



Llywodraeth Cymru  
Welsh Government

# **The fifth annual report by Welsh Ministers about the implementation and operation of Part 2 (Finance) of the Wales Act 2014**

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Laid before the National Assembly for Wales and presented to  
Parliament, pursuant to Section 23 of the Wales Act 2014

December 2019

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## Foreword



This report provides an update on the progress made in the past year by the Welsh Government to implement the powers in the Wales Act 2014, including important collaborative work with HM Treasury and HMRC.

On 6 April 2019, the last of the finance provisions in the Act was introduced, marking the close of a significant phase in the devolution history of Wales. With Welsh Rates of Income Tax in place, some £5bn of spending on Welsh public services - including £3.5bn of the Welsh Government's own budget - is now funded by taxes which are set in Wales, to meet the needs and priorities in Wales.

Now that the three taxes devolved to Wales are in operation, with the Welsh Revenue Authority managing and collecting Land Transaction Tax and Landfill Disposals Tax, the Welsh Government is further developing its thinking on tax policy and administration, including our proposals for possible new taxes which could help support wider policy ambitions for Wales<sup>1</sup>.

Many people have helped us to reach this point, and continue to provide assistance. I am grateful to the National Assembly for its scrutiny of the introduction of the financial provisions in the Act, and I thank the people and organisations who have contributed advice through various forums and advisory bodies, including the Tax Advisory Group which has provided invaluable support since the earliest stage of the Wales Bill, in 2014.

A handwritten signature in black ink that reads "Rebecca Evans." The signature is written in a cursive, flowing style.

Rebecca Evans AM  
Minister for Finance and Trefnydd

December 2019

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<sup>1</sup> This work is reported in our annual *Welsh Tax Policy Reports*:  
<https://gov.wales/welsh-taxes#Taxpolicyframework>

## Introduction

Under section 23 of the Wales Act 2014<sup>2</sup>, Welsh Ministers and the Secretary of State for Wales are each required to report annually on the progress made in effecting the provisions under Part 2, until the first anniversary after the final provisions have been implemented. This is the fifth annual report by Welsh Ministers.

Section 23(7) of the Act specifies the annual reports must include the following information on the finance provisions:

- (a) *A statement of the steps that have been taken, whether by the maker of the report or by others, since the making of the previous report (or, in the case of the first report, since the passing of this Act) towards implementation of the provisions of this Part,*
- (b) *A statement of the steps that the maker of the report proposes should be taken, whether by the maker of the report or by others, towards the implementation of the provisions of this Part,*
- (c) *An assessment of the operation of the provisions of this Part that have been implemented,*
- (d) *An assessment of the operation of any other powers to devolve taxes to the Assembly or to change the powers of the Welsh Ministers to borrow money, and of any other changes affecting the provisions inserted or amended by this Part,*
- (e) *A statement of the effect of this Part on the amount of any payments made by the Secretary of State under section 118 of GOWA 2006 (payments into the Welsh Consolidated Fund), and*
- (f) *Any other matters concerning the sources of revenue for the Welsh Government that the maker of the report considers should be brought to the attention of Parliament or the Assembly.*

The reports are not required to address the following sections of the Wales Act 2014 – section 10 (Welsh taxpayers for social security or child support purposes); section 11 (Amendments to the definition of a Scottish taxpayer) and section 22 (Budgetary procedures).

The reports are due each year before the anniversary of the day on which the Act gained Royal Assent – 17 December 2014 – with the final report being due on, or as soon as practicable after the first anniversary of the day on which the last of the provisions in Part 2 is implemented.

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<sup>2</sup> <http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

## Welsh taxes and the Welsh Revenue Authority

### *Land Transaction Tax*

Section 15 of the Wales Act 2014 amends the Government of Wales Act 2006 ("GOWA 2006") to enable the National Assembly for Wales to legislate for a Welsh tax on transactions involving interests in land. Section 16 and Schedule 2 amend UK legislation to dis-apply UK Stamp Duty Land Tax in relation to Wales. Section 17 concerns the supply of information about land transactions in Wales to HMRC.

The Command Paper issued by the UK Government alongside the Wales Bill (March 2014) additionally specifies that Stamp Duty Land Tax would be 'switched off' from April 2018<sup>3</sup>.

### *Landfill Disposals Tax*

Section 18 of the Wales Act 2014 amends GOWA 2006 to enable the National Assembly for Wales to legislate for a Welsh tax on disposals to landfill. Section 19 amends Part 3 of the Finance Act 1996 to dis-apply UK Landfill Tax in relation to Wales.

The Command Paper issued by the UK Government alongside the Wales Bill (March 2014) additionally specifies that Landfill Tax would be 'switched off' from April 2018.

The Treasury exercised the powers contained in sections 16 and 19 of the Wales Act 2014 to make an order<sup>4</sup> to dis-apply Stamp Duty Land Tax and UK Landfill Tax in Wales on 1 April 2018.

## Welsh taxes

1. On 1 April 2018, the Welsh Tax Acts<sup>5</sup> came into force and the Welsh Revenue Authority (WRA) began collecting the two fully devolved Welsh taxes – Land Transaction Tax and Landfill Disposals Tax.
2. The rates and bands for Land Transaction Tax were announced by the Welsh Government as part of the Budget process for 2018-19. The regulations to bring the rates and bands for Land Transaction Tax into effect were agreed by the National Assembly on 30 January 2018, and will remain in place until amended<sup>6</sup>. No changes were announced in the Budget process for 2019-20.

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<sup>3</sup> *Wales Bill: financial empowerment and accountability* Cm 8838, para 16:  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/294470/Wales\\_Bill\\_Command\\_Paper\\_-\\_English.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294470/Wales_Bill_Command_Paper_-_English.pdf)

<sup>4</sup> Wales Act 2014, Sections 16 and 19 (Disapplication of UK Stamp Duty Land Tax and UK Landfill Tax) (Appointed Date) Order 2018 (S.I. 2018/214).

<sup>5</sup> The Welsh Tax Acts comprise: the Tax Collection and Management (Wales) Act 2016; the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017; and the Landfill Disposals Tax (Wales) Act 2017.

<sup>6</sup> The Land Transaction Tax (Tax Bands and Tax Rates) (Wales) Regulations 2018 (S.I. 2018/128).

**Table one: LTT residential main rates 2019-20**

Price threshold	LTT rate
£0 to £180,000	0%
More than £180,000 to £250,000	3.5%
More than £250,000 to £400,000	5%
More than £400,000 to £750,000	7.5%
More than £750,000 to £1,500,000	10%
£1.5m-plus	12%

Higher rates residential property transactions will be subject to an additional 3% on top of the main residential rate in each band.

**Table two: LTT non-residential main rates 2019-20**

Price threshold	LTT rate
£0 to £150,000	0%
More than £150,000 to £250,000	1%
More than £250,000 to £1,000,000	5%
£1m-plus	6%

**Table three: LTT non-residential lease rent rates 2019-20**

Price threshold	LTT rate
£0 to £150,000	0%
More than £150,000 to £2,000,000	1%
£2m-plus	2%

3. The rates and bands for 2020-21 will be announced as part of the draft Budget for 2020-21 (planned for 16 December 2019).
4. The initial rates for Landfill Disposals Tax were announced by the Welsh Government as part of the Budget process for 2018-19. The Welsh Government committed to increase the rates of Landfill Disposals Tax in line with inflation in 2019-20, to maintain consistency with the UK Government's approach to Landfill Tax rates. The regulations setting the Landfill Disposals Tax rates for 2019-20 were agreed by the National Assembly on 8 January 2019.

**Table four: LDT rates 2019-20, £ per tonne**

Price threshold	
Standard rate	£91.35
Lower rate	£2.90
Unauthorised disposals rate	£137.00

5. The rates for 2020-21 will be announced as part of the draft Budget for 2020-21.
6. Information about tax returns and revenue raised by the Welsh taxes is published regularly by the WRA<sup>7</sup>. The annual outturn for the financial year 2018-19 for Land

<sup>7</sup> Latest land transaction tax data:  
<https://gov.wales/land-transaction-tax-statistics>  
 Landfill disposals tax data:

Transaction Tax was £228m, and £44.4m of revenue is due to the WRA from Landfill Disposals Tax for 2018-19, as published in the WRA's public accounts<sup>8</sup>.

7. A Tax Devolution Programme Board, led by HMRC and including the Director of the Welsh Treasury and the Deputy Director of Tax Strategy, Policy and Engagement, oversaw the transition from Stamp Duty Land Tax to Land Transaction Tax, and from Landfill Tax to Landfill Disposals Tax (the board also oversaw the Welsh Rates of Income Tax project – see paragraph 18). The Tax Devolution Programme Board provides a route for resolving project-level challenges, and is overseeing the transition to business-as-usual arrangements in the Welsh Government's relationship with HMRC.
8. The Stamp Duty Land Tax/Landfill Tax Transition Project was closed in March 2019. HMRC has confirmed the annual rebate to the Welsh Government as a result of no longer operating Stamp Duty Land Tax and Landfill Tax in Wales is £172,473.
9. Regulations introduced in the last year are listed at appendix 1.

### **Welsh Revenue Authority**

10. The Minister for Finance and Trefnydd wrote to the WRA on 2 April 2019, to specify her expectations for the operation of the WRA over the period 2019-20 to 2021-22. The WRA's Corporate Plan 2019-22 reflects these complementary expectations, setting out how each will be delivered. The remit letter outlines the following priorities:
  - Ongoing development of the WRA – to build on the WRA's achievements and to look ahead over the longer term;
  - Achieving outcomes – to develop a suite of operational performance measures to identify how effectively the tax system in Wales is operating; and
  - Unauthorised Disposals – that the WRA should target resources in relation to the Landfill Disposals Tax on cases which address environmental impacts and place legitimate landfill businesses at a disadvantage.
11. The WRA's first three year corporate plan was published on 14 May 2019<sup>9</sup>. The plan is set in the context of the organisation's purpose:
  - To design and deliver Welsh national revenue services;
  - To lead the better use of Welsh taxpayer data for Wales.
12. The WRA is committed to helping to deliver a fair tax system for Wales, it does this through what it calls '*Our Approach*' – a Welsh way of doing tax. The corporate plan includes case studies of how this approach works in practice.

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<https://gov.wales/landfill-disposals-tax-statistics>

<sup>8</sup> WRA's Annual Report and Accounts 2017-19:

<https://gov.wales/sites/default/files/publications/2019-07/wra-annual-report-accounts-2017-2019-en.pdf>

<sup>9</sup> WRA Corporate Plan 2019-22:

[https://gov.wales/sites/default/files/publications/2019-05/welsh-revenue-authority-corporate-plan-2019-2022\\_0.pdf](https://gov.wales/sites/default/files/publications/2019-05/welsh-revenue-authority-corporate-plan-2019-2022_0.pdf)

13. The corporate plan includes six strategic objectives which reflect the Minister's remit letter expectations, and focuses on supporting taxpayers to pay the right amount of tax at the right time:
  - Making it easier;
  - Ensuring we are fair;
  - Being more efficient;
  - Enhancing our capability.
14. The plan includes two further objectives recognising the wider contribution the WRA's expertise can make to support Welsh public services: one contributing to the design of Welsh revenue services, and one to make the most of Welsh taxpayer data.
15. The WRA published its first Annual Report and Accounts on 4 July 2019<sup>10</sup>.

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<sup>10</sup> WRA's Annual Report and Accounts 2017-19:  
<https://gov.wales/sites/default/files/publications/2019-07/wra-annual-report-accounts-2017-2019-en.pdf>

## Welsh Rates of Income Tax

Sections 8 to 11 of the Wales Act 2014 provide for Welsh basic, higher and additional rates of income tax to be set by the National Assembly by way of resolution, and further define "Welsh taxpayers".

The Wales Act 2014, when originally enacted, made provision for a referendum to be held in Wales about whether the income tax provisions set out in the Act should come into force. These provisions in relation to a referendum were subsequently removed by section 17 of the Wales Act 2017<sup>11</sup>.

The Welsh Government's fiscal framework, which was agreed by the Welsh and UK governments in December 2016, confirmed the Welsh Government would introduce Welsh Rates of Income Tax in 2019-20, subject to removal of the requirement for a referendum.

16. Welsh Rates of Income Tax were introduced on 6 April 2019. For non-savings non-dividend income, the UK Government reduced each of the three rates of income tax – basic, higher and additional rates – paid by Welsh taxpayers<sup>12</sup> by 10p. On 15 January 2019, the National Assembly agreed the Welsh Government's proposal to set the Welsh Rates of Income Tax for 2019-20 at 10p, ensuring the Income Tax rates paid by Welsh taxpayers remained the same as those paid by English and Northern Irish tax payers<sup>13</sup>.
17. HMRC retains responsibility for the collection and management of Welsh Rates of Income Tax. In competence and legal terms this remains a UK tax, as are the associated arrangements for all allowances and reliefs (including the personal allowance), the tax thresholds and bands. The UK Government continues to retain the revenues from Income Tax on savings and dividend income from taxpayers in Wales.
18. Preparations for the introduction of Welsh Rates of Income Tax were overseen by a cross-Government Welsh Rates of Income Tax Project Board, sitting below the Tax Devolution Programme Board, and comprising representatives of the Welsh Government, HMRC and HM Treasury. The Project Board remains in place and continues to meet on a monthly basis to monitor progress. Both the Wales Audit Office and National Audit Office reviewed the preparations in the months before introduction and concluded that HMRC had appropriate delivery and governance arrangements in place to implement Welsh Rates of Income Tax<sup>14</sup>.

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<sup>11</sup> The Wales Act 2017 received Royal Assent 31 January 2017:

<http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

<sup>12</sup> Welsh taxpayers are defined in the Wales Act 2014 s.8 'Welsh rates of income tax', however in most cases they will be people who are resident in Wales:

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

<sup>13</sup> The motion to set the Welsh Rates of Income Tax for 2019-20 at 10p, for each of basic rate, higher rate and additional rate, was moved by the Minister for Finance and Trefnydd:

<https://record.assembly.wales/Plenary/5417#A47984>

<sup>14</sup> Reports on the preparations for the introduction of Welsh Rates of Income Tax by the Wales Audit Office (December 2018) and the National Audit Office (January 2019):

<https://www.audit.wales/news/wales-working-well-implement-fiscal-devolution>

<https://www.nao.org.uk/report/administration-of-welsh-income-tax-2017-18/>

19. In the first few weeks following introduction, HMRC identified a few employers who had not assigned the correct Welsh ('C') code) and some who had incorrectly assigned the Scottish 'S' code. This meant, in a small number of cases, there was an under or over payment of tax (for the majority, this was no more than £10). The Minister for Finance and Trefnydd called an urgent meeting with HMRC officials to understand why this had happened and to agree measures to be taken by HMRC to resolve it. The error occurred as a result of employers failing to correctly apply the codes which had been provided by HMRC. The action taken by HMRC included a scan of the April Pay As You Earn (PAYE) payroll data, and further work with employers to ensure the correct codes were applied. The Minister published a Written Statement on 14 May to provide Assembly Members with details<sup>15</sup>. HMRC took immediate action to resolve any errors in the amount of tax paid through its standard reconciliation process for PAYE. HMRC has confirmed that all instances of the incorrect application of the 'S' code have been resolved. HMRC continues to work with employers and payroll organisations to ensure the 'C' codes are correctly applied.
20. The project to implement Welsh Rates of Income Tax is drawing to a close. Work to prepare HMRC's PAYE systems has been completed. There are still some outstanding actions in relation to paper and online self-assessment systems which will be completed in readiness for the next tax year.
21. A service level agreement is in place for the management of Welsh Rates of Income Tax. This sets out the requirements, timescales and performance measures for its operation. This will ensure a consistent quality of service to Welsh taxpayers and allow HMRC and the Welsh Government to meet our respective responsibilities in respect of operating Welsh Rates of Income Tax.
22. The Welsh Rates of Income Tax Project Board is still in place and will remain so until all implementation work is completed and final costs are agreed. The board continues to meet monthly to review progress. Implementation costs were originally estimated at between £5m and £10m but as the project has progressed, the estimate has been refined to between £7.5m and £9.5m. Operating costs are estimated at £319,000 per annum. The running costs are based on the minimum amount of work HMRC needs to undertake on an annual basis for Welsh Rates of Income Tax, such as ensuring information on the amount paid by taxpayers is reflected in the annual tax summary.
23. The Welsh Government will set out the proposed Welsh Rates of Income Tax for 2020-21 in the draft Budget, due on 16 December 2019.

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<sup>15</sup> Written Statement:  
<https://gov.wales/written-statement-welsh-rates-income-tax>

## Ability to create a new Welsh tax

Section 6 of the Wales Act 2014 amends GOWA 2006 to enable the creation of new devolved taxes by way of Her Majesty making an Order in Council. A recommendation to Her Majesty to make an Order in Council cannot be made until a draft of the statutory instrument containing the Order has been laid before and approved by each of the Houses of Parliament and the National Assembly. These could be existing UK taxes, which the UK Government devolves to Wales or taxes newly created by the Welsh Government in areas of devolved responsibility.

The Command paper issued by the UK Government alongside the Wales Bill (March 2014) provides further detail about how Welsh Government proposals for new taxes would, in the first instance, be assessed by the UK Government<sup>16</sup>.

24. The Welsh Government is investigating four new tax ideas: a Vacant Land Tax, a Disposable Plastics Tax, a Tourism Tax, and taxation as a way of funding social care<sup>17</sup>. The Vacant Land Tax is being used to test the intergovernmental mechanism for introducing new taxes, while work continues on the other three ideas<sup>18</sup>.

### Vacant Land Tax and the intergovernmental process for new taxes

25. The Welsh Government has worked with the UK Government and the National Assembly to agree the management process for devolving competence for a new tax. On 26 January 2018, the Welsh Government and HM Treasury agreed a process by which the Welsh Government will make, and the UK Government will consider, a proposal prior to consideration of a draft Order by the Houses of Parliament<sup>19</sup>. The process is governed by a Joint Exchequer Committee (JEC), led by the Minister for Finance and Trefnydd, on behalf of the Welsh Government, and the Chief Secretary to the Treasury, on behalf of the UK Government. The JEC is supported by an official-level group (JEC(O)), comprising officials from both governments.

### Paying for social care

26. The considerations of the Inter-Ministerial Group on Paying for Social Care, chaired by the Minister for Health and Social Services, are guided by the commitment to person-centred services and prevention established by the Social Services and Well-being (Wales) Act 2014; the Welsh Government's long-term plan for health and social care, *A Healthier Wales*; and the vision for a seamless service for citizens. Over the past

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<sup>16</sup> Wales Bill Command Paper 'Financial empowerment and accountability', published in March 2014: <https://www.gov.uk/government/publications/wales-bill>

<sup>17</sup> Cabinet statement about new tax ideas (13 February 2018): <https://gov.wales/oral-statement-tax-policy-work-plan-2018-including-new-taxes>

<sup>18</sup> Further details about a vacant land tax and the other new tax ideas are provided in the Welsh Government's *Welsh Tax Policy Report 2018* (October 2018), page 17:

<https://gov.wales/sites/default/files/publications/2018-10/welsh-tax-policy-report-2018.pdf>

More information will be published in the Welsh Tax Policy Report 2019, which is due to be published alongside the Welsh Government's draft Budget 2020-21, on 16 December 2019.

<sup>19</sup> Further details are outlined in *The fourth annual report by Welsh Ministers about the implementation and operation of Part 2 (Finance) of the Wales Act 2014*, December 2018:

<https://gov.wales/wales-act-2014-part-2-finance-annual-report-2018>

year, the Group has placed increasing emphasis on strategic engagement and communications, in order to help build a consensus around this cross-cutting agenda. Results from the Welsh Government's periodic omnibus survey on social care indicated that while the majority of respondents (70%) were concerned about their future care needs only a quarter of people (27%) felt they knew a great deal about the social care system in Wales<sup>20</sup>. These results further affirm the importance the Group has placed on strategic engagement and communications.

27. The Chair of the inter-Ministerial Group led an Assembly debate<sup>21</sup> earlier in the year which set out the scale of the challenge of paying for social care; a common but pressing challenge facing each of the countries of the UK. The debate evidenced a strong consensus in the Chamber that this agenda needed to be prioritised with Assembly Members broadly in agreement that quality of care provided to care recipients; and better pay and conditions for domiciliary care workers, were areas where better outcomes are required. The Chair provided a further update in July on the work being undertaken to develop the evidence base upon which the Inter-Ministerial Group can draw on to inform its deliberations<sup>22</sup>.

### **Disposable plastics tax**

28. The Welsh Government is continuing to engage with the UK Government in examining the options for tackling unnecessary plastic use and waste, recognising the advantages of adopting a consistent approach across the UK. This has included supporting consultations on a UK Plastic Packaging Tax, Extended Producer Responsibility for packaging and a Deposit Return Scheme for drinks containers.
29. In April 2019, Welsh Government, WRAP Cymru, and HM Treasury led engagement events to encourage Welsh stakeholders to submit their views. In July 2019, retail, manufacturing and other stakeholders took part in a workshop on single-use plastic cups in Wales, as part of the Welsh Government's annual tax conference.

### **Tourism tax**

30. The Welsh Government is continuing to monitor progress and consider examples, both internationally and within the UK, of how tourism taxes work in practice and their potential impact. The Welsh Government is continuing to work with the tourism sector and local authorities to understand the potential impacts of a local Tourism Tax. The issues under consideration include the interactions with Value Added Tax on tourist accommodation, regulatory pressures, and other local taxes.

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<sup>20</sup> The results of the survey are available at:

<https://gov.wales/paying-care-research-march-2019>

<sup>21</sup> The transcript from the debate is available at:

<https://record.assembly.wales/Plenary/5409#A47597>

<sup>22</sup> The Health Minister's Cabinet Statement with the update is available here:

<https://gov.wales/written-statement-update-about-work-inter-ministerial-group-paying-social-care>

## Borrowing

Sections 20 and 21 of the Wales Act 2014 repealed the borrowing power under the Welsh Development Agency Act 1975 and extended the Welsh Ministers' borrowing power under section 121 of the Government of Wales Act 2006, with effect from 1 January 2017. It enables the Welsh Ministers to borrow up to £500m to manage cash-flow (to smooth fluctuations in tax receipts and address temporary mismatches between tax and spending) and, subject to the approval of HM Treasury, up to a total of £500m to meet capital expenditure.

### *Capital Borrowing*

- Within the £500m limit for capital borrowing, the Welsh Government may borrow up to £125m per annum;
- Sources of capital borrowing are limited to the National Loans Fund (via the UK Government) or commercial banks;
- Until the new capital borrowing powers come into effect (planned for April 2018), the Welsh Government may borrow under Schedule 3 to the Welsh Development Agency Act 1975 for the purposes of funding improvements to the M4 in South East Wales;
- The UK Government will review the Welsh Government's capital borrowing ceiling at each Spending Review, in the light of economic and fiscal circumstances, and the level of devolved taxation.

### *Revenue Borrowing*

- Within the £500m limit for revenue borrowing, the Welsh Government may borrow up to £200m per annum;
- A new cash reserve will assist the Welsh Government in managing volatility by providing a mechanism for saving 'surplus revenues' (for example, tax receipts which come in above forecasts) – the first call on a surplus will be the repayment of any outstanding current borrowing, after which any remainder could be paid into a cash reserve or used to finance additional public spending on devolved matter.

In February 2015, following intergovernmental and cross-party talks, the UK Government agreed to extend the Welsh Government's borrowing powers to include the issue of bonds<sup>23</sup>.

The Wales Act 2017 amended section 122A of the Government of Wales Act 2006 to raise the Welsh Ministers capital borrowing limit from £500m to £1b.

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<sup>23</sup> Command Paper *Powers for a purpose: towards a lasting devolution settlement for Wales* (Cm 9020), 27 February 2015, chapter 4, p51:  
<https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales>

## Capital borrowing

31. Under the fiscal framework, agreed between the Welsh and UK governments in December 2016, the annual capital borrowing limit increased from £125m to £150m when Welsh Rates of Income Tax were introduced in April 2019.
32. The Welsh Government made use of its new powers to borrow for the first time in 2018-19. £65m was borrowed from the National Loan Fund to support Welsh Government's capital spending in that year. Plans for capital spending make use of up to a further £250m of capital borrowing in the next two years (£125m per annum in 2019-20 and 2020-21). The remaining £50m (£25m per annum in 2019-20 and 2020-21) will be held in reserve.
33. The take-up of planned borrowing will be carefully considered during each budget period and will only be used when all available conventional, cheaper sources of capital financing have been exhausted.
34. In response to a request from the Welsh Government<sup>24</sup>, the UK Government introduced the Government of Wales Act 2006 (Variation of Borrowing Power) Order 2018, which came into force on 1 December 2018.

## Revenue borrowing and the Wales Reserve

35. Given the block grant offset methodology agreed for income tax as part of the fiscal framework, the Welsh Government expects the £500m revenue borrowing limit provided by the Wales Act 2014 to be sufficient to cover fluctuations in the revenue stream from devolved tax powers.
36. The Wales Reserve was introduced from April 2018, enabling unspent resources from tax receipts and the block grant to be stored for future years. The Wales Reserve is capped at £350m and annual drawdowns limited to £125m for revenue spending and £50m for capital spending. There are no annual limits for payments into the reserve.
37. As of 1 April 2019, the Wales Reserve held £328.6m to support future Welsh Government spending.

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<sup>24</sup> Cabinet statement about Welsh Government bonds (October 2018):  
<https://gov.wales/written-statement-welsh-government-bonds>

## Block grant adjustment and forecasting

### Block grant adjustment

38. The methodologies for adjusting the Welsh block grant following the devolution of tax powers were agreed as part of the fiscal framework<sup>25</sup>. The adjustment for 2018-19, relating to the introduction of Land Transaction Tax and Landfill Disposals Tax and the end of Stamp Duty Land Tax and Landfill Tax in Wales, was based on the forecasts in the *Economic and Fiscal Outlook* (October 2018) by the Office for Budget Responsibility (OBR)<sup>26</sup>. With outturn information now available for the relevant UK taxes, a reconciliation exercise can now be carried out for 2018-19, as set out in the fiscal framework. The adjustments for 2019-20 are currently based on the same forecast, including that to accompany the introduction of the Welsh Rates of Income Tax. The income tax adjustment will be set equal to the revenues from the Welsh rates in this first, transitional year. Those for the fully devolved taxes will be revised when the OBR publishes its devolved tax forecast report accompanying the Welsh Government's draft Budget 2020-21.
39. The Welsh Government has carried out analytical work to establish how forestalling behaviour affected Stamp Duty Land Tax and Land Transaction Tax revenues over the transition period. The Welsh and UK governments are in discussions about the extent to which the block grant adjustment should allow for this behavioural effect. As a one-off behavioural spill-over effect of the devolution of taxes to Wales, the Welsh Government expects the block grant adjustment to be recalculated to take into consideration the impact of forestalling.
40. As specified in the fiscal framework, as the Welsh Government is setting the Welsh Rates of Income Tax for 2019-20 at 10p (equivalent to the reduction being made by HM Treasury), the block grant adjustment for the Welsh Government for 2019-20 will be equal to the receipts.

### Forecasting

41. As part of the fiscal framework agreement, the Welsh Government committed to introducing arrangements for the independent production of revenue forecasts for devolved taxes. In the short-term, it was agreed the Welsh Government would produce its own independently assured forecasts, while putting in place longer-term arrangements.
42. Bangor Business School provided independent assurance of the Welsh Government's forecasts for Land Transaction Tax, Landfill Disposals Tax, and Welsh Rates of Income Tax revenues as part of the Budget process for 2019-20. An independent scrutiny and assurance report was published alongside the final Budget<sup>27</sup>.
43. The Welsh Government has entered into an arrangement with the OBR for the provision of Welsh tax revenue forecasts for the 2020-21 Budget and beyond. The new

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<sup>25</sup> <https://gov.wales/sites/default/files/publications/2018-11/agreement-on-welsh-government-fiscal-framework.pdf>

<sup>26</sup> [https://cdn.obr.uk/EFO\\_October-2018.pdf](https://cdn.obr.uk/EFO_October-2018.pdf)

<sup>27</sup> Bangor University *Independent scrutiny and assurance of devolved tax forecasts for Wales, final report* (December 2018) is available as a supporting document here: <https://gov.wales/sites/default/files/publications/2018-12/bangor-final-report-december-2018.pdf>

arrangement with the OBR started in April 2019, with supporting documents published on the OBR's website<sup>28</sup>.

44. In support of the delivery of the Welsh Government's Budget, the OBR will produce two reports. These will include forecasts for Welsh taxes – Land Transaction Tax and Landfill Disposals Tax – and Welsh Rates of Income Tax, which will be based on the OBR's most recent macro-economic forecasts and any relevant specific data for Wales. The OBR's forecast will also take account of any Welsh Government tax policy changes. These reports will be published alongside the Welsh Government's draft Budget and the final Budget.
45. In addition, as part of the new arrangements, the OBR has increased its presence in Wales by engaging more substantially with interested organisations and individuals. The Budget Responsibility Committee of the OBR met with the Minister for Finance and Trefnydd and the Finance Committee in June 2019. Representatives of the OBR also gave presentations at the Welsh Government's tax conference and the Wales Governance Centre's fiscal conference in July 2019.

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<sup>28</sup> Welsh tax forecasts, scrutiny role:  
<https://obr.uk/topics/scotland-wales-and-northern-ireland/welsh-tax-forecasts/>

## Appendix 1: Regulations

Statutory instruments made December 2018 - December 2019.

### Made under powers in the Landfill Disposals Tax (Wales) Act 2017

1. The Landfill Disposals Tax (Tax Rates) (Wales) (Amendment) Regulations 2018
2. The Landfill Disposals Tax (Wales) Act 2017 (Reliefs) (Miscellaneous Amendments) Regulations 2019

### Made under powers in the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017

1. The Welsh Tax Acts (Miscellaneous Amendments) (EU Exit) Regulations 2019<sup>29</sup>

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<sup>29</sup> These Regulations have been made in exercise of powers contained in the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 and the European Union (Withdrawal) Act 2018.

## Appendix 2: Engagement

### Tax Advisory Group

The Tax Advisory Group was established to provide strategic advice to Welsh Ministers about tax policy and administration, and to consider the impacts on communities and businesses in Wales, during preparations and implementation of the Welsh taxes. Its membership has represented a broad range of perspectives and expertise. The group has been chaired by successive Finance Ministers, most recently by the Minister for Finance and Trefnydd.

With the successful introduction of Welsh Rates of Income tax in 2019, following the introduction of Land Transaction Tax and Landfill Disposals Tax in 2018, and the establishment of the Welsh Revenue Authority in 2017, the work of the Tax Advisory Group has been completed. Welsh Ministers are considering the options for future engagement activity and for securing advice.

#### *Remit of the Tax Advisory Group*

- To provide advice and support in the development of tax policy and administration in Wales;
- To give advice about the wider impact of Welsh tax policy on stakeholders and the economy and social fabric of Wales;
- To help to improve communication across a range of stakeholders about tax policy and administration to better inform Welsh Government tax consultations and legislation.

#### *Tax Advisory Group members during 2019*

Andrew Evans, Geldards LLP

Frank Haskew, Institute of Chartered Accountants in England and Wales

Councillor Anthony Hunt, Welsh Local Government Association

Ben Francis, Federation of Small Business

Robert Lloyd Griffiths, Institute of Directors

Martin Mansfield, Wales TUC

Ruth Marks, Wales Council for Voluntary Action

David Phillips, Institute for Fiscal Studies

Kay Powell, the Law Society

Ian Price, CBI Wales

Leighton Reed, Broomfield & Alexander Ltd, representing the Institute of Chartered Accountants in England and Wales

Dr Victoria Winckler, the Bevan Foundation

Further information about the Tax Advisory Group is available on the Welsh Government's website<sup>30</sup>.

### Tax conference

In July 2019, the Minister for Finance and Trefnydd hosted the Welsh Government's second annual Welsh Taxes Conference, attended by a range of stakeholders from business, the public sector and the third sector. The presentations and workshops covered: the

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<sup>30</sup> <https://gov.wales/tax-advisory-group-wales>

implications of the UK economy for the Welsh taxes, the potential for further tax devolution, reform of local taxes, tax administration - including the approach being taken by the Welsh Revenue Authority, Income Tax behavioural effects, and the progress with the new tax ideas for vacant land and disposable plastics.

### **Welsh Revenue Authority engagement activity**

The Welsh Revenue Authority (WRA) has developed '*Our Approach*' to explain how it wants to work collaboratively with representatives, partner organisations, taxpayers and the public to help people pay the right amount of tax at the right time.

As part of '*Our Approach*', the WRA carries out two-way, ongoing engagement with stakeholders. This includes hosting tax forums, across Wales, to offer support, listen to feedback and test thinking around potential changes to services. The sessions are run as workshops and offer practical help and advice – for example, to solicitors and conveyancers filing land transaction tax returns. The WRA also hosts events with local Law Societies and runs its own webinars. To support landfill site operators, the WRA's operations team supports them directly to help them file and pay landfill disposals tax.

The WRA also shares useful information on its web-pages ([gov.wales/wra](http://gov.wales/wra)) accessed via the Welsh Government's GOV.WALES platform. This hosts the WRA's digital tax system as well as information, including technical guidance and corporate reports. The WRA uses other forms of communications to engage with its audiences. This includes Twitter feeds (@WRAtweet and @Acctrydar) and a bilingual LinkedIn profile, as well as an e-newsletter sharing updates around corporate activity.

Feedback is at the heart of the WRA's work – for example, feedback from service users informs service changes. In the main, surveys are used to capture feedback across many channels, including web-pages, online forms and through the helpdesk team.

### **Other ways to keep in touch**

The Welsh Treasury works with organisations in Wales to engage with stakeholders as we develop tax policy, and to cascade content through to memberships and networks. If you would be interested in a contribution from the Welsh Treasury on any aspect of fiscal devolution please email: [WelshTreasury@gov.wales](mailto:WelshTreasury@gov.wales)

Tax devolution in Wales is promoted on social media through the Welsh Treasury's twitter accounts @WelshTreasury and @TrysorlysCymru and the following hashtags #WelshTaxes #TrethiCymru.

The Welsh Treasury pages on the Welsh Government website offer further information about tax devolution in Wales, including publications to view or download – both formal publications as well as factsheets and leaflets: [gov.wales/welsh-taxes](http://gov.wales/welsh-taxes)

A range of communications tools, including infographics, Twitter cards and Doopoll are used to communicate and engage with stakeholders. A video illustrating tax and spend in Wales is available on the Welsh Government You Tube channel<sup>31</sup>.

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<sup>31</sup> <https://www.youtube.com/watch?v=MrwinIA4KoY&feature=youtu.be>

## **Appendix 3: Further information**

A range of further information about tax devolution to Wales is available on the internet.

### **Background**

#### *Independent Commission on Funding and Finance for Wales (Holtham Commission)*

The commission was established by the Welsh Government to consider the funding mechanism for Wales and how it could be improved, including the case for devolution of tax and borrowing powers. It issued two reports with recommendations (2009 and 2010). These and other materials published by the commission are available at:

<https://gov.wales/welsh-taxes>

#### *Commission on Devolution in Wales (Silk Commission)*

The UK Government's commission was tasked with considering the financial and constitutional arrangements for Wales. Its first report (2012) looked at the case for devolving tax and borrowing powers and related institutional changes:

<http://webarchive.nationalarchives.gov.uk/20140605075122/http://commissionondevolutioninwales.independent.gov.uk/>

### **Welsh Government and the National Assembly**

#### *Tax Collection and Management (Wales) Act 2016*

This Act puts in place the legal framework for the collection and management of devolved taxes in Wales, including establishing the Welsh Revenue Authority (WRA):

<http://www.legislation.gov.uk/anaw/2016/6/contents/enacted>

Closed consultation, including a summary of responses, undertaken prior to development of tax legislation:

<https://gov.wales/collection-and-management-devolved-taxes-wales>

#### *Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017*

This Act provides for the introduction of a Land Transaction Tax from April 2018 and includes measures to tackle the avoidance of devolved taxes:

<http://www.legislation.gov.uk/anaw/2017/1/contents>

Closed consultation, including a summary of responses, undertaken prior to development of tax legislation:

<https://gov.wales/tax-devolution-wales-land-transaction-tax>

#### *Landfill Disposals Tax (Wales) Act 2017*

This Act provides for the introduction of a Landfill Disposals Tax from April 2018:

<http://www.legislation.gov.uk/anaw/2017/3/contents/enacted>

Closed consultation, including a summary of responses, undertaken prior to development of tax legislation:

<https://gov.wales/developing-landfill-disposals-tax>

### *Welsh Government tax policy framework, work plans and reports*

The Welsh Government's policy approach to Welsh taxes is described in the *Tax Policy Framework*, published June 2017. Annual work plans for 2017, 2018 and 2019, and reports from October 2017 and October 2018 describe analysis, findings and emerging conclusions: <https://gov.wales/welsh-taxes>

## **UK Government and Parliament**

### *Wales Act 2014*

UK legislation paving the way for devolution of tax and borrowing powers: <http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

### *Command Paper 'Financial empowerment and accountability'*

Some aspects of the arrangements for devolving tax and borrowing powers (such as target dates, early access to borrowing and the approach to creating new devolved taxes) were set out in the UK Government Command Paper Wales Bill, published in March 2014: <https://www.gov.uk/government/publications/wales-bill>

### *Command Paper 'Powers for a purpose: towards a lasting devolution settlement for Wales'*

Issued in February 2015, this committed the UK Government to introduce a floor in the level of relative funding it provides to the Welsh Government; to consider the case and options for devolving further powers to the Assembly over air passenger duty; and to enable the Welsh Government to issue bonds: <https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales>

### *The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework*

Published 19 December 2016, this describes the funding arrangements to support the implementation of the fiscal provisions in the Wales Act 2014 and Wales Act 2017. <https://gov.wales/sites/default/files/publications/2018-11/agreement-on-welsh-government-fiscal-framework.pdf>

### *Wales Act 2017*

The Wales Act 2017, which removed the requirement for a referendum on Welsh Rates of Income Tax and increased the capital borrowing limit for the Welsh Government, received Royal Assent on 31 January 2017: <http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

## **Appendix 4: Abbreviations used in this report**

GOWA 2006	Government of Wales Act 2006
HMRC	Her Majesty's Revenue and Customs
JEC	Joint Exchequer Committee
JEC (O)	Joint Exchequer Committee (Officials)
LDT	Landfill Disposals Tax
LTT	Land Transaction Tax
OBR	Office for Budget Responsibility
PAYE	Pay As You Earn
WRA	Welsh Revenue Authority