



Llywodraeth Cymru
Welsh Government

Welsh Government

Welsh Tax Policy Report Devolved Taxes Update



January 2018

gov.wales

Welsh Tax Policy Report – Devolved taxes update

1. The *Welsh Tax Policy Report*, which was published alongside the draft Budget in October 2017, provided indicative tax rates and bands for the two devolved taxes – land transaction tax and landfill disposals tax. It was accompanied by an annex, which provided an assessment of the impact of adopting the rates and the revenue the rates were forecast to raise.
2. On 11 December 2017, the Cabinet Secretary for Finance announced revised tax rates. This report provides an update to the information contained in the annex to the tax policy report.

Background

3. The Wales Act 2014 provided for the devolution of the first Welsh taxes in almost 800 years. The first taxes to be devolved to Wales will be land transaction tax (LTT) and landfill disposal tax (LDT). The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 and the Landfill Disposals Tax (Wales) Act 2017 provide for LTT and LDT to replace stamp duty land tax and landfill tax, respectively, in Wales from April 2018.
4. The revenue from the two new taxes will be used to directly fund public services in Wales, replacing some of the funding the Welsh Government receives from the UK Government. Indicative tax rates were announced on 3 October, alongside the outline draft Budget to aid scrutiny of the Welsh Government's tax and spending decisions and to provide an early indication for taxpayers. However, in announcing these rates and bands the Cabinet Secretary for Finance was clear that if there was a change in UK Government tax policy, which affected the Welsh Government's net resources, it would be appropriate to look again at the tax rates and bands.
5. Since the draft Budget was published, a new relief for first-time buyers has been introduced under the stamp duty land tax regime. Following an assessment of how taxpayers will be affected by the transition from stamp duty land tax to LTT and the changes to overall resources, the Welsh Government decided to make changes to the residential tax rates from those which were announced at the time of the draft Budget.
6. The UK Government announced its landfill tax rates for 2019-20 in the Autumn Budget in November. The 2019-20 rates for landfill disposals tax have been updated from the assumed rates announced in the draft Budget to maintain consistency with the UK rates.
7. The Welsh Government is committed to a fair and transparent approach to taxation. This paper provides further details about the issues considered in setting the tax rates and further analysis about the impact for taxpayers and revenues.
8. On 30 January, the National Assembly agreed the regulations to bring these tax rates and bands into effect. LTT and LDT will replace stamp duty land tax and landfill tax, respectively, in Wales from 1 April 2018.

Principles for setting tax rates and bands

9. The devolution of tax powers provides a range of opportunities for the Welsh Government to develop a Welsh approach to taxation to meet the needs and preferences of citizens in Wales. The Welsh Government's tax policy framework¹ outlines our strategic approach to Welsh taxes. The framework and its tax principles have guided the development of the tax rates and bands.
10. In developing the new taxes, a primary objective has been to provide stability for taxpayers. The tax rates of the predecessor taxes are therefore relevant considerations in setting the rates of the devolved taxes. In order to provide stability, the approach taken to setting the rates has been that the devolved tax rates should only diverge from those of the predecessor tax rates as much as is necessary to reflect Welsh circumstances and priorities.
11. It is important to recognise devolved taxes will help to fund public services within Wales. Accordingly, decisions about tax rates and bands need to be made with this in mind, considering the revenue impact of any proposal. The revenue from LTT and LDT will form part of the Welsh Government's overall budget from 2018-19. The funding the Welsh Government receives from the UK Government will be reduced to take account of the tax revenue the UK Government will forego as a result of devolving stamp duty land tax and landfill tax to Wales. Therefore, the overall effect of LTT and LDT on the Welsh Government's budget is the difference between the tax revenue and the block grant adjustment.
12. The block grant adjustment method was agreed between the UK and Welsh governments in December 2016 as part of the fiscal framework. For the first year of devolution, this will be estimated by using a forecast of stamp duty land tax and landfill tax revenues in Wales for 2017-18, increased by forecast growth in the two tax revenues in the rest of the UK between 2017-18 and 2018-19. The forecasts used will be those published by the Office for Budget Responsibility (OBR) at the time of the UK Government's Autumn Budget 2017.
13. Other than revenue to fund public services, the relevant considerations in setting tax rates are influenced by the context in which the tax operates. The following sections provide further information about each tax in turn, outlining the issues considered in setting tax rates appropriate for Wales and the impact of adopting the rates specified for taxpayers and revenues.
14. The Welsh Government laid regulations to set the first tax rates and bands for LTT and LDT on 8 January. These regulations were scrutinised and approved by the Assembly on 30 January and will have effect from 1 April 2018.

¹ <http://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

Land transaction tax

1. Land transaction tax (LTT) is a tax on land and property transactions, which is payable when a person or company:
 - Buys a freehold property
 - Buys a new or existing non-residential leasehold or
 - Transfers land or property in exchange for payment (for example, buying a share in a house).
2. LTT will replace stamp duty land tax when it is devolved to Wales on 1 April 2018. In common with stamp duty land tax, there are separate rates for residential and non-residential transactions. For residential transactions there is a main rate and a higher rate for purchases of a residential property where the buyer already owns one or more residential properties. For non-residential transactions, there is a main rate for freehold transactions and lease premiums and a separate rate for lease rents.
3. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 requires LTT to be a progressive tax. For each set of rates, there must be a zero rate band and the tax rate for each band above the zero rate band must be higher than the band below it. This means the tax rates must be higher for high-priced properties than for low-priced properties. In setting the rates, there is an opportunity to extend the progressivity of LTT compared to stamp duty land tax.
4. In September 2016, the Welsh Government published the Treasury paper *Land Transaction Tax: setting rates and bands*, which outlined key issues and set the framework for our approach to setting rates and bands appropriate for Wales.²
5. The approach to setting the rates and bands for LTT has been guided by three overarching concerns relative to stamp duty land tax. These are:
 - LTT rates should reflect Welsh circumstances and priorities
 - Overall revenues should be maintained to continue to fund public services
 - LTT should be more progressive, where possible.
6. The approach to setting tax rates was explored with stakeholders as part of the 2015 consultation, *Tax Devolution in Wales – Land Transaction Tax* and in further engagement events during the development of the tax. Stakeholder views were also captured during the passage of the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017. There was general consensus that setting the rates is a matter for the Welsh Government but that consideration should be given to the nature of the property market in Wales and the potential impact of any changes to tax rates.

Residential rates and higher rates on additional residential properties

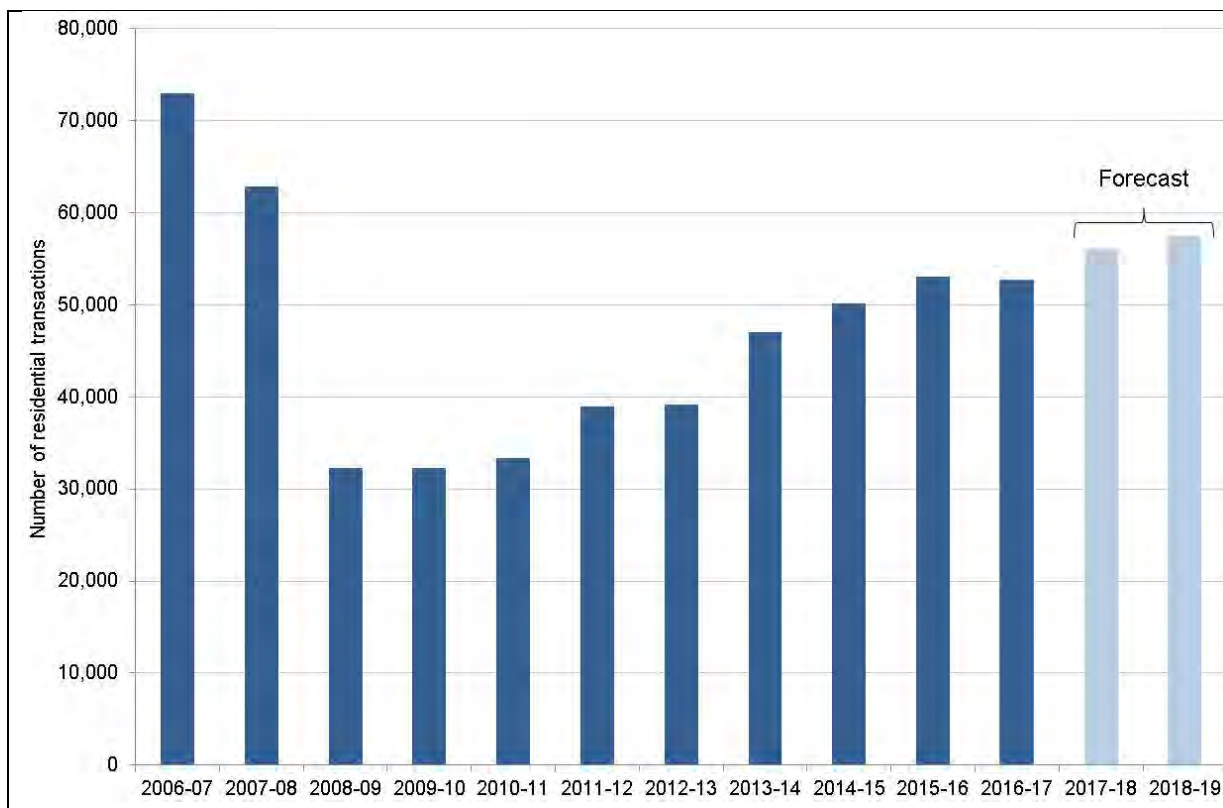
7. As LTT is a tax on land and property transactions, the important aspects of the tax base are the number of transactions and their prices. These are important

² *Land Transaction Tax: setting rates and bands* is available at <http://gov.wales/docs/caecd/publications/160915-ltt-bands-en.pdf>

considerations in setting the appropriate rates and in estimating the resulting revenue from these rates.

8. Figure one shows the latest data and forecasts for the number of residential transactions in Wales. In 2016-17, there were 53,000 transactions. At the time of tax devolution in 2018-19, the forecast number of transactions is slightly higher at 57,000. This represents a marked recovery since the financial crisis of 2008-09 but is still substantially lower than 2006-07³ when there were more than 70,000 residential transactions in Wales. During this period there have also been some effects from changes to tax rates within stamp duty land tax; the adoption of LTT tax rates is also forecast to have some effect on the number of transactions. This is discussed in more detail below.

Figure one: Residential transactions in Wales 2006-07 to 2018-19



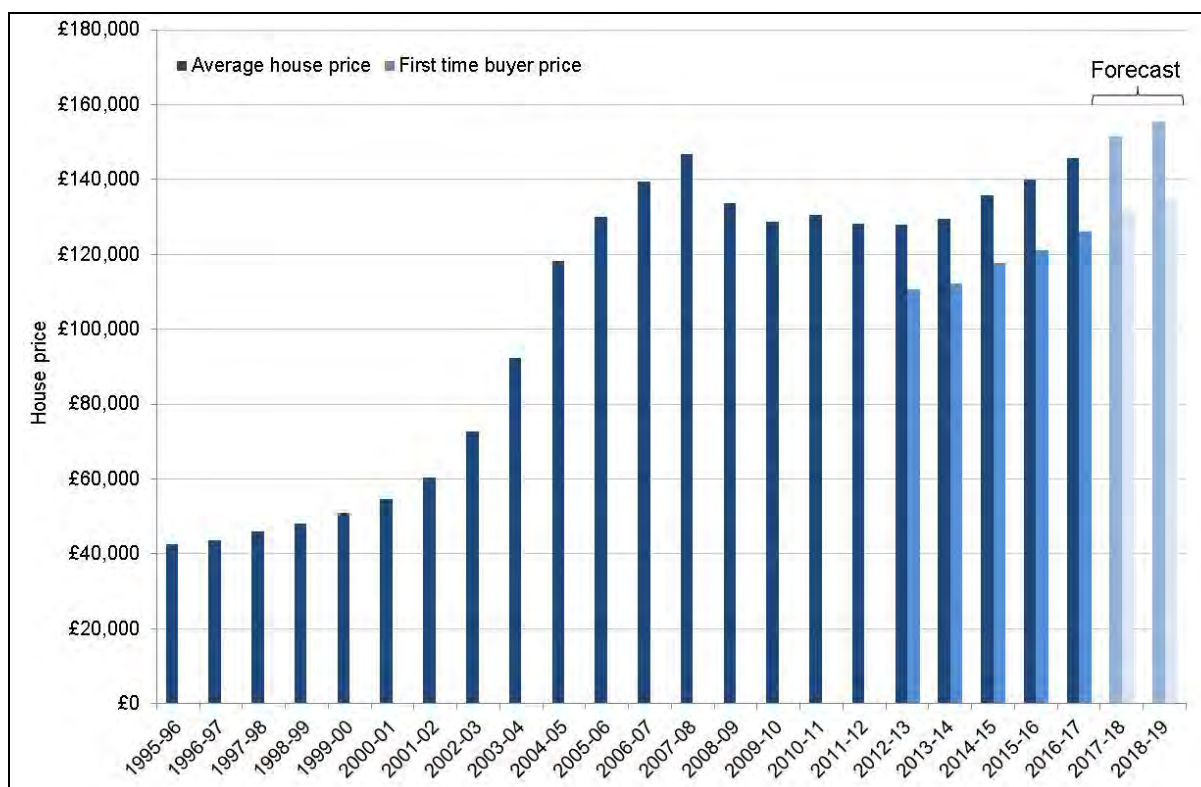
Source: HMRC Annual Stamp Tax Statistics, 2007 to 2017.

Forecast of transactions 2017-18 to 2018-19 based on OBR forecasts from the UK Budget 2017

9. The other important determinant for LTT rates is residential property prices. Average house prices have risen considerably from around £42,000 in 1995-96 to £146,000 in 2016-17, according to data from the ONS House Price Index for Wales. The average price in 2016-17 was just below the peak of 2007-08. The recovery in the average property price (in nominal terms) contrasts with transactions, which are still well below their pre-recession levels. The OBR is forecasting that average house prices will continue to grow, increasing to around £155,000 by 2018-19 – beyond the peak nominal price in 2007-08.

³ The first year for which data is available from HMRC.

Figure two: Average house price in Wales 1995-6 to 2018-19

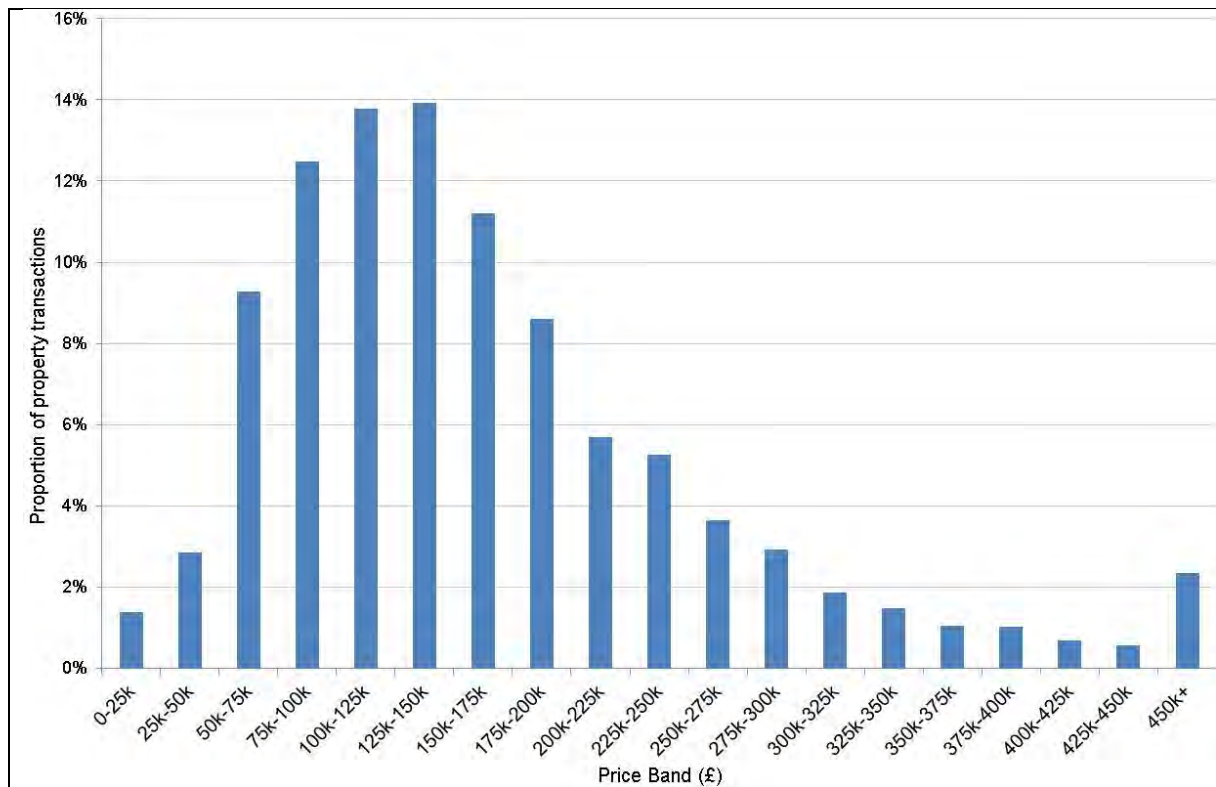


Source: ONS House price index, data available at <http://landregistry.data.gov.uk/app/ukhpi>
 Forecast of house prices 2017-18 to 2018-19 based on the OBR's price determinants used to forecast LTT revenues in Wales.

10. As house prices continue to rise, there is significant interest in affordability for first-time buyers. The latest annual data from the ONS's house price index shows the average first-time buyer price was £126,000 in 2016-17 in Wales – up from around £110,000 in 2012-13 (earliest data available). This is estimated to rise to £135,000 in 2018-19.
11. Figures one and two show transactions and prices have both moved sharply over recent years; indicating the potential for revenue volatility and the associated challenge for accurate forecasting.
12. In addition to average house price, the spread of transactions across the price distribution is also important. This is especially so for progressive tax systems – such as stamp duty land tax and LTT – where tax rates are higher for high-priced properties than for low-priced properties: the proportion of high-priced transactions has a greater impact on revenues.
13. Figure three shows the distribution of prices for residential transactions in Wales in 2016-17 (latest data available). This shows around 75% of transactions were below £200,000 – most transactions were in the lower end of the price distribution. However, there was a long tail of high-priced transactions, with fewer than 10% of transactions above £300,000 and just over 2% priced at £450,000 or more.
14. With price growth forecast over the next few years, these percentages will change as more properties move into higher price bands. However, the overall profile of

residential property transactions in Wales is unlikely to alter much over the next few years.

Figure three: Residential property price distribution in Wales, 2016-17



Source: Calculations based on HMRC administrative datasets

- The tax rates for residential LTT have been set to take into account the features of the Welsh residential property market, as outlined above. They are based on the principle that tax should be levied more progressively with respect to house prices than the prevailing stamp duty land tax rates. The tax rates for the main rates of residential transactions are shown in table one, below. These have changed since the Welsh Government’s outline draft Budget was published in October 2017.

Table one: LTT main residential tax rates

Price threshold	LTT rate
£0-£180k	0%
£180k-£250k	3.5%
£250k-£400k	5%
£400k-£750k	7.5%
£750k-£1.5m	10%
£1.5m-plus	12%

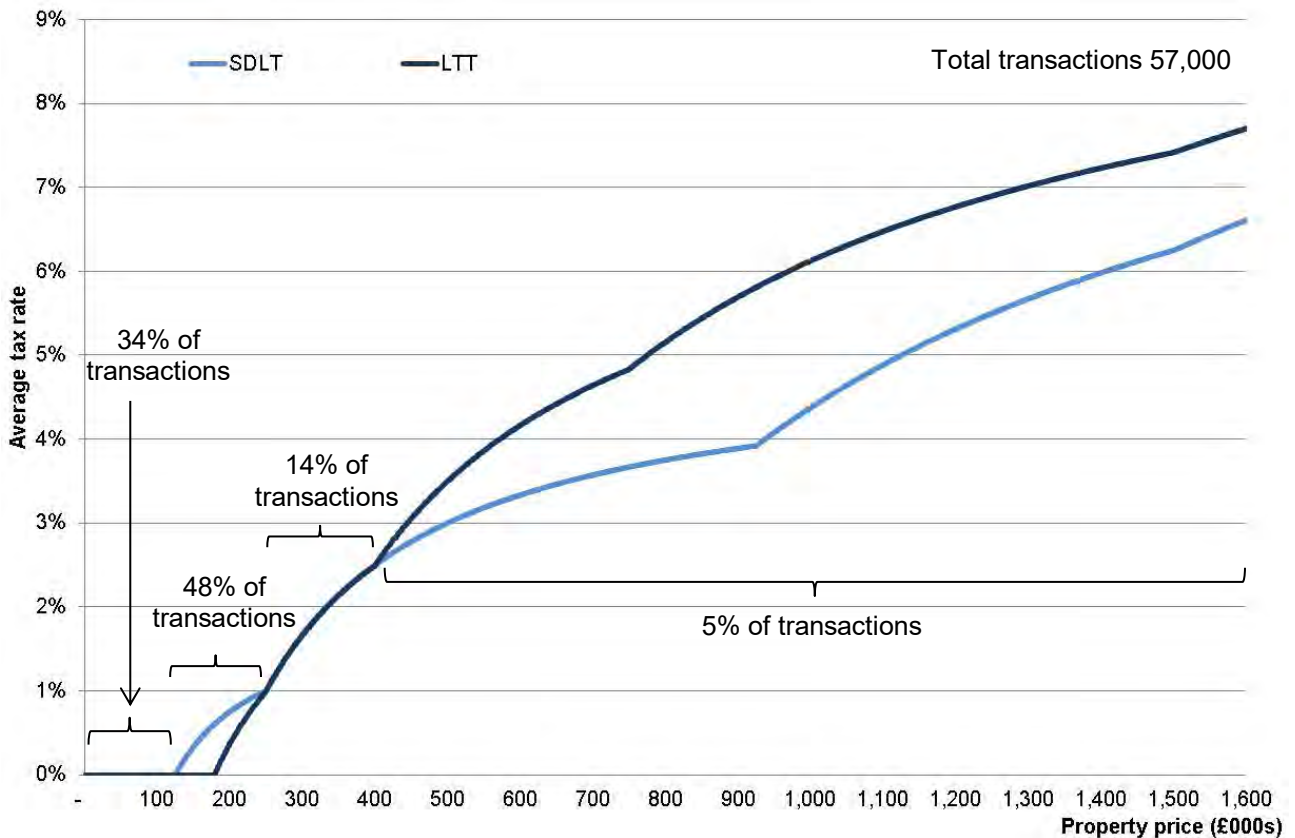
16. As LTT is replacing stamp duty land tax, the impact of adopting these rates is most clearly demonstrated by comparing them with the current stamp duty land tax rates, which are shown for reference in table two below.

Table two: Current stamp duty land tax main residential tax rates

Price threshold	SDLT rate
£0-£125k	0%
£125k-£250k	2%
£250k-£925k	5%
£925k-£1.5m	10%
£1.5m-plus	12%

17. To increase the progressivity of the residential rates, the property price at which the tax becomes payable is higher for LTT than for stamp duty land tax. Adjusting the rates and bands for higher-priced transactions maintains revenue. To help support a smooth transition to the new tax, the difference between LTT rates and the current stamp duty land tax rates has been kept relatively small.
18. As both stamp duty land tax and LTT use marginal tax rates – the relevant tax rate only applies to the value of the property which is within the band. It is not straightforward to compare tax systems by looking at the marginal rates.
19. A clearer way to compare the two systems is by looking at the average tax rate at different prices. The average tax rate is the total amount of tax divided by the property price. This is shown in figure four. (This does not show the lower tax rates for first-time buyers under stamp duty land tax, these are illustrated in figure five).

Figure four – Average main residential tax rates for LTT and SDLT



Source: Welsh Government estimates based on HMRC administrative datasets

NB numbers may not sum due to rounding

20. Figure four shows both stamp duty land tax and LTT have a zero average tax rate below £125,000 as the zero rate thresholds for both taxes apply here. In Wales, it is forecast that around 19,000 or a third of transactions will be in this price range in 2018-19 when LTT rates first apply.
21. For purchase prices between £125,000 and £180,000, stamp duty land tax would be liable up to a maximum of £1,100 for non first-time buyers. With LTT, no tax will be liable in this price range regardless of whether the purchaser is a first-time buyer or not. It is estimated there will be around 17,000 or 30% of transactions in this price range. This price band includes the latest average house price in Wales – at £152,855 (ONS January 2018). Therefore no LTT will be liable at the current average house price in Wales, compared to £557 of tax under stamp duty land tax.
22. Overall in 2018-19 around 36,000 – 63% – of residential transactions will not be liable for the main rates of LTT as they will be below £180,000.
23. For residential transactions between £180,000 and £401,000, the tax liable under LTT will be lower than under stamp duty land tax (unless the transaction is undertaken by a first-time buyer). The tax rate from £180,000 up to £250,000 will be higher under LTT than stamp duty land tax (3.5% and 2% respectively) but this is more than offset by the higher starting threshold. Around 18,000 or a third of transactions are estimated to be between £180,000 and £401,000.
24. There will be a tax reduction for non first-time buyers purchasing homes priced at between £180,000 and £250,000 of up to £1,100. It is estimated there will be around 10,000 or 18% of transactions in this price band.

25. For all transactions between £250,000 and £400,000 the tax liability for non first-time buyers will be £50 under LTT than stamp duty land tax. It is estimated there will be around 8,000 or 14% of transactions in this price band.
26. For transactions from £400,000, the tax liability will be higher under LTT than stamp duty land tax. In 2018-19 this is forecast to affect less than 3,000 or the top 5% of transactions. For a transaction at £500,001, the tax liability under LTT will be £17,450 compared to £15,000 under stamp duty land tax. Transactions from £500,000 upwards are expected to account for around 1,000 or 2% of all transactions in 2018-19. From £925,000 upwards, the maximum difference between LTT and stamp duty land tax is £17,450. There are expected to be less than 100 transactions in this price band.

Table three: Summary of main residential rates

Property price	Change in tax from SDLT to LTT (excluding first-time buyers)
£125,000 or less	No change
£125,001-£180,000	Lower tax under LTT (up to £1,100 difference)
£180,001-£250,000	Lower tax under LTT (up to £1,100 difference)
£250,001-£401,000	Lower tax under LTT (up to £50 difference)
£401,001-£750,000	Higher tax under LTT (up to £8,700 difference)
£750,000+	Higher tax under LTT (up to £17,450 difference)

First-time buyers

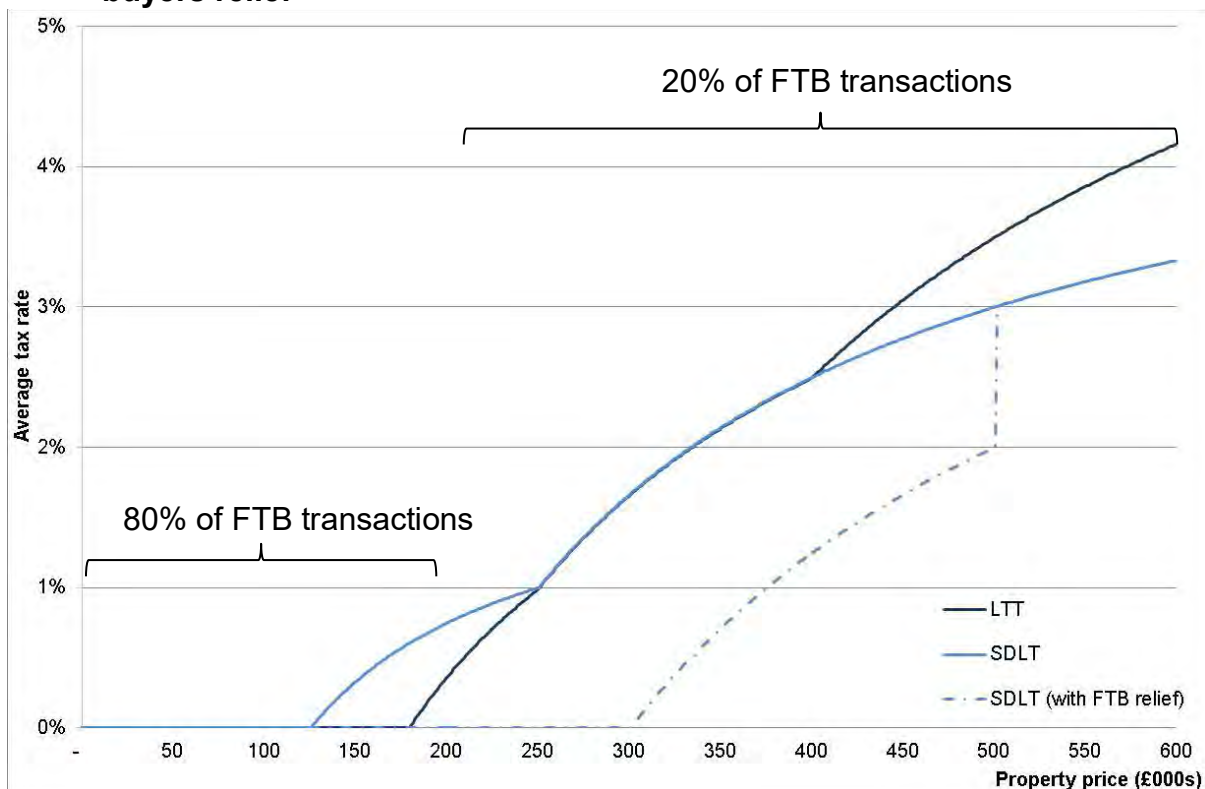
27. From November 2017, there has been a relief for first-time residential buyers under the stamp duty land tax regime. This relief removes tax for transactions up to £300,000 and reduces tax by £5,000 for higher-priced transactions up to £500,000. This policy was designed by the UK Government, taking into account the housing market across England, Wales and Northern Ireland. As the thresholds have been set at relatively high prices, this suggests the property markets in London and the South East of England have substantially influenced the policy – it does not reflect the housing market conditions in Wales. For example, the average first-time buyer prices in London and the South East are £422,000 and £261,000 respectively, compared to £132,000 in Wales⁴.
28. The Welsh Government will not be introducing a first-time buyers' relief under LTT. The new LTT rates have been set to increase the progressivity of the tax compared to stamp duty land tax. To introduce this relief would mean some buyers would pay no tax on purchases up to £300,000 but other buyers purchasing a property costing less than £300,000 would pay tax. This would run counter to the aim of increasing

⁴ ONS House Price Index, January 2018 <https://www.gov.uk/government/collections/uk-house-price-index-reports#november-2017>

progressivity. Furthermore, to introduce such a relief, the Welsh Government would require robust evidence that it would be the most appropriate policy tool; achieve the desired objective; be cost effective; not increase the potential for avoidance and not create disproportionate administrative complexity for taxpayers or the Welsh Revenue Authority. A first-time buyers' relief would increase both the complexity and the risk of avoidance in the tax system. The evidence on the effectiveness of a first-time buyer relief is also unclear.

29. The stamp duty land tax rates – with and without the first-time buyer relief – and the LTT rates are shown below.

Figure five – Average main residential rates for LTT and SDLT with first-time buyers relief



Source: Welsh Government estimates based on HMRC administrative datasets

30. It is estimated there are around 17,000 first-time buyer transactions in Wales – this represents less than a third of all residential transactions. The latest average first-time buyer price in Wales is £132,000 (ONS December 2017). There is limited further information available about the price distribution of first-time buyers in Wales, however it is estimated around 13,000 or 80% buy homes costing less than £180,000.
31. As the LTT threshold will be £180,000, its introduction will have no effect on first-time buyers up to this price – they will continue to pay no tax. From £180,000, first-time buyers in Wales will pay more tax compared to stamp duty land tax. This will affect around 4,000 transactions or the 20% highest-priced first-time buyer purchases in Wales.
32. Overall, including first-time buyers, around 90% of homebuyers in Wales will either pay the same or less tax compared to stamp duty land tax

Behavioural effects

33. Changes in tax rates are expected to affect both prices and transactions. The impact will be counter to the change in the tax liability between stamp duty land tax and LTT. For example, if LTT is lower, then both prices and transactions are expected to be higher than they otherwise would have been and vice versa.
34. The effect on prices and transactions of the change in tax rates from stamp duty land tax to LTT is calculated using OBR estimates. These are based on the behavioural impact of the reforms and changes to the stamp duty land tax rates in December 2015⁵. The effect of the tax change is calculated at intervals across the whole residential price distribution as it varies with prices. These effects are difficult to quantify and are generally graded with a 'high' uncertainty rating by the OBR⁶.
35. Overall the LTT rates will slightly increase the number of residential transactions relative to stamp duty land tax.
36. For houses priced between £125,000 and around £400,000 – where LTT is lower than stamp duty land tax for non first-time buyers – the introduction of the LTT rates is expected to lead to an increase in house prices and transactions. These effects will add a small amount of additional revenue.
37. The amount of tax first-time buyers will pay will increase following the introduction of LTT rates for transactions above £180,000, as the first time buyer relief in stamp duty land tax will no longer apply in Wales. Ordinarily this would be associated with a decrease in transactions in this price band. However, the OBR's assessment of the stamp duty land tax first-time buyers' relief is that it will have a very limited effect on the number of first-time buyer transactions⁷. Following this assessment of the evidence, it is assumed that the tax increase for first-time buyers in Wales from £180,000 is also unlikely to have much effect on the number of transactions.
38. From around £400,000 upwards, LTT is higher than stamp duty land tax. As a result the effect is to slightly reduce the number of transactions and prices. The reduction in transactions is estimated to be 0.1% of the total number of transactions in 2018-19. The combined transaction and price effect will have a downward impact on revenues.
39. Some forestalling is anticipated as a result of announcing the rates and bands ahead of April 2018. This form of behaviour should only affect 2018-19, as transactions are expected to be brought forward into 2017-18 in order for the stamp duty land tax rates and the familiar HMRC administration system to apply. It is anticipated the UK Government will reimburse the Welsh Government for any additional stamp duty land tax revenues resulting from forestalling.

⁵ See OBR (2017) <http://budgetresponsibility.org.uk/download/residential-stamp-duty-land-tax-elasticities-forecast-evaluation-report-october-2017/>

⁶ See OBR (December 2017) available at: <http://budgetresponsibility.org.uk/download/policy-measures-database/>

⁷ See OBR (November 2017) available at: <http://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-november-2017/>

40. Overall these behavioural effects are estimated to reduce revenues by £4m. The net revenue from the residential main rates is forecast to be £109m in 2018-19 as shown in table four.

Table four: LTT residential main rates revenue estimate for 2018-19

Element	£m
Before behavioural effects	113
Behavioural effects	-4
Net	109

Higher rates residential property transactions

41. LTT for higher rates residential property transactions (for example, buy-to-let and second home properties) will be 3% on top of the main residential rates – the same as for stamp duty land tax.
42. The maintenance of the same higher rates policy in LTT as for stamp duty land tax will mean those transactions which attract the higher rates will continue to pay the same additional tax over those that do not. The introduction of LTT should not have any additional impact on the buy-to-let and second home markets.
43. The higher rates for stamp duty land tax were introduced in April 2016. There is currently limited evidence about the effect of the higher rates in Wales. These rates most commonly apply to those purchasing buy-to-let properties and second homes. It is estimated there will be around 14,000 such transactions in 2018-19 (around a quarter of the total residential market in Wales).
44. The total tax paid on additional residential properties will be different to that paid under stamp duty land tax. The tax on additional residential properties through the higher rates will be 3% on top of the main rates of LTT, which are different to the stamp duty land tax rates as described above. In summary:
- For additional residential property transactions up to £125,000, LTT and stamp duty land tax will be the same;
 - For additional residential property transactions between £125,000 and around £400,000, LTT will be less than stamp duty land tax;
 - For transactions from around £400,000, LTT will be higher than stamp duty land tax.
45. Overall, the differences between LTT and stamp duty land tax main rates are unlikely to create any significant changes in behaviour for higher rates residential property transactions.
46. In 2018-19, the higher rates are estimated to generate revenues of £67m, taking account of some small behavioural effects but before considering refunds.
47. The additional tax paid under the higher rates can be refunded if the purchaser sells their main residence and the property which the higher rates relate to becomes their main residence within 36 months of purchasing the property – the same as with stamp duty land tax. It is estimated 20% of each year's revenues from the higher rates will be refunded over the following 36 months. Therefore, of the revenue

collected in 2018-19, it is estimated £14m will be refunded over the following three years. This is accounted for in 2018-19 as it relates to the transactions which occurred in that year. The overall net revenue from the higher rates is therefore estimated to be £54m in 2018-19 (table five).

Table five: LTT residential higher rates revenue estimate for 2018-19

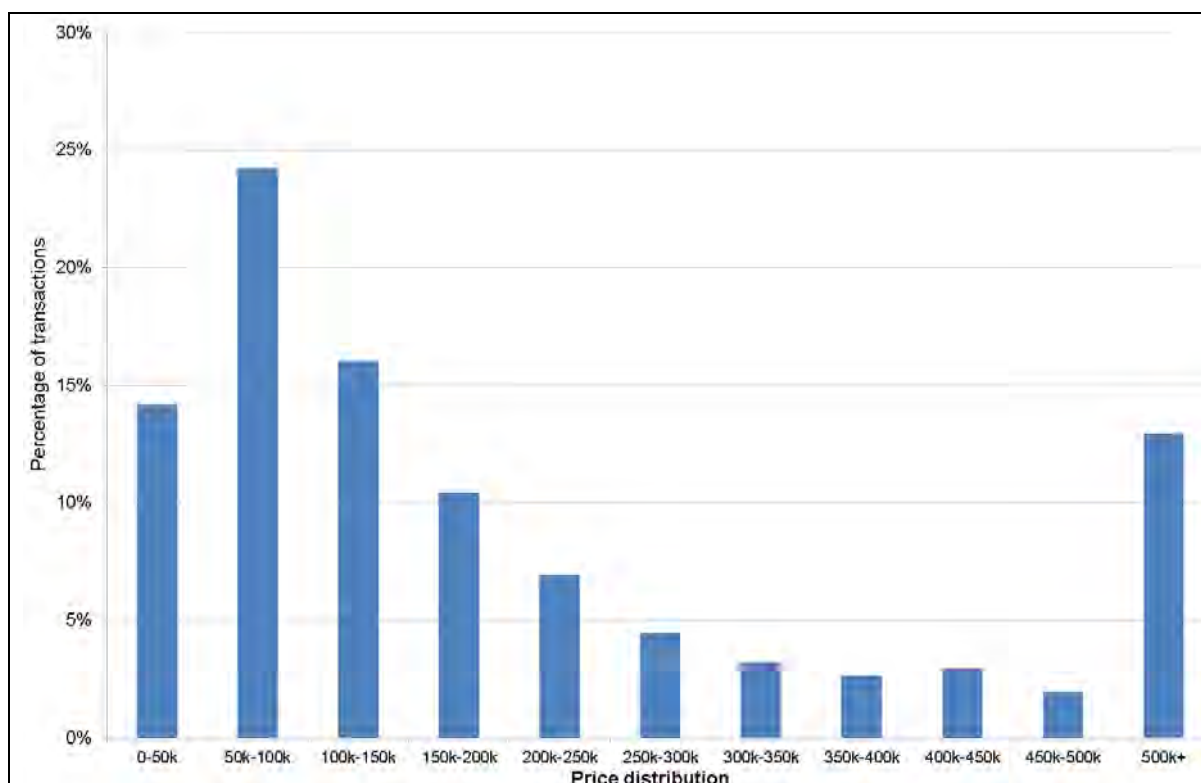
Element	£m
Revenue before refunds	67
Refunded revenue	-14
Net revenue	54

(May not sum due to rounding)

Non-residential rates

48. There is a high degree of uncertainty in the economic outlook for commercial activity, which is likely to reduce business investment, including the transfer of property and land. This is a UK-wide issue but needs to be borne in mind when considering tax rates in Wales, especially those which apply to the acquisition and leasing of property and land.
49. As with residential rates, the number of transactions and property prices are important considerations for setting non-residential LTT rates. There are two further considerations which are of particular importance – the price distribution of non-residential transactions and the level of integration the Welsh economy has with the rest of the UK.
50. The price distribution of non-residential transactions has two distinct features. There is a large share of relatively low-priced transactions, most of which are below the stamp duty land tax threshold of £150,000. This in part reflects the composition of transactions, many of which will be new leasehold properties with some payment or premium paid up-front, in addition to the regular lease rent payment. In most instances, the premium is likely to be relatively low in value. This large share of relatively low-value transactions will also reflect the fact that a large proportion of businesses are small and medium-sized and tend to operate from relatively small properties.
51. The second distinct feature is the large share of transactions, which are priced at £500,000 or more. Of those priced £150,000 or more – the current stamp duty land tax non-residential threshold – around 30% of taxable transactions in Wales in 2016-17 were priced at £500,000 or more. Therefore, very high-priced property transactions represent a significant share of taxable transactions and will also represent a large share of tax revenue. This is different to residential transactions in Wales, where the vast majority of transactions are at the lower end of the price distribution.

Figure six: Price distribution of non-residential transactions in Wales, 2016-17



Source: Welsh Government estimates based on HMRC administrative datasets

NB: Distribution is based on non-residential transactions which are not relieved of tax.

Transactions exclude new leasehold transactions where only tax is paid on leasehold rents.

52. The Welsh economy is highly integrated with the rest of the UK's economy, which means businesses investing in the UK can be more mobile and geographically indifferent to which UK nation or English region they are located in. Therefore, significant changes to taxes in one area could act as a disincentive to investment, with businesses choosing to locate in a similar or neighbouring area, which levies a lower tax. This implies there are limits to which LTT and stamp duty land tax rates can diverge for non-residential transactions without having a significant impact on the market, revenues and the wider economy.
53. The tax rates for non-residential LTT take into account the features of the Welsh economy and the principle the tax should be levied progressively with respect to property values and considering the prevailing stamp duty land tax rates. The main rates for non-residential LTT are shown below. These are unchanged since the Welsh Government's outline draft Budget was published in October 2017.

Table six: LTT non-residential property main rates

Price threshold	LTT rate
£0-£150k	0%
£150k-£250k	1%
£250k-£1m	5%
£1m-plus	6%

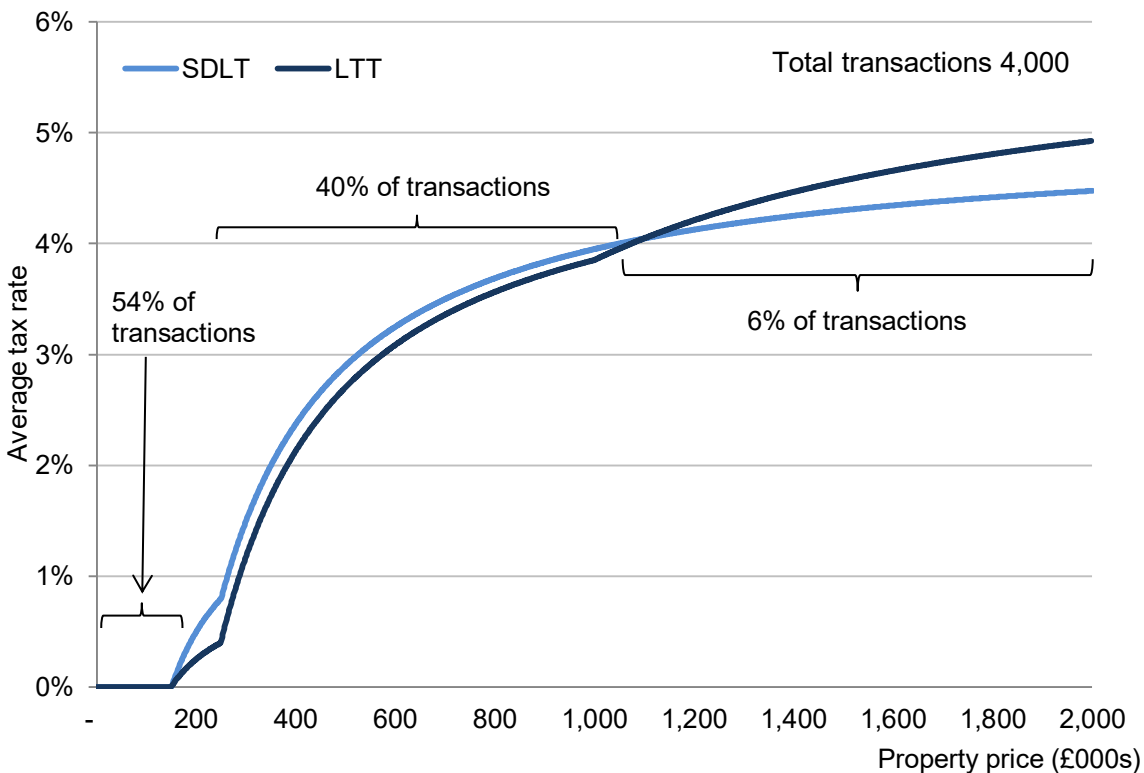
54. The main rates for non-residential stamp duty land tax, for comparison, are shown in the table below.

Table seven: Stamp duty land tax non-residential property main rates

Price threshold	SDLT rate
£0-£150k	0%
£150k-£250k	2%
£250k-plus	5%

55. Adopting a lower tax rate than stamp duty land tax for the first band where tax is payable, increases the progressivity of the LTT non-residential rates. To maintain revenue, a new top band has been added. Reflecting the integration of the Welsh economy with the rest of the UK economy and to support a smooth transition to the new tax, the degree of difference between non-residential LTT rates and the stamp duty land tax rates is relatively small. The tax changes also achieve consistency with the starting threshold and starting tax rate for non-residential lease rent transactions.
56. To assist in comparing the LTT tax rates with the relevant stamp duty land tax rates, the figure below shows the average tax rate paid by property price.

Figure seven: Average tax rates of non-residential stamp duty land tax and LTT



Source: Welsh Government estimates based on HMRC administrative datasets
 NB: Distribution is based on non-residential transactions which are not relieved of tax.

57. Under stamp duty land tax and LTT, no tax is paid on non-residential freehold, assignment transfers or leasehold premium transactions below £150,000. It is estimated just over 50% of taxable non-residential transactions will be below the £150,000 threshold in 2018-19.
58. As LTT starts with a lower tax rate, all transactions from £150,000 to £1.1m will pay less tax – by up to £1,000 – compared to stamp duty land tax. Therefore around 40% of taxable transactions will pay less under LTT than stamp duty land tax. For example, a £250,000 transaction would have a tax liability of £2,000 under stamp duty land tax but will only be taxed £1,000 under LTT and a £500,000 transaction will see its tax liability fall from £14,500 under stamp duty land tax to £13,500 under LTT.
59. From £1.1m, LTT will be higher than stamp duty land tax. It is estimated less than 10% of non-residential transactions in 2018-19 in Wales will be paying more tax compared to stamp duty land tax. For example, a £2m transaction would have a tax liability of £89,450 under stamp duty land tax and will pay £98,440 under LTT and a £5m transaction would see its tax liability rise from £239,500 under stamp duty land tax to £278,500 under LTT.
60. As with changes to the residential tax rates, increases in tax rates from stamp duty land tax to LTT will reduce both prices and the number of non-residential transactions or vice versa where tax rates decrease.
61. The size of these effects is estimated using the OBR's behavioural effects⁸ across the distribution. As with the effects for residential transactions, these are difficult to quantify and are generally graded with a 'high' uncertainty rating by the OBR⁹.
62. For transactions where there is a tax decrease from stamp duty land tax to LTT (between £150,000 and £1.1m) both the price and number of these transactions will increase. This will raise a small amount of additional revenue.
63. For transactions where there is an increase in tax, the effects work in the opposite direction, reducing prices and the frequency of transactions. The combined transaction and price effect will have a downward impact on revenues.
64. There is expected to be some forestalling as a result of announcing the rates and bands ahead of April 2018. This form of behavioural change is expected to be limited to 2018-19 as transactions are brought forward to 2017-18 to apply the stamp duty land tax rates and use the HMRC administration system. This is expected to be neutral in budgetary terms as it is anticipated the UK Government will reimburse the Welsh Government with the additional stamp duty land tax revenue it receives in 2017-18 as a result of forestalling.
65. Overall, the behavioural effects are estimated to reduce tax revenue by £4m. The net revenue from the non-residential main rates is forecast to be £75m in 2018-19 as shown in table eight.

⁸ See OBR (2017) http://budgetresponsibility.org.uk/docs/dlm_uploads/SDLT-elasticities.pdf

⁹ See OBR (December 2017) available at: <http://budgetresponsibility.org.uk/download/policy-measures-database/>

Table eight: LTT non-residential revenue estimate for 2018-19

Element	£m
Before behavioural effects	79
Behavioural effects	-4
Net	75

Non-residential lease rent

66. A separate rate applies to lease rents. The value of lease rents is assessed by adding the value over the duration of the lease, discounting future years to derive a net present value on which the tax is charged.
67. The lease rent is the smallest element of the LTT tax, with around 2,000 transactions (excluding relieved transactions) estimated for 2018-19. This element of stamp duty land tax has generated revenue of between £5m and £10m in Wales over recent years.
68. The LTT rates for non-residential lease rent net present value (NPV) are shown below. These are unchanged since the Welsh Government's outline draft Budget was published in October 2017.

Table nine: LTT non-residential property lease rent NPV rates

NPV threshold	LTT rate
£0-£150k	0%
£150k-£2m	1%
£2m-plus	2%

69. The stamp duty land tax rates for comparison are shown below.

Table 10: SDLT non-residential property lease rent NPV rates

NPV threshold	SDLT rate
£0-£150k	0%
£150k-£5m	1%
£5m-plus	2%

70. To reflect the property market in Wales, the top LTT rate will apply to a lower NPV than the top stamp duty land tax rate. As the non-residential lease rate applies to a fairly small number of transactions overall and lease rates are generally lower in Wales than in parts of England, such as London, very few transactions would pay the top rate of tax in Wales if it remained at the same value as stamp duty land tax.
71. Like stamp duty land tax, no tax will be paid on transactions below £150,000. It is estimated in 2018-19 around half of transactions will be below £150,000 and not liable for tax.

72. Between £150,000 and £2m, the tax liability is the same for LTT and stamp duty land tax. From £2m, the tax due will be higher under LTT than under stamp duty land tax. It is estimated there will be fewer than 100 transactions in Wales with an NPV of £2m or more in 2018-19.
73. The effects on the market are estimated using the OBR's behavioural effects¹⁰ at intervals across the price distribution. The combined effect on transactions and prices is estimated to be very small. As the tax change is very modest, this is expected to have a very minor effect on revenues.
74. The revenue forecast from the LTT non-residential lease rents is estimated to be £11m before consideration of any behavioural effects. The behavioural effects for this element of the tax – in terms of prices, transactions and forestalling – are all expected to be very small due to the very few transactions, which are liable to a different amount of tax under LTT compared to stamp duty land tax. The overall revenue in 2018-19 is therefore unchanged, at an estimated £11m.

Table 11: LTT non-residential revenue estimate for 2018-19

Element	£m
Before behavioural effects	11
Behavioural effect on transactions and prices	<-1
Net	11

(May not sum due to rounding)

Profile of revenue

75. Forecasts of LTT revenues for the next two years are shown in the table below. These are estimated using the latest OBR (November 2017) determinants for residential and non-residential prices and transactions over the forecast period, net of forestalling and other behavioural effects and on an accrual basis. These forecasts have been assured by Bangor Business School, the Welsh Government's independent assurer of the tax revenue forecasts.

Table 12: Land transaction tax revenue forecast

	2018-19	2019-20
Residential main rates (£m)	109	123
Residential higher rates (£m)	54	57
Non-residential (£m)	86	89
Total (£m)	250	269

NB: Non-residential includes revenue from lease rent rates.

76. For more details about the forecasts please see the draft Budget report and final Budget update report by Bangor Business School.

¹⁰ See OBR (2017) http://budgetresponsibility.org.uk/docs/dlm_uploads/SDLT-elasticities.pdf

Landfill Disposals Tax

1. Landfill disposals tax (LDT) is a tax on the disposal of waste to landfill, charged by weight. It is payable by landfill site operators, who pass on these costs to waste operators through their gate fees.
2. It will replace landfill tax in Wales in April 2018, enabling public services in Wales to continue to receive the benefit of the revenues raised by the tax. In common with landfill tax, it aims to ensure the landfill disposal method is properly priced to reflect its environmental cost and to promote a more sustainable approach to waste management. Its devolution offers a further lever with which to support Welsh Government priorities and policies, including the ambitious goal of zero waste¹¹ and our efforts to reduce carbon emissions and tackle climate change.
3. Remaining consistent with the rest of the UK, there will be a lower and a standard rate of tax, which will apply to disposals at authorised landfill sites. The lower rate will apply to qualifying materials as defined in the Landfill Disposals Tax (Wales) Act 2017 and the standard rate will apply to all other materials. In addition, the Landfill Disposals Tax (Wales) Act 2017 introduced a third rate of tax for waste disposed of at places other than authorised landfill sites – the unauthorised disposals tax rate.
4. The approach to setting tax rates has been guided by the principles in the tax policy framework¹² and the objective to reduce landfill disposals in Wales, as required by section 91 of the Landfill Disposals Tax (Wales) Act 2017. Delivering stability and certainty for taxpayers and the wider waste industry, noting the desire of business to be able to plan ahead and make investments has also been a key factor in setting the rates. The principle that there should be no less revenue available to fund public services has also been applied.
5. The approach to setting tax rates was explored with stakeholders as part of the 2015 consultation *Developing a landfill disposals tax* and in further engagement events involving landfill site operators, Natural Resources Wales, the Welsh Local Government Association and the LDT Technical Experts Group, which has representation from tax professionals and the wider waste industry. Stakeholder views were also captured during the passage of the Landfill Disposals Tax (Wales) Act 2017.

Lower and standard tax rates

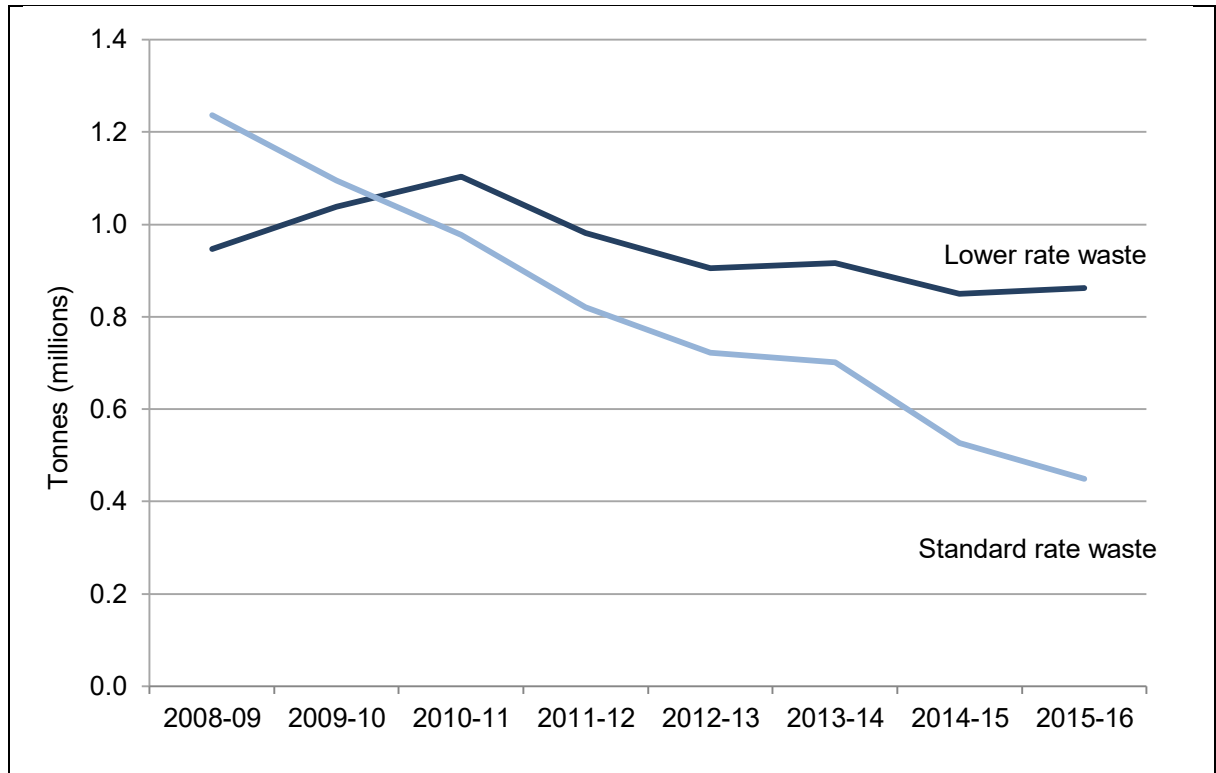
6. Since the introduction of landfill tax in 1996, the standard tax rate has risen from £7 per tonne to £86.10 per tonne in 2017-18. The lower tax rate has remained broadly constant – it was £2 per tonne when the tax was introduced and it is currently £2.70 per tonne. In 2014, the UK Government confirmed the standard and lower tax rates would be maintained in real terms (by the rate of inflation as measured by the Retail Price Index). This approach is expected to continue until at least 2019-20. The Scottish Government has kept its landfill tax rates consistent with the UK Government's landfill tax since its introduction in 2015.

¹¹ <http://gov.wales/docs/desh/publications/100621wastetowardszeroen.pdf>

¹² Available at <http://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

7. The amount of waste disposed of at landfill sites in Wales has fallen significantly over the last decade as re-use, recycling, composting and incineration has increased. As figure eight shows; the decrease has been particularly significant for waste subject to the standard rate of tax, which provides the vast majority of landfill tax revenues. Qualifying material, which is subject to the lower tax rate, has fallen much more slowly¹³.

Figure eight: Estimates of waste landfilled in Wales, by tax rate

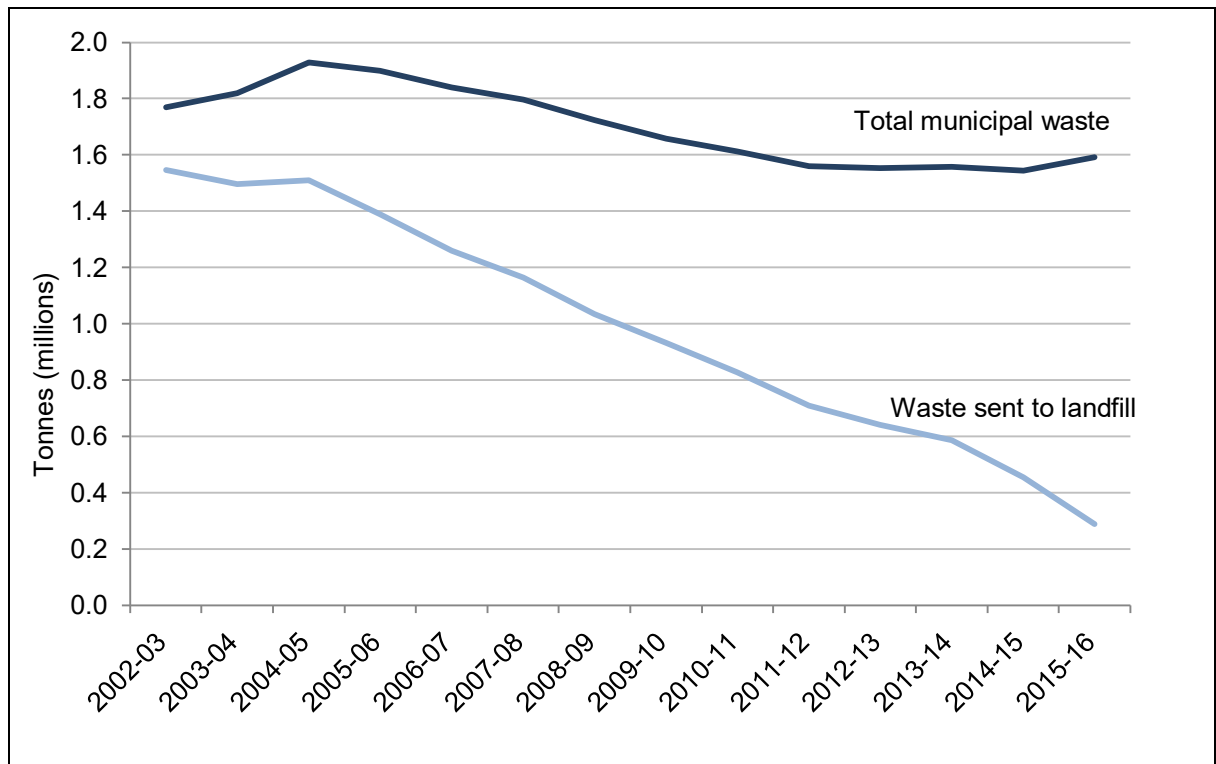


Source: Welsh Government estimates using data from Natural Resources Wales

8. The decrease in standard rate material has been driven, in large part, by changes in local authority waste management practices. Local authorities have a statutory target to re-use, recycle or compost 70% of the waste they collect by 2024-25. As figure nine shows, the amount of waste local authorities send to landfill has been falling rapidly over the last decade.

¹³ Landfill site operators do not submit tax returns which separately identify waste disposed of in Wales. Therefore the split in standard and lower rate waste has been estimated using data from Natural Resources Wales.

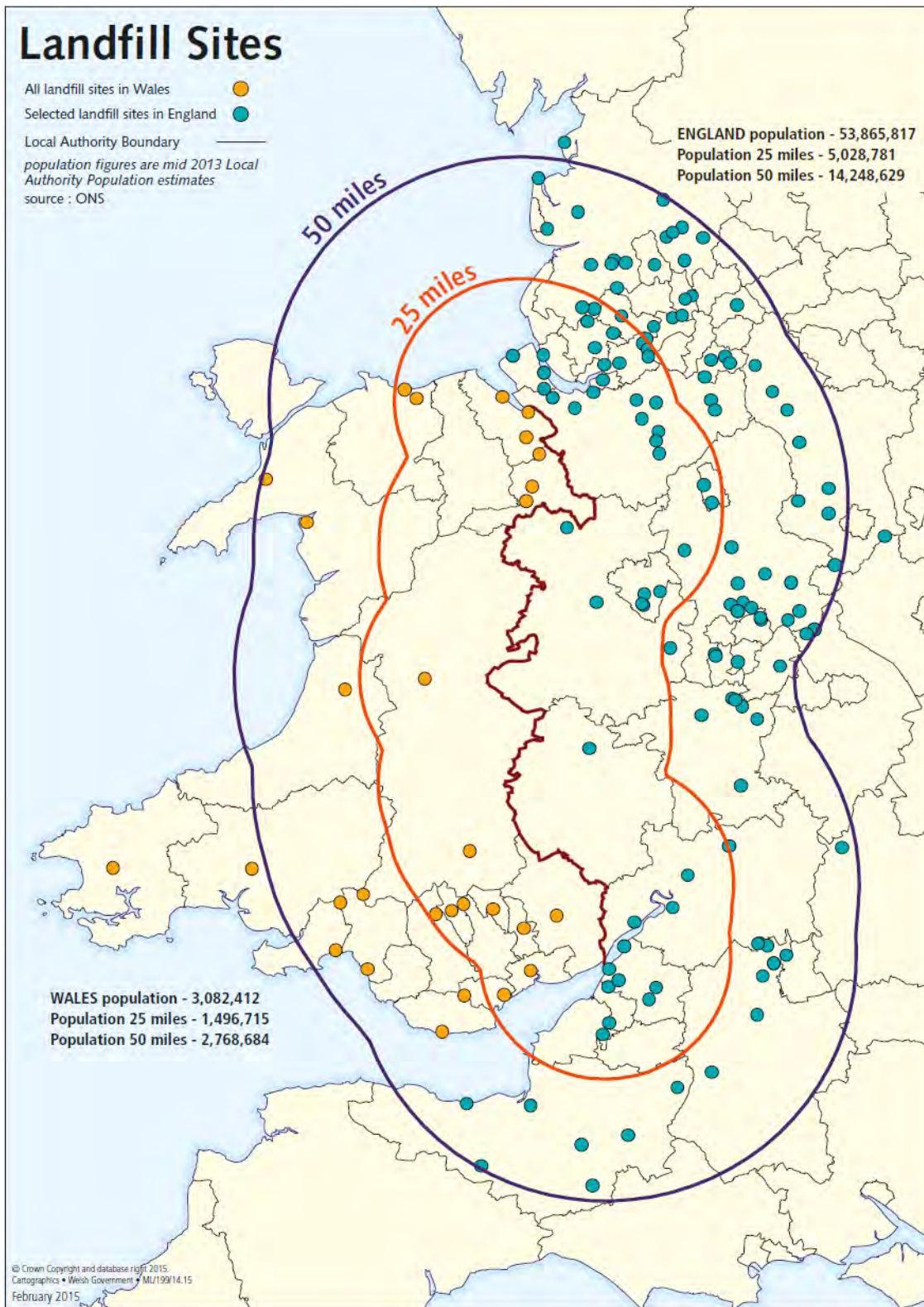
Figure nine: Local authority municipal waste, Wales



Source: StatsWales

9. Waste sent to landfill in Wales is expected to continue falling in the future. Local authorities are likely to gradually increase the amount of waste that is re-used, recycled and composted in order to meet statutory targets. In addition, increased incineration capacity will become available in North and South Wales, either through the expansion of existing facilities or the opening of new facilities. This suggests large quantities of waste, largely taxed at the standard rate, will be diverted away from landfill over the coming years.
10. A key priority for the Welsh Government is a smooth transition to LDT in 2018. Any changes to tax rates can be expected to have behavioural effects. A specific area of concern among stakeholders was the impact on business if there was a material difference between the tax rates charged in Wales and England, with several highlighting the potential for waste to cross the border if it was more economically advantageous to travel further to dispose of it.
11. The majority of landfill sites in Wales are within 25 miles of the Wales-England border and there are more landfill sites within 25 miles of the border on the English side.

Figure 10: Landfill sites and populations – Wales-England border¹⁴



¹⁴ Location of landfill sites based on HMRC data 2012
http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageExcise_ShowContent&id=HMCE_PROD_009941&propertyType=document

12. Analysis of haulage rates suggests a relatively small differential of less than £10 in rates between Wales and England could introduce a significant financial incentive to move waste across the border.
13. A reduction in LDT rates may encourage greater landfill disposals in Wales, which is not consistent with our aim to reduce landfill disposals. An increase in waste being disposed of in Wales would also have wellbeing and environmental impacts for communities. For example, it would:
 - Increase waste, including potentially hazardous waste, travelling further distances on major roads and through residential areas;
 - Increase disruption for residents near landfill sites and waste transfer stations;
 - Increase the carbon footprint of waste disposal;
 - Increase pressure on existing landfill capacity, with potential calls for new landfill sites to be developed.
14. Conversely, an increase in LDT rates may encourage less waste to be disposed of to landfill in Wales than if landfill tax were to continue to apply, reducing the amount of revenue collected. This is inconsistent with our principle there should be no less revenue available to fund public services.
15. Stakeholders have suggested the standard rate has reached its optimum level where landfilling these materials is the most expensive, and therefore least attractive, means of waste disposal. Increasing tax rates may incentivise unauthorised disposals of waste. Some stakeholders have made the case for increasing the lower rate to encourage greater recycling, re-use and recovery of these materials but the majority wanted consistency with UK rates to minimise the risk of waste tourism, including, at least initially, for the lower rate.
16. Engagement with taxpayers and the waste industry has also indicated it will be helpful for them to know rates in advance in order to inform their business plans and investments. In light of this, the rates will be set for two years.
17. In summary, for the first two years of LDT, the standard and lower rates will mirror the rates for landfill tax.
18. Table 13 shows the rates for 2018-19 and 2019-20. Since the draft Budget, the UK Government announced its rates for landfill tax in 2019-20. The standard rate for that year is now £0.35 lower per tonne than was assumed in the draft Budget due to a lower RPI forecast.

Table 13: Landfill disposals tax rates (rate per tonne)

Rate	2018-19	2019-20
Standard	£88.95	£91.35
Lower	£2.80	£2.90

19. During the development of landfill disposals tax, there was a clear message from stakeholders about the need to implement a tax, which provides consistency, certainty and stability for businesses. This has been the driving factor behind the decision to set rates that are consistent with the rest of the UK. By setting rates that are consistent with landfill tax, public services in Wales will continue to benefit from

tax revenue, while ensuring the risk of the movement of waste across borders is reduced.

20. As the proposed tax rates are consistent with landfill tax, there is not expected to be any significant change in the amount of waste disposed of at authorised landfill sites in Wales. Revenue from landfill disposals tax is expected to continue to fall as an increasing amount of waste is diverted away from landfill in future.

Table 14: Landfill disposals tax revenue forecast

	2018-19	2019-20	2020-21	2021-22
Landfill disposals tax (£m)	26	24	21	20

Unauthorised disposals

21. Tax will also be charged on waste disposed of at places other than an authorised landfill site – known as unauthorised disposals. Any person who makes the disposal or who knowingly causes or knowingly permits the disposal to be made, will be liable to the tax.
22. Taxing unauthorised disposals is intended primarily as a deterrent. Natural Resources Wales reported there were 60 known illegal waste sites in Wales at September 2016, with approximately 55,000 tonnes of waste across these sites.
23. This policy has been developed to dovetail with existing environmental regulations and complement wider Welsh Government initiatives, including its approach to tackling fly-tipping.
24. Our approach aims to bring benefit to the communities who are affected by unauthorised disposals by seeking to deter this activity in future. It also aims to minimise opportunities to evade tax and thus protect revenue for investment in public services in Wales.
25. It intends to ensure unauthorised disposals are more financially risky and so a less attractive option for those tempted to ignore their environmental obligations and evade tax. It therefore seeks to realign the balance of risk so the consequences of making unauthorised disposals outweigh the perceived benefit of evading tax.
26. Consistent with the purpose of the tax as a lever to influence positive environmental behaviours, this approach seeks to encourage individuals to make efforts to take up sustainable methods of waste disposal or, as a minimum, to take waste to a registered landfill site and pay a fair share of tax.
27. The unauthorised disposals rate will be set at 150% of the standard rate. As noted above, the standard rate in 2019-20 is slightly lower than assumed at the time of the draft Budget so the unauthorised disposals rate is also slightly lower.

Table 15: Unauthorised disposals tax rate (rate per tonne)

	2018-19	2019-20
Unauthorised disposals rate	£133.45	£137.00

28. Setting the rate at 150% of the standard rate provides a suitable financial deterrent. It ensures a level of fairness, proportionality and transparency. It reflects that in normal circumstances registered landfill site operators bear administrative costs relating to registration, filing, paying and record-keeping and these would have been avoided along with penalties and interest, which would have been applied to a registered landfill site operator for failure to do these. Setting the rate at 150% helps to create a level playing field for legitimate waste businesses. The unauthorised disposals rate also recognises the compliance and enforcement costs of the Welsh Revenue Authority (WRA).
29. The introduction of a separate tax rate for unauthorised disposals is aimed primarily at deterring unauthorised disposals rather than raising tax revenue. The WRA will be responsible for determining the level of compliance and enforcement activity it undertakes in relation to unauthorised disposals. It is expected its approach will be proportionate and cost-effective and will be considered in the context of the wider initiatives being taking forward by the Welsh Government, NRW and local authorities to tackle unauthorised disposals. It is anticipated the WRA's focus will be on larger unauthorised waste sites and may also extend to regular and persistent fly-tippers where significant tonnages of wastes have been deposited and tax evaded.
30. An industry report¹⁵ in 2015 highlighted that every £1 spent on waste crime enforcement is expected to return between £3.60 and £5.60 to government. This clearly makes the enforcement of these powers a valuable tool and one which could be a worthwhile investment in the long term. The WRA's operating costs include costs for compliance and enforcement activity.
31. LDT will only apply to unauthorised disposals made after the introduction of the tax on 1 April 2018 – at this stage, levels of non-compliance are not known and so compliance and enforcement costs and the level of potential revenue cannot be quantified. Potential revenue from the unauthorised disposals rate is therefore not included in the LDT revenue forecast.
32. Tax collected from unauthorised disposals will support the delivery of public services in Wales, with some revenue allocated to NRW and local authorities where they have been instrumental in assisting the investigation and pursuit of tax and to incentivise future action.
33. An evaluation framework is being developed to assess the impact of this new approach and the implementation of the unauthorised disposals rate will be monitored closely.

¹⁵ [http://www.esauk.org/esa_reports/ESAET Waste Crime Tackling Britains Dirty Secret LIVE.pdf](http://www.esauk.org/esa_reports/ESAET_Waste_Crime_Tackling_Britains_Dirty_Secret_LIVE.pdf)