerations and processes and other Welsh fiscal policy events.

Background

130. We take a coordinated and strategic approach to communications and engagement, ensuring activity aligns with Ministerial objectives. Engagement and collaboration with our key partners and stakeholders continues to be a priority, particularly given the current challenging and complex Budget situation.

Evidence and Analysis

131. We have engaged with our key partners, including local authorities, statutory commissioners, third sector organisations and social partners, in advance of the preparation of the Draft Budget. This provided the opportunity the Minister for Finance and Local Government to set out the challenging economic and fiscal position; and for partners to set out their views on priorities for funding to achieve the greatest impact and benefit, as we work collectively to respond to the current context and tackle longer term challenges including the climate and nature emergency.

132. Work to improve budget literacy and engage with young people on Welsh taxes and the Budget is underway. We have developed an animation on the Welsh Budget for children and young people. This animation will be published as part of a suite of content on the Draft Budget. It will also feature in our engagement work with the members of the Children in Wales Youth Board as part of our budget literacy activity on co-production of the Budget Improvement Plan.

133. Welsh Treasury has two Twitter channels @WelshTreasury and @TrysorlysCymru and publishes content on the Finance Minister's position on fiscal matters, Welsh Budget, Welsh Taxes, collaboration with other devolved governments and Welsh Government policy and spending announcements. Followers have increased over the past year with @WelshTreasury having 7,889 followers and @TrysorlysCymru 1,308 followers.

134. We continue to raise awareness of WRIT, including promotion of the tax calculator, which was developed to illustrate the amount of money Welsh citizens pay on WRIT and where that money is being spent. Public awareness that the Welsh Government is able to set different income tax rates in Wales stands at 32%. The main channels driving awareness are TV and the internet and word of mouth. This supports our approach of using no cost and low cost communication and engagement channels.

135. We held our annual tax conference on 23 November 2022. The tax conference helps raise awareness of Welsh taxes and to promote engagement and encourage debate on our future tax strategy. The agenda included a range of presentations including the OBR on the latest tax forecasts and the Organisation for Economic Cooperation and Development (OECD) on "tax and gender".

Visitor levy consultation

136. In the run up to the visitor levy consultation, officials have engaged extensively with local authorities, hospitality and accommodation providers via a Business Reference Group, tourism industry representative groups via Regional Tourism Fora and the Visitor Economy Forum. Officials have met with online booking platforms, Children in Wales, National Parks, third-sector organisations and administrations in other countries who have established visitor levies. This has informed the content of the consultation, narrative and impact assessment work.

137. In addition to four in-person consultation events across Wales and a virtual event, an awareness campaign was launched with the public to share information

and encourage involvement. Activity included sharing content via the corporate Welsh Government, Welsh Treasury and Visit Wales social media channels, a Welsh Government Blog and two digital films with one targeting young people. Articles were published in local media, and a call to action was shared via Welsh Government and stakeholders' newsletters to maximise responses. Officials ensured the consultation was accessible to a wide audience by producing a community and youth version along with an easy read format.

138. The consultation closed on 13th December 2022. Ongoing collaboration, consultation responses and further evidence gathering will support any finalised proposals.

Outcome and Next Steps

139. Building on the work we have undertaken to engage young people in Welsh Government budgetary matters, our next step will be to develop a young person's version of the Budget Improvement Plan. We will continue to use key fiscal events, such as the publication of the Draft Budget on 13 December 2022, to raise awareness of how money is raised and spent in Wales.

Annex 1: Analysis of the Land Transaction Tax temporary residential tax reduction July 2020 to June 2021

This paper provides analysis of the Land Transaction Tax (LTT) reduction which applied to residential transactions over £180,000 between July 2020 and June 2021. The threshold for paying LTT was temporarily increased from £180,000 to £250,000. This change did not apply to higher rates transactions. The maximum tax reduction was £2,450 (up to 1% of the property price). The cost of the tax reduction is estimated to be around £45m. A larger and wider scope reduction to Stamp Duty Land Tax (SDLT) was implemented in England and Northern Ireland over a similar period. This is estimated to have provided the Welsh Government with around £107m in additional resources through reductions to the Block Grant Adjustment (BGA) associated with the devolution of SDLT.

During the LTT and SDLT tax reduction periods, transactions grew strongly in Wales and in England and Northern Ireland. However, transactions which were not subject to a tax reduction in Wales also grew strongly. Prices also grew strongly during the tax reduction period, but have remained high and continued to grow since the reduction ended. Prices in Wales have also grown faster than in comparable regions in England, despite a less generous tax break.

The temporary tax reductions will have provided a boost to the housing market but are unlikely to have been the main cause of the growth in transactions and prices during the tax reduction period. Wider factors, such as changes to the demand for housing, occurred at the same time. The end of the tax reduction periods did have large and noticeable effects on prices and transactions. However, these effects were temporary.

Policy overview

Situation

On 14 July 2020, the OBR published scenarios for the economy including the potential effects of the coronavirus[21]. Its central scenario for 2020-21 showed a marked deterioration in the property market, with residential price growth 8 percentage points and transaction growth 37 percentage points lower than its March 2020 forecast.

LTT response

As part of the Welsh Government's COVID-19 response on 27 July 2020, the rates and bands for the main rates of residential LTT were reduced for a time-limited period. The starting threshold was increased to £250,000, up from £180,000. This provided a tax reduction of up to £2,450 or up to 1% of the price for transactions above £180,000.

The temporary tax reduction period applied from 27 July 2020 to 31 March 2021. It did not apply to higher rate residential transactions. On 4 March 2021, the reduction period was extended to 30 June 2021.

What happened elsewhere?

Temporary tax reductions were also introduced for SDLT in England and Northern Ireland and Land and Buildings Transaction Tax (LBTT) in Scotland.

The SDLT threshold was increased from £125,000 to £500,000 from early July 2020 providing a tax reduction of up to £15,000 or up to 3% of the purchase price. Unlike LTT, this applied to all residential transactions. It was originally intended to end on 31 March 2021 but was extended to the end of June 2021 and then tapered down and fully ended in September 2021.

In Scotland, the LBTT threshold was temporarily raised from £145,000 to £250,000 from 15 July 2020 to 31 March 2021. This provided a maximum tax reduction of £2,100 or up to 0.8% of the purchase price. Like SDLT, this also applied to all residential transactions. The reduction period was not extended beyond March 2021.

[21] See Fiscal sustainability report – July 2020 - Office for Budget Responsibility (obr.uk)

What was expected to happen to revenues?

LTT

The OBR's first cost estimate for the LTT measure was in its Economic and Fiscal Outlook in November 2020. It estimated the measure would cost £18m in 2020-21 and £5m in 2021-22 – the latter reflecting transactions drawn forward into 2020-21 by the measure.

The latest OBR cost estimates are around £28m for 2020-21 and £16m for 2021-22, or around £44m in total[22]. The cost estimate for 2020-21 increased because there were many more transactions than originally expected. The 2021-22 cost estimate increased largely because of the extension.

These cost estimates include the expected behavioural effects on prices and transactions. A reduction in tax is expected to increase prices and transactions. These increases generate additional tax revenue, reducing the overall policy cost. The extent of these effects is based on the OBR's published estimates[23].

SDLT

In July 2020, the OBR estimated the cost of the SDLT measure at £1.3bn in both 2020-21 and 2021-22[24].

The most recent estimates provided by the OBR (December 2021[25]) are that the policy cost £2.9bn in 2020-21 and, including the extension to the end of September 2021, around £2.4bn in 2021-22.

[22] OBR (Mar-2021 and Oct-21) available at https://obr.uk/download/march-2021-devolved-tax-and-spending-forecasts/ and https://obr.uk/download/october-2021-devolved-tax-and-spending-forecasts/

[23] For details see OBR (Oct-2017) available at OBR supplementary release

[24] See Coronavirus Policy Monitoring database – July 2020

[25] See Forecast evaluation report - December 2021 - Office for Budget Responsibility (obr.uk)

Using these estimates, the SDLT policy would have reduced the BGA (and therefore provided additional resources to the Welsh Government) by £107m in total - £59m in 2020-21 and £48m in 2021-22.

What did happen to LTT revenues?

Outturn data can be used to estimate the actual cost of the LTT policy measure. Using the LTT data published by WRA, the policy cost can be estimated at £45m, of which £29m is in 2020-21 and £16m in 2021-22.

These estimates exclude behavioural impacts, apart from forestalling. However, those behavioural impacts excluded are likely to have been small, and the cost estimate is very similar to the latest OBR estimates outlined above, which do include behavioural impacts.

An equivalent policy costing for the SDLT measure is not possible due to the lack of detail in the published outturn information.

What happened to transactions?

Figure 1 shows monthly LTT and SDLT transactions relative to the 2019-20 monthly average. The path of LTT and SDLT transactions were highly correlated in 2019-20, and into early 2020, with both LTT and SDLT witnessing the same sharp 40% reduction in transactions in April 2020.

Both SDLT and LTT transactions then recovered over the following months, relative to their 2019-20 monthly averages, and ahead of the introduction of the temporary tax reductions in July 2020. SDLT transactions rose faster in that period than LTT transactions, likely caused by the faster pace of easing of lockdown restrictions in England than in Wales.

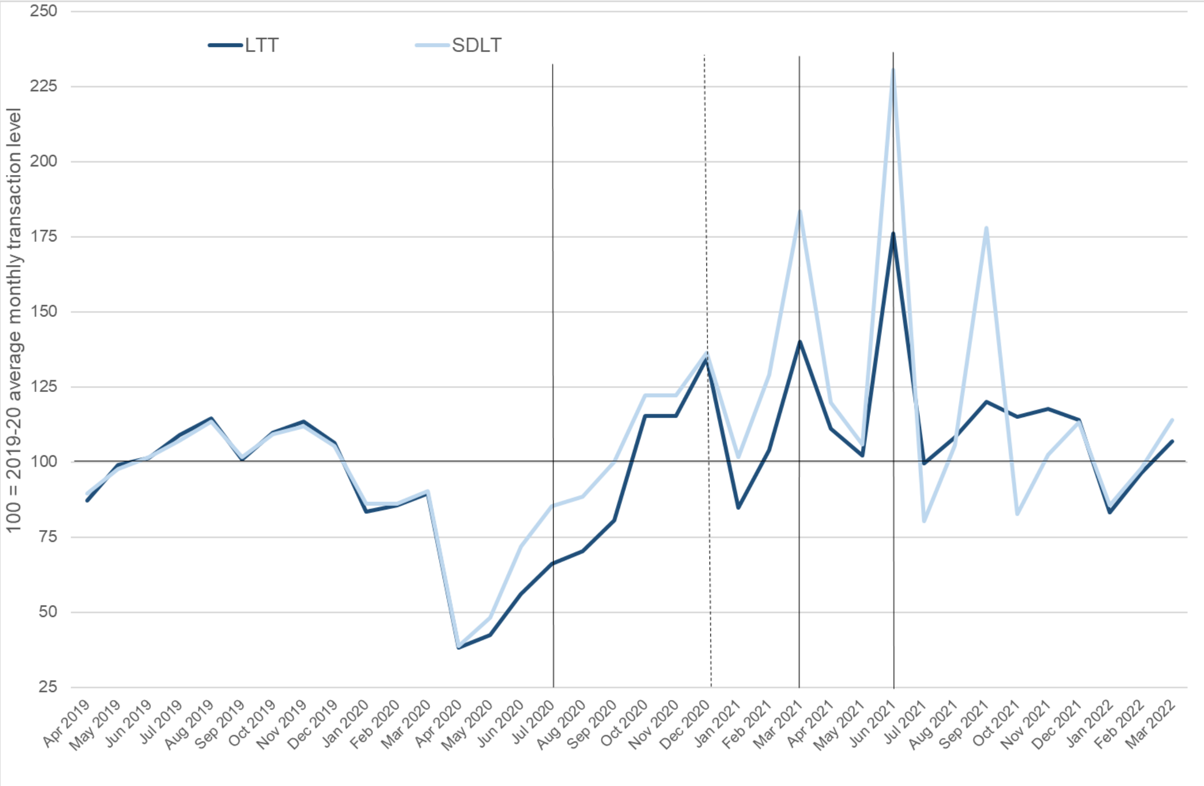
There were similar spikes in transactions in December 2020, which are unlikely to be related to the tax reduction, although it may have elevated transactions more generally by then. There were subsequent spikes in March 2021 and June 2021. These are very likely to be tax-related, as they coincided with the announced policy end dates for the temporary reduction periods for both LTT and SDLT. The March deadlines were subsequently extended for both taxes, but it is likely that some transactions were already committed to completing in March, ahead of the originally announced policy end dates.

These spikes in transactions ahead of the assumed policy end dates show tax changes can have very noticeable effects on the timing of property transactions. The SDLT spikes were larger than the LTT ones in relative terms, probably because the SDLT tax reduction was larger and covered a wider set of transactions. These timing effects are temporary however, as shown by the dips in transactions immediately following the spikes.

There was a further spike in SDLT transactions noticeable in September 2021 when the relief was fully removed.

LTT transactions continued to be elevated in the period August to December 2021, after the end of temporary tax reduction period. In part, this could be a seasonal effect, as this is also evident over the same period in 2019-20. It is also a sign that transactions were returning to pre-pandemic trends, with relatively lower activity in the January to February period for both LTT and SDLT, also consistent with 2019-20.

Figure 1: LTT and SDLT residential transactions relative to monthly average for 2019-20, 2019-20 to 2021-22



Source: Welsh Government analysis of Welsh Revenue Authority LTT and HMRC SDLT data

As well as comparisons of LTT and SDLT transactions, it is also possible to review the impact of the tax change within LTT alone. Residential transactions which were - or were not - subject to the temporary tax reduction can be separated out - by price (those above or below £180,000) and also according to transaction type (main rates versus higher rates).

Transactions priced below £180,000, which were not subject to a tax decrease, did not see the same growth in activity as more expensive properties (Figure 2). This suggests that the LTT tax reduction may have stimulated at least some additional transactions (over and above just inducing a change in their timing from outside the LTT tax reduction period into the LTT tax reduction period).

However, main rates and higher rates transactions over £180,000 saw very similar growth rates (apart from a pronounced spike for main rates in June 2021). As the higher rates were not subject to any tax reduction, this suggests that there were other factors driving that growth.

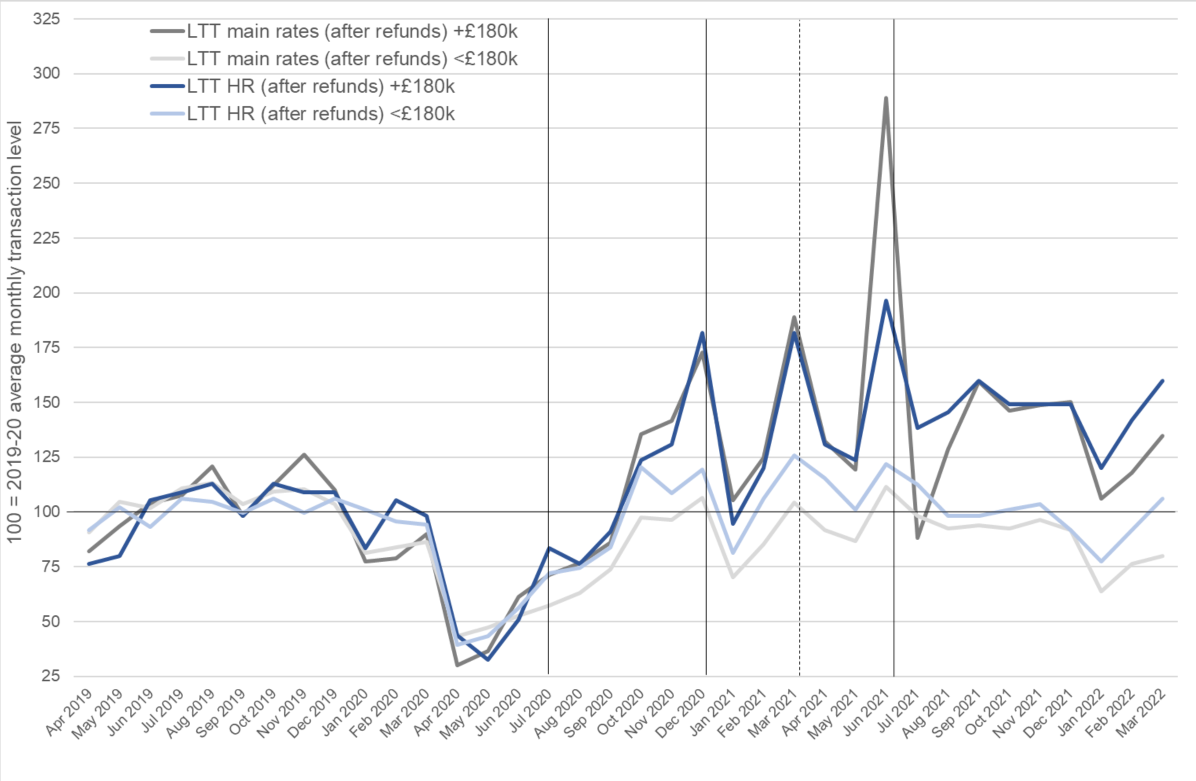
Higher rates transactions were also subject to a tax increase from December 2020, from an additional three percentage points to four percentage points. Despite the tax increase, the £180,000+ higher rates transactions continued to grow strongly after that point, like the equivalently priced main rates transactions.

After the end of the temporary tax reduction in July 2021, £180,000+ main rates and higher rates transactions have continued at the same high levels and followed similar paths to each other, as during the tax reduction period[26]. Conversely, main rates transactions below £180,000 have not recovered since the end of the temporary tax reduction period[27]. This is all consistent with something other than the tax reduction being the main cause for the recent trends in residential transactions.

[26] Exceptions to this are July and August 2021, when transactions of main rates are likely to have been affected by forestalling. Also, the latest periods shown are likely to be affected by expected refunds to higher rates which are yet to occur. The effect of which will be to reduce higher rates transactions and increase main rates especially in the latest period shown.

[27] This analysis uses higher rates *after* refunds, so the trends in the most recent periods may be subject to some change due to subsequent refunds of the higher rates. However, this is not expected to change the general trends and conclusions.

Figure 2: LTT residential transactions relative to monthly average for 2019-20 by price band and transaction type, 2019-20 to 2021-22



Source: Welsh Government analysis of Welsh Revenue Authority LTT

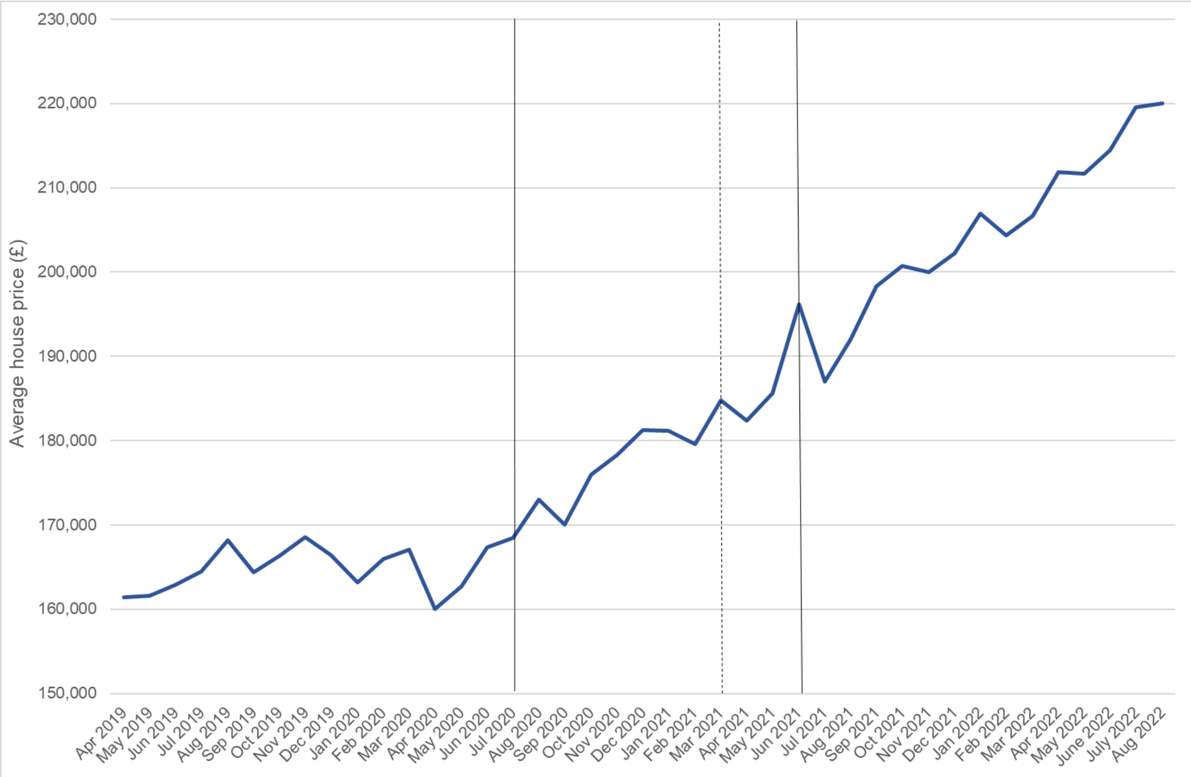
What's happened to prices?

The other potential impact of the temporary tax reduction was expected to be on prices. Figure 3 shows average house prices in Wales before and after the temporary tax reduction. During 2019-20, the average price in Wales rose from around £160,000 to just under £170,000 in August 2019, a maximum increase of 4% (when using unrounded figures). The average price fell sharply in April 2020 to £160,000. Since then, prices have risen considerably, even before the temporary tax reduction period began in July 2020. There has been a fairly linear upward trend in house prices throughout the period of the tax reduction and beyond. In March 2022, the average house price in Wales was around £40,000 (or 24%) higher than in March 2020 - before the pandemic and the introduction and subsequent removal of the temporary LTT tax reduction period.

Around 40% of residential transactions in Wales were affected by the tax reduction, with a maximum reduction in LTT of up to £2,450 available, or up to 1% of the property price. Whilst it is expected that this may have affected house prices, that effect can only be a very small contribution to the overall change in house prices observed over the period covered by the tax reduction. To suggest otherwise would require prices to be highly sensitive to tax changes, which would be wholly inconsistent with the OBR's assumptions on house price responses, which are based on academic evidence and HMRC research[28]. In addition, even after the tax reduction period, house prices continued to rise in Wales.

[28] See OBR (2015) available at; https://obr.uk/download/stamp-duty-land-tax-policy-costing-elasticities-december-2014/ and the update OBR (2017) available at; https://obr.uk/download/residential-stamp-duty-land-tax-elasticities-forecast-evaluation-report-october-2017/

Figure 3: House prices in Wales, April 2019 to August 2022



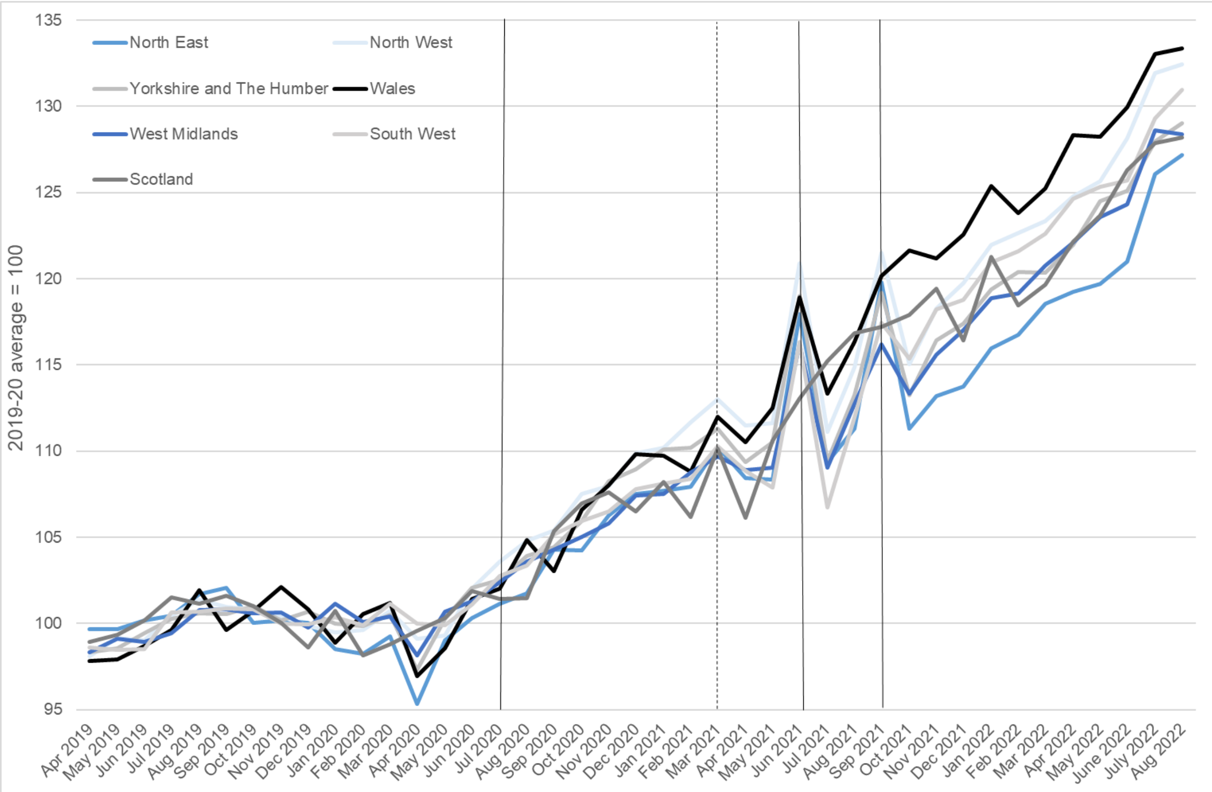
Source: ONS/HM Land Registry House Price Index data

Comparing Wales to other regions and countries in the UK

In England there was a much larger tax reduction, up to £15,000 or 3 percentage points of the property price. Scotland had a similarly sized tax reduction to Wales. If the tax reduction was the main driver of house price changes, it would be expected that house prices in the regions of England comparable to Wales would grow more than in Wales, and those in Scotland similarly to those in Wales.

Prices increased at a similar rate in Wales and comparable English regions, as well as in Scotland during the respective LTT, SDLT and LBTT tax reduction periods. Looking at the period since 2019-20 as a whole, house prices in Wales have grown faster than in any of the selected regions and nations. House prices in those other areas have also remained relatively high after the tax reduction periods and are still rising.

Figure 4: House prices in selected English regions, Wales and Scotland, April 2019 to August 2022



Source: ONS/HM Land Registry House Price Index data

There is evidence that the tax reductions had some temporary effects on house prices. Around the months when the tax reductions ended, or were expected to end, house prices rose and then fell in the following month. This is likely to be caused by high priced transactions being brought forwards to benefit from the tax reductions available.

More generally, identifying the effect the tax reductions may have had on prices is challenging, as other factors much larger than the taxes appear to have driven prices since 2019-20.

Wider research on residential property market during the pandemic

Other research supports the finding that elements other than tax explain the bulk of recent property market changes in Wales and the rest of the UK.

The Resolution Foundation[29] shows transactions are up across a range of prices which had varying tax savings, and that those with the largest tax reductions did not see the largest rises in transaction numbers. House prices also increased across most developed nations during the pandemic, as in the UK. The Resolution Foundation concludes that the tax reduction is unlikely to be 'the dominant force pushing up house prices over the past year'.

Bank of England[30] research on UK house prices also shows that the 'demand for larger properties outside city centres could account for just under half of the strength in house prices since January 2020'. The remainder of the house price growth was likely down to other factors, including temporary tax reductions and savings accumulated by households during lockdowns, the research concludes. For Wales, with the LTT reduction less than that available under SDLT in England and Northern Ireland, it is likely that this is an even smaller factor in explaining house price growth in Wales since early 2020.

The OBR[31] has also found that house prices grew more than forecast. This was caused by lower cost of mortgages and some households generating 'forced savings' during the pandemic. These are income effects. In addition, there has been 'increased demand for larger properties, 'especially in suburban areas, as preferences and working patterns changed'. This is a change in buyers' preferences. Both the income and preference effects will have boosted the demand for housing, particularly for certain types of housing. As housing supply is constrained in the short to medium term, these shifts in demand result in increases to house prices.

This is supported by international evidence. Estimates from the US has found the shift to remote working during the pandemic increased housing demand, pushing up house

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[29] See Housing Outlook Q3 2021 • Resolution Foundation

[30] See How much of the recent house price growth can be explained by the 'race for space'? | Bank of England

[31] See CP 545 – Office for Budget Responsibility – Economic and fiscal outlook – October 2021 (obr.uk)

prices[32]. Remote working in the US is found to explain at least half of the house price growth from between 2019 and 2021, when prices increased by 24%.

In addition, temporary tax reductions concentrate demand into a shorter time period than would otherwise be the case. This highlights how tax changes can have a noticeable effect on the timing of property transactions, perhaps more so than influencing their overall total.

Conclusions

The LTT temporary residential tax reduction is estimated to have cost around £45m in the period July 2020 to June 2021. This is less than half of the reduction to the BGA caused by the SDLT policy in England and Northern Ireland.

The reduction to LTT is likely to have caused some increase to property transactions and house prices, particularly just before it was due to end in March 2021 and then when it did ultimately end in June 2021. However, identifying more general effects of the LTT reduction on the property market in Wales is challenging. Wider effects of the COVID-19 pandemic are likely to have had a bigger impact, boosting transactions and house prices to a much larger degree. This is supported by the finding that transactions which were not subject to the LTT reduction increased similarly to those that were during the LTT reduction period.

There is much clearer evidence that the tax policy had sizeable but temporary effects on prices and transactions around its pre-announced deadlines.

Prices also increased considerably over the tax reduction period and have continued to rise after it ended. Wales has seen some of the highest price rises across the UK, despite having a relatively small tax reduction.

Factors such as shifts in peoples' housing preferences through remote working, access to relatively low cost mortgages and the generation of 'forced savings' are all likely to have affected housing demand during the same period the tax reduction applied, increasing transactions and particularly prices.

[32] See Mondragon, J. and Wieland, J. (2022) available at house_prices_rw_draft.pdf (johanneswieland.github.io)

Annex 2: Evaluation of the increase to residential higher rates of Land Transaction Tax in December 2020

Policy overview

Higher rates of LTT are applied to purchases where the buyer owns more than one residential property at the time of completing the property purchase. Commonly, the types of property which pay higher rates of LTT are second homes or buy-to-let properties, as well as those bought by companies.

In the case where the buyer chooses to sell their first property after buying their second property ("bridging"), they can claim a refund of the higher rates portion of LTT paid on the second property provided that they sell their additional residence within three years. In this case, the transaction switches to being recorded as a main rates transaction after the higher rate refund is paid.

The policy measure to increase the higher rates by 1 percentage point in each tax band was announced in the Welsh Government's Draft Budget on 21 December 2020, coming into effect the following day.[33] As a result of the policy measure, the usual tax wedge between the main rates and higher rates increased from 3 percentage points to 4 percentage points.

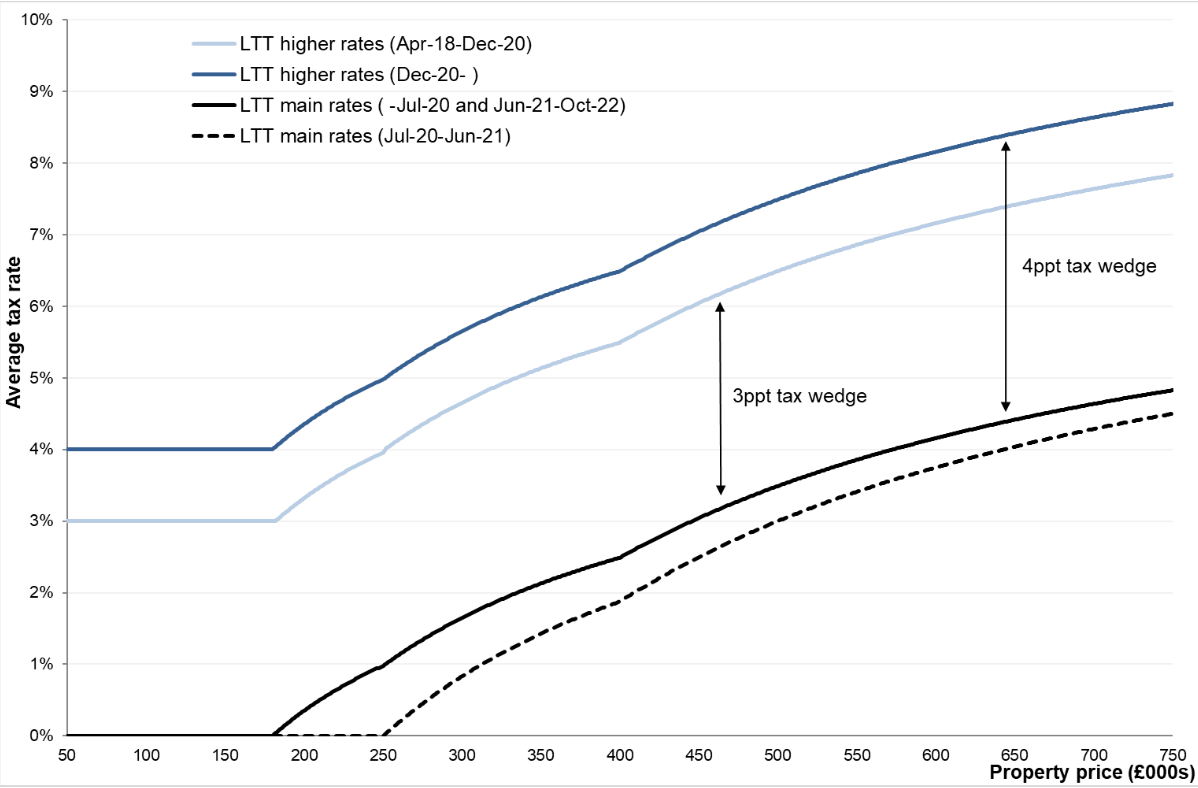
Figure 1 plots the average tax paid under the LTT residential main rates and higher rates, by property price, covering the period from the introduction of LTT in April 2018 to October 2022 and separating out the various tax schedules that have been in place over that period.

Until July 2020, the tax wedge between the main rates and higher rates of LTT was a flat 3 percentage points at every property price. The temporary LTT rates reduction in place between July 2020 and June 2021 only applied to the main rates of LTT, and not the higher rates. This temporarily increased the tax wedge to just under 4 percentage points for properties with a purchase price of over £180,000 whilst the temporary reduction to the main rates of LTT was in place. The tax wedge then shifted up by a further percentage point following the increase to the higher rates of LTT in December 2020, and became a constant 4 percentage point wedge at every property

[33] The full schedules of LTT higher rates, before and after the policy measure in December 2020, are available here: Land Transaction Tax rates and bands | GOV.WALES

price between the main and higher rates of LTT once the temporary LTT main rates reduction ended in June 2021.

Figure 1: LTT residential main rates and higher rates, average tax rates by property price, April 2018 to October 2022



What was expected to happen to revenues?

Policy costings at the time the LTT higher rates measure was announced in December 2020 covered the remainder of the 2020-21 financial year up to the 2025-26 financial year. The increased revenue arising from a higher tax rate was expected to be partially offset by negative effects on prices and transaction volumes.

It was anticipated that some, but not all, of the 'lost' higher rates transactions would instead be purchased as a primary residence by buyers in the main rates market. However, overall, there would be a decrease in revenue from the main rates resulting from the loss of some transactions which are not substituted and the wider downward impact on prices of the higher rates tax increase. These are loosely termed 'cross-market effects'.

Since the policy took effect the day after it was announced, there was almost no opportunity for forestalling activity and the policy costing assumed that would be the case.

Table 1 presents the static and post-behavioural policy costings produced at the time. The direct revenue impact of the tax increase was £7m in 2020-21 and £24m in 2021-22. Taking behavioural effects into account, including the assumed wider impacts on the residential main rates market, reduced the anticipated revenue increases to £4m in 2020-21 and £14m in 2021-22.

Table 1: Static (pre-behavioural) and post-behavioural initial policy costings as at December 2020

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Static	+7	+24	+22	+23	+24	+26
Post-behavioural	+4	+14	+13	+14	+14	+15
of which: Main rates	*-1*	*-2*	*-2*	*-2*	*-2*	*-2*

Source: Welsh Government analysis

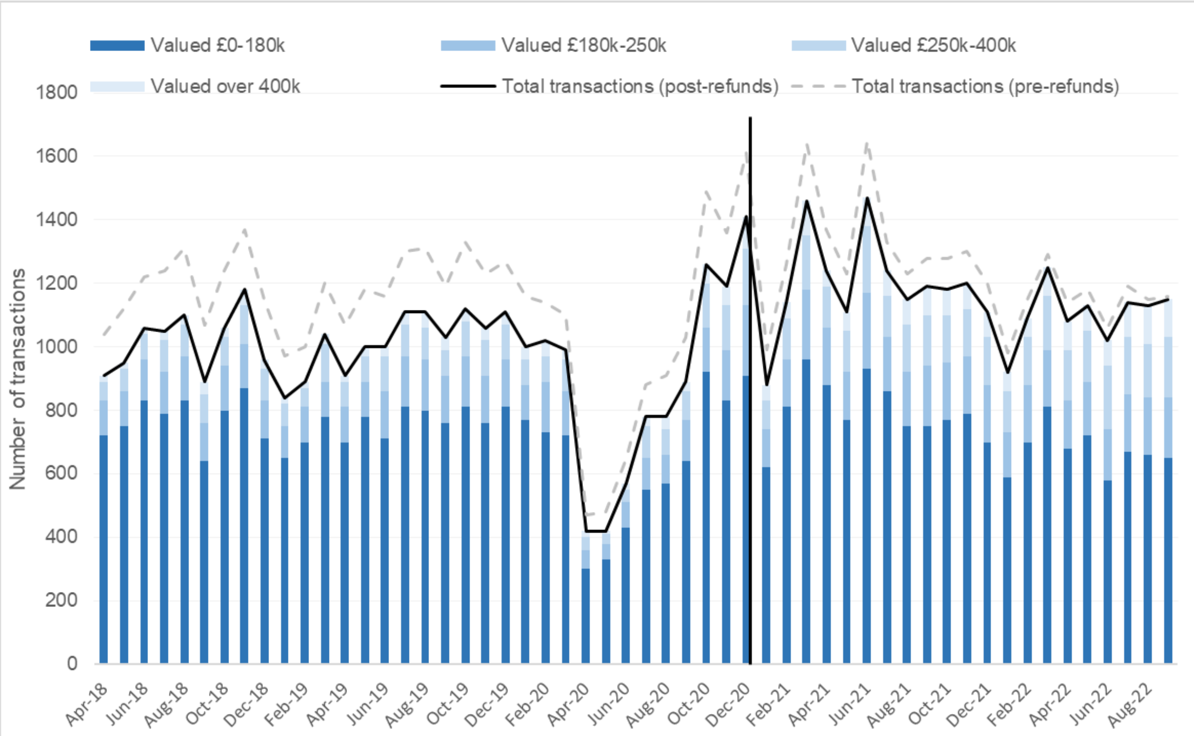
What happened to transactions?

This subsection considers outturn statistics on LTT higher rate transactions and a comparison with the trend in residential main rates transactions.

For contextual purposes, Figure 2 presents monthly outturn data from the WRA on LTT higher rates transactions, and the distribution of those transactions across price bands, from April 2019 to March 2022. The solid black line shows how higher rates transaction numbers (post-refunds) have moved over the three-year period. There was a considerable fall in transactions at the beginning of the Covid-19 pandemic, followed by a recovery and greater monthly volatility during the re-opening of the property market and the temporary reduction in the main residential rates of LTT. There has been a return to relative stability in transaction numbers in recent months.

Figure 2 also shows the make-up of monthly higher rate transactions in terms of their price band. A key observation here is that the majority of higher rates transactions are valued at less than £180,000. However, this proportion (the dark blue bar as a proportion of the solid black line) has been gradually falling over the period. For example, the proportion of higher rates transactions valued below £180,000 fell from 72% in October - December 2019 to 68% in the same period in 2020 and 64% in 2021.

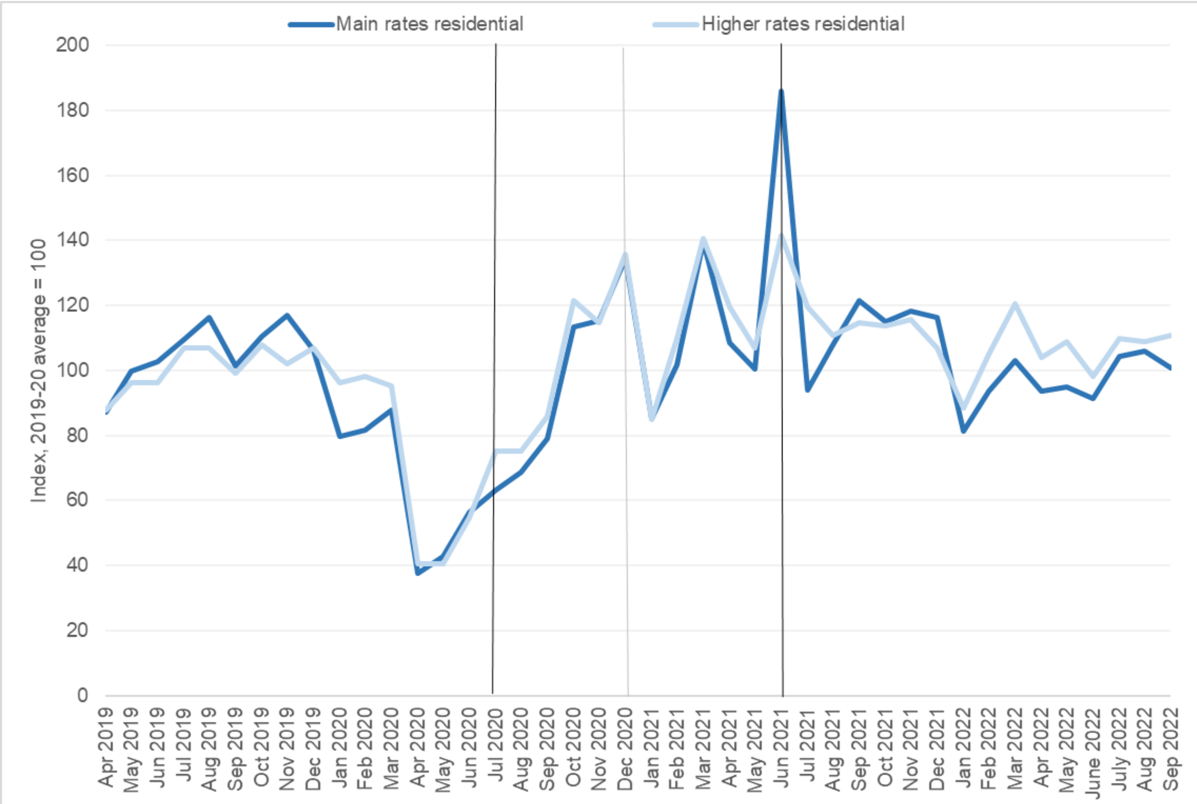
Figure 2: LTT residential higher rates transactions by price band (after refunds), April 2019 to March 2022



Source: Welsh Government analysis of WRA statistics

Figure 3 plots outturn data for monthly residential main rates transactions (dark blue line) and higher rates transactions (light blue line) from April 2019 to March 2022. The series are both indexed to their respective averages over the 2019-20 financial year, allowing easier comparison of relative movements across the two transaction types over the period.

Figure 3: LTT residential transactions, main rates and higher rates (after refunds), April 2019 to March 2022: Index, 2019-20 average = 100



Source: Welsh Government analysis of WRA statistics

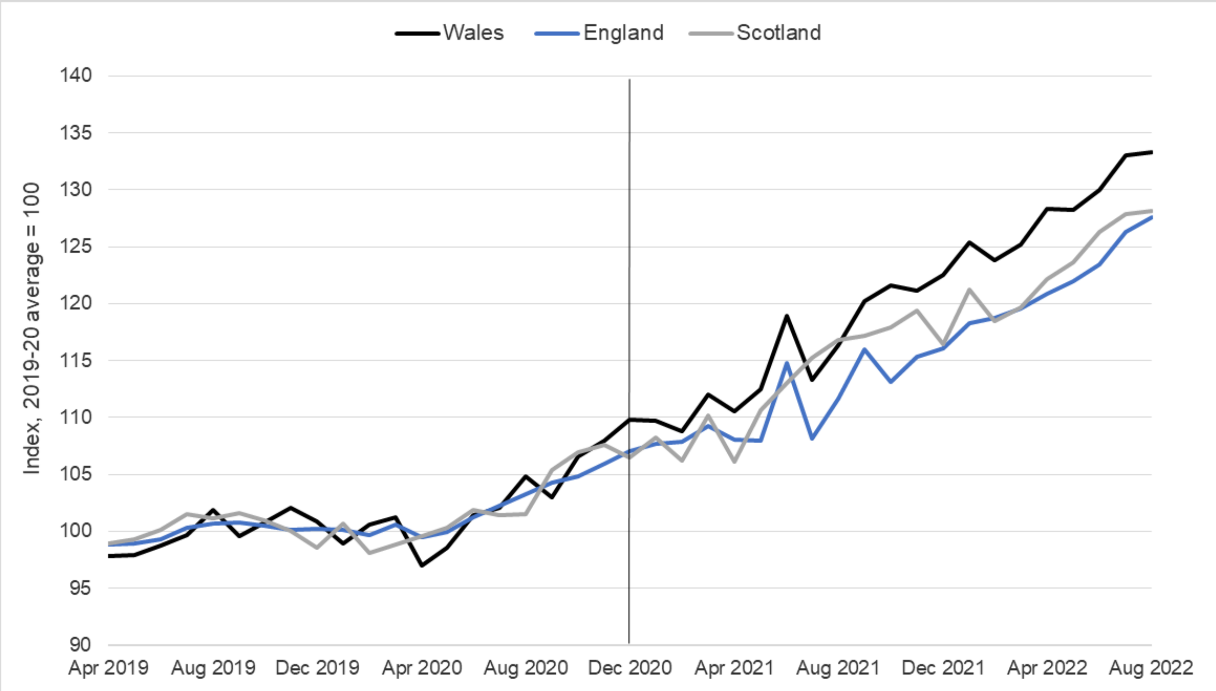
Movements in higher rates transactions have generally tracked those in main rates transactions. Of particular interest is the period after December 2020, when the higher rates of residential LTT were increased. The temporary reduction to the main rates, in place until June 2021, makes comparisons between the two markets more complicated during the first seven months following the higher rates increase. From August 2021 onwards, there is no further impact from the temporary reduction and movements in higher rates transactions track those in main rates transactions reasonably well. This suggests that higher rate transaction numbers have not fallen by much relative to main rates transactions. It should be noted, however, that the most recent data on higher rates transactions is likely to be more affected by upcoming refunds, which will act to reduce the most recent data point for higher rates transactions.

What happened to house prices?

This subsection considers evidence on house price growth. Figure 4 presents average residential house prices in Wales, England and Scotland from April 2019 to August 2022, indexed to the respective average price in the 2019-20 financial year. House prices across the charted UK nations rose substantially during this period. The strongest house price growth was in Wales, particularly since late 2020, with the average residential price rising by 34% between July 2019 and July 2022.

The house price data in Figure 4 represents transactions across the whole of the residential market; not only the higher rates market. The stronger growth in residential house prices in Wales since 2020, relative to the other UK nations charted, suggests that the LTT higher rates increase has not had a significant downward impact on wider residential house prices in Wales. However, this does not rule out the possibility that the measure may have reduced prices compared to what would have happened without the measure.

Figure 4: Average House prices in Wales, England and Scotland, April 2019 to August 2022: Index, 2019-20 average = 100



Source: Welsh Government analysis of ONS House Price Index data

Note: Data for Northern Ireland are not included in Figure 4 because monthly house price data for Northern Ireland are not available.

Analysing the effect of the policy measure on transactions

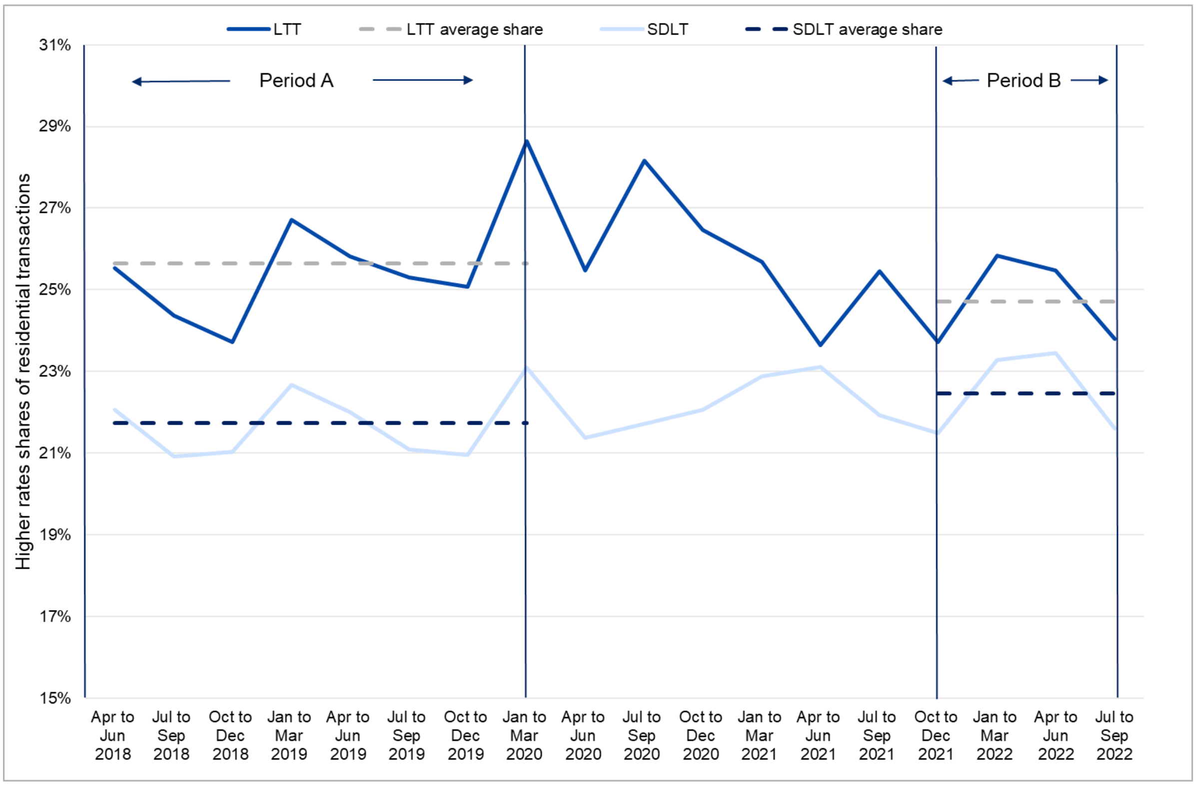
To analyse the potential effect of the higher rates LTT policy on transactions, this section looks at trends before and after the policy was implemented and uses SDLT as a comparator.

Figure 5 shows the quarterly share of higher rates transactions in SDLT and LTT over the periods April 2018 to March 2020 and then October 2021 to September 2022. These periods exclude the effects of the pandemic and the temporary reductions to the main residential rates of LTT (and the temporary SDLT reductions applied to all residential transactions in England and Northern Ireland), which may have affected

SDLT and LTT differently. Over the periods chosen, LTT and SDLT higher rates shares are very highly correlated.

The two periods, labelled A and B in the chart, provide data before and after the increase to LTT higher rates and can be used to estimate the effect of the policy on transactions. The average share (as shown by the dashed lines) fell for LTT between period A and period B but increased for SDLT. Taking the difference between the two changes provides a form of *difference-in-differences* approach, which looks at what happened to LTT higher rates transactions while controlling for changes across time which may have jointly affected both LTT and SDLT.

Figure 5: Higher rates (pre-refunds) as a share of residential transactions SDLT and LTT, April 2018 to September 2022



Source: Welsh Government analysis of WRA LTT and HMRC Quarterly SDLT statistics

The change in the LTT higher rates average share between periods A and B is 1.6 percentage points lower than the change in SDLT higher rates average share between those periods. This represents a 6% relative reduction in the number of higher rates LTT transactions. The increase in the LTT higher rates tax between these periods is likely to be the main contributing factor to this finding. A 6% reduction from a one percentage point increase in tax is also very similar to the OBR's transaction behavioural effect applied to estimate the cost of the policy originally[34].

The relative reduction in LTT higher rates transactions may include other factors which cannot easily be controlled for. Recent Welsh Government announced policies to address second homes[35] may also have had an effect on higher rates purchases in period B. If higher rates transactions were being reduced by those policies, then the 6% estimate would overstate the impact of the tax change. There may also be other unobserved or unknown changes which could also affect this estimate.

This analysis provides indicative evidence that the one percentage point increase to LTT higher rates may have reduced higher rates transactions by around 6%. It shows the possible magnitude of the behavioural effect, suggesting it reduced transactions relative to what would have happened otherwise, even though the absolute share of LTT higher rates transactions remained fairly constant before and after the policy applied.

What did happen to LTT revenues?

This section introduces a method for estimating the effect of the LTT residential higher rates policy measure on LTT revenues in 2020-21 and 2021-22. Doing so requires the construction of a counterfactual scenario in which the LTT higher rates remained unchanged. Of course, there is no way of knowing for certain what would have happened in the absence of the policy change. However, the 'mechanical' or 'static' revenue impact of increasing the higher rates of LTT can be estimated, taking as given the outturn data on transactions and prices. Assumptions can then be made about

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[34] See OBR supplementary release, OBR (2017)

[35] See Welsh Government announces three-pronged approach to address "second homes crisis" | GOV.WALES

how market conditions may have been different in the absence of the policy change, using inferences from the analysis of higher rates transactions in the previous section. This then allows for an estimate of the ‘post-behavioural’ revenue impact in the higher rates market.

Figure 6 illustrates the approach outlined above. It presents monthly outturn data on LTT higher rates revenue (solid blue line), which is used as a benchmark against which the ‘mechanical’ revenue impact can be estimated with the following steps:

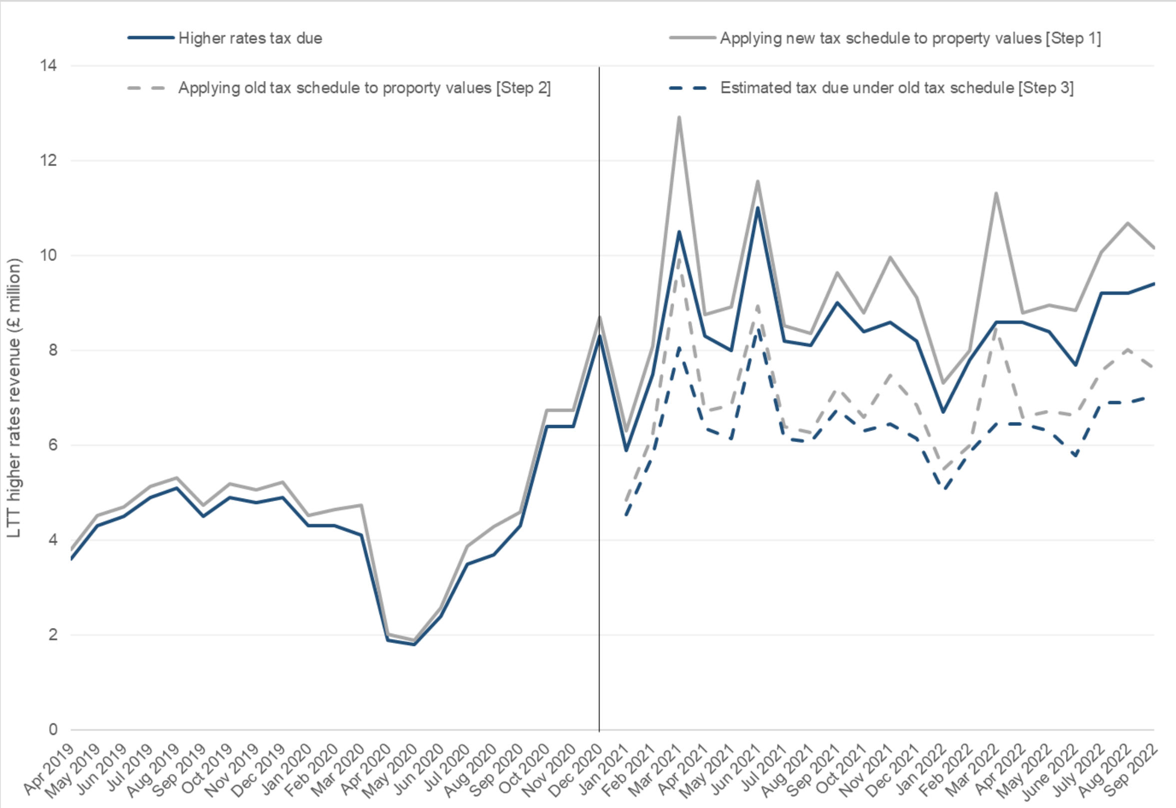
1. Apply the LTT higher rate tax schedule (average tax above main rates, accounting for the 2020-2021 main rates temporary reduction) to the observed property values taxed at the higher rate. [Solid grey line]

2. Perform the same calculation but using the hypothetical higher rate tax schedule in the absence of the policy change. [Dashed grey line]

3. Adjust the output from Step 2 proportionately to estimate the hypothetical tax revenues from higher rates under the old tax schedule. This is required because applying the actual tax system to observed property values and transactions does not exactly match the observed revenues (due to reliefs, for instance), [Dashed blue line]

4. Calculate the estimated additional ‘mechanical’ revenue from implementing the new tax schedule. [Difference between solid blue line and dashed blue line]

Figure 6: LTT higher rates revenues (after refunds) – estimating the revenue impact of the policy measure



Source: Welsh Government analysis of WRA statistics

The resulting estimated mechanical revenue impacts are:

- 2020-21: **+£6m** additional revenue

  (compared to +£7m static estimate in initial costing)

- 2021-22: **+£26m** additional revenue

  (compared to +£24m static estimate in initial costing)

The mechanical revenue estimates are broadly similar to the static estimates in the initial policy costing in December 2020. The differences can be explained by small forecasting errors when calculating the estimates in the initial policy costing. In December 2020 it was estimated that, prior to refunds, 4,100 higher rate transactions would be affected by the policy change in the remainder of the 2020-21 financial year, and that 15,000 higher rate transactions would take place during the 2021-22 financial year. Those transaction numbers turned out to be 3,900 (200 fewer) and 15,300 (300 more) respectively.

Having estimated the mechanical revenue impacts, assumptions about market conditions in the absence of the policy change can be introduced, with a view to evaluating the post-behavioural yield. The behavioural impact of the policy could include both transaction effects (fewer higher rates transactions taking place) and price effects (lower prices in the higher rates market than would otherwise have occurred).

Referring back to Figure 6, this would be equivalent to shifting the dotted blue line upwards representing an increase in higher rates revenues in the counterfactual scenario, thus reducing the gap between the solid blue line and the dotted blue line. In this simple model the key consideration then becomes how far to shift the dotted blue line.

The OBR's estimates of behavioural elasticities[36], a version of which were used in the initial costing of this policy in December 2020, suggest that revenues should fall by 6% to 9% for a one percentage point increase in tax rates, made up mostly of a transaction elasticity and a smaller price elasticity.

The analysis in the previous section suggests that higher rates transactions may have fallen by 6% as a result of the 1 percentage point increase in the tax rate. There is little evidence to suggest that the policy change had a significant dampening effect on rising prices in the residential market in Wales, however, it is likely that some house prices fell as a result of the tax increase.

Overall, the evidence supports the OBR's elasticity range referred to above. Using that range suggests the increase to the higher rates of LTT may have raised £2m to 4m more in 2021-22 than the £16m originally estimated in December 2020. This is likely due to a combination of:

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[36] See OBR supplementary release, OBR (2017)

- the transaction behavioural effect being a little smaller than expected (resulting in a greater than expected number of higher rates transactions);
- and property prices being materially higher than expected, with little evidence of a dampening effect from the tax increase.

The analysis in this section has focussed on evaluating the impact of the policy change on tax revenues in the higher rates market. As discussed in previous sections, it is likely that the tax increase in the higher rates market also had an impact on residential main rates revenues, given the close substitutability of properties across the two markets. This is because some element of the lost higher rates transactions are not replaced by main rates transactions and because the higher rates tax increase has a wider downward impact on prices. These cross-market effects probably have transpired to some degree, but there is little evidence to determine how significant they have been. In the initial policy costing, cross-market effects were assumed to reduce tax revenue on the main rates by £2 million a year from 2021-22 onwards.

Conclusions

This analysis of transactions in the residential property market following the increase to the higher rates of LTT in December 2020 finds that the market remained resilient to the tax increase, and that the policy measure generated additional LTT revenue, despite perhaps causing a reduction to transactions and prices.

Rising house prices throughout 2020-21 and 2021-22, as well as separate policy interventions in the residential market (most notably the temporary reduction period), have made it challenging to isolate the effects of this specific policy measure. However, compared to what would otherwise have happened, it is estimated that the measure reduced higher rates transaction numbers in a similar way to initial expectations in December 2020. Prices have increased since the measure was introduced, but it is still possible that the measure reduced prices compared to what they otherwise would have been.

The overall impact of the policy measure on LTT revenues so far is estimated to be similar to, and possibly a little higher than, expectations in December 2020. The measure can be expected to continue to boost LTT revenues in future years.

Annex 3: Abbreviations used in this report

HMRC	His Majesty’s Revenue and Customs
LDT	Landfill Disposals Tax
LfT	Landfill Tax
LTT	Land Transaction Tax
LTTA	Land Transaction Tax and Anti-Avoidance of Devolved Taxes (Wales) Act 2017
NAO	National Audit Office
NDR	Non-Domestic Rates
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics
PfG	Programme for Government
RPI	Retail Price Index
SDLT	Stamp Duty Land Tax

SLA	Service Level Agreement
WRA	Welsh Revenue Authority
WG	Welsh Government
WRIT	Welsh Rates of Income Tax

Annex 4: Contact details for further information

Further information about Welsh taxes is available on the Welsh Government's website:

https://gov.wales/welsh-taxes

https://llyw.cymru/trethi-cymru

You can contact us:

via the Welsh Treasury twitter accounts:

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@TrysorlysCymru

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WelshTreasury@gov.wales

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