



Llywodraeth Cymru
Welsh Government

Tax policy work plan 2021-2026

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Rebecca Evans MS

Minister for Finance and
Local Government

Foreword

This tax policy work plan sets out the tax policy priorities the Welsh Government will progress over the next five years.

Welsh taxes, both devolved and local taxes, play an important role in supporting the delivery of the Welsh Government's strategic priorities, whilst providing the essential revenues to support the delivery of vital public services for all our citizens.

Throughout the coronavirus pandemic, we have provided critical support, including through our non-domestic rates relief for businesses. As we strive to emerge stronger from the pandemic we are committed to *not taking more in Welsh rates of income tax from Welsh families for at least as long as the economic impact of coronavirus lasts.*

We will also continue to prioritise the programme of work to reform local government finance in particular, to ensure council tax provides for a fairer system for all. These are just some of the priorities set out in our work plan where the focus is on using our tax levers to establish a stronger, fairer, greener Wales.

Our tax devolution journey began with wide engagement and this remains an integral part of our work to ensure Welsh taxes and tax policies contribute to a better Wales.

I have set out our strategic tax policy work plan here to strengthen transparency and to maximise opportunities for people from all walks of life to work with us in developing and delivering our tax policy priorities.

I welcome and look forward to your input.

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

Rebecca Evans MS

Minister for Finance and Local Government

Introduction

The update to the Tax Policy Framework outlines our approach to the development and delivery of tax policy in Wales. Our 'tax approach' is aligned with the Well-being of Future Generations Act's five ways of working; and sets out our commitment to mainstreaming tax policy considerations in the delivery of the Welsh Government's wider objectives.

In this way, we will work with our partners across government, collaborating to tackle the climate and nature emergency; combat the impacts of the coronavirus pandemic; and work to forge a distinct Welsh identity on the international stage.

Figure 1: How tax policy supports our strategic objectives



This is about more than designing individual taxes to deliver specific outcomes: it is about encouraging everyone to think about the role, contribution and impact, tax can make to the delivery of their objectives and establishing a fairer, greener, more equal Wales.

The update to the Tax Policy Framework sets out how Welsh taxes and tax policy forms part of our wider policy-making and national strategic infrastructure. It recognises our responsibilities under the Well-being of Future Generations Act and the new socio-economic duty in Wales; the commitments in our Programme for Government; and embedding our response to the climate and nature emergency.

Our strategic five year tax policy work plan reflects this joined-up, integrated approach to taking forward our tax policy priorities to support the delivery of wider ambitions of the Welsh Government.

We have a distinct Welsh ‘tax approach’. Our ‘tax approach’ together with our tax principles, ensures a strategic, long-term direction of travel for tax policy, which brings coherence and consistency to the way Welsh taxes operate within the wider tax system.

Our tax principles determine that Welsh taxes should:

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

This strategic tax policy work plan for 2021-2026 sets out the key tax policy areas we will prioritise over the course of this Senedd term and broadly fall into the following three themes:

- A. Delivery of strategic government objectives including Programme for Government commitments.**
- B. Ongoing policy review and implementation of our existing taxes and other related policy areas.**
- C. Continued focus on working with partners and citizens to embed our distinct Welsh tax approach and raise awareness of Welsh taxes.**

Our work will not be limited to the specific work streams set out below. We anticipate further activity will emerge from scoping and other exploratory work undertaken as part of the process of developing some of our policy areas, such as work on developing the tax base and local government finance reform. Other unforeseen demands on resources could require the need to reprioritise, including, if required, responding to UK Government announcements and decisions that have implications for Wales.

We will continue to keep the work plan under review and where appropriate, update it.

We will publish annually a report on progress against this work plan, including any changes, alongside the Welsh Government’s draft budget.

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

1. Development of Welsh rates of income tax

Purpose

Continue to examine how potential changes to Welsh rates of income tax could impact on Welsh taxpayers, as we maintain the commitment to not take more in Welsh rates of income tax from Welsh taxpayers for at least as long as the economic impact of coronavirus lasts.

Background

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

HMRC has responsibility for the collection of WRIT on behalf of Welsh Ministers.

The Welsh Rates of Income Tax Board (WRIT Board), chaired jointly by the Welsh Government and HMRC oversees the Service Level Agreement (SLA) between Welsh Government and HMRC. The SLA, sets out requirements and performance measures for the operation of WRIT.

Planned activity and outputs

The on-going management of WRIT will take place through the WRIT Board, with reference to the Service Level Agreement between the Welsh Government and HMRC.

Supporting Welsh Ministers to prepare the proposed annual rates for WRIT, to be presented to the Senedd as part of the annual budget setting process. This process will be informed by our Programme for Government commitments as well as tax forecasts and the wider economic and fiscal outlook.

We will report on broader WRIT analytical work annually in our annual tax policy report as part of the draft budget package.

2. Reforming local government finance

Purpose

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

Background

In February 2021 we published a Summary of Findings of possible reforms to the local government finance system. The report outlined the historic and political context for the system and drew together independent academic research. It presented a spectrum of options from modest reform through to wholesale systemic change. These include potential changes to council tax and non-domestic rates, as well as alternative approaches for raising local revenues such as a local land value tax and local taxes based on income.

Our Programme for Government for the sixth Senedd commits to:

- seeking reforms to council tax to ensure a fairer system for all
- making the case for clear and stable tax devolution for Wales; and
- strengthening the autonomy and effectiveness of local government to make them more effective in delivering services.

There are other commitments relating to the economy, social justice and decarbonisation where local tax policy may be able to contribute. Our recovery from the coronavirus pandemic and the UK's exit from the EU will also require further tax policy development. The UK Government's *Fundamental Review of Business Rates* in England may also have implications for non-domestic rates policy in Wales.

Planned activity and outputs

We are working with our partners in the initial stages of planning a package of reforms to future systems, including local government, other nations, tax and valuation professionals, data and digital professionals. We will outline our key milestones as soon as this scoping work is complete.

Any changes will require a mixture of different types of legislation, which the Senedd, the public and businesses will be engaged with in due course. Changes also require the development of new capabilities, the design and implementation of delivery models and comprehensive engagement with delivery partners and the public. Our intention, therefore, is to deliver initial reform during the sixth Senedd term, while the implementation of some longer-term reforms may span future terms.

3. Consultation on a tourism levy

Purpose

To consult on proposals to permit local authorities to raise a levy on tourism.

Background

The *Programme for Government 2021-26* sets out our commitment to ‘consult on legislation permitting local authorities to raise a tourism levy’.

The draft legislation will enable local authorities to decide if it wished to introduce a charge on visitors to their areas. Such a levy could provide for local authorities to support the tourism sector’s recovery from the coronavirus pandemic.

Planned activity and outputs

The programme of work required to deliver the consultation is at an early stage. We aim to undertake the policy consultation in the autumn of 2022. To do this we will:

- Continue to gather evidence on the implementation and impact of tourism taxes in other countries.
- Develop our understanding of the overall economic impact of a tourism levy, recognising an aggregate view may be challenging given the proposed discretionary nature of the power.
- Undertake an initial assessment of the possible sources of costs and benefits that might arise for different groups as a result of the introduction of tourism levy.

- Work closely with officials across the Welsh Government, the local authorities and the tourism sector to develop a shared understanding of:
 - the probable impacts of a tourism tax on the tourism sector, visitor economy and local government; and
 - the challenges and issues that need to be addressed as the legislation is progressed.

An important foundation to this work is the need to establish a statutory registration scheme for all holiday accommodation. We are looking to progress this matter at pace and the initial phase will commence shortly.

4. Progressing the case for clear and stable tax devolution

Purpose

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

Background

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

In March 2020, a formal request was made to devolve to Senedd Cymru further tax powers for a 'vacant land tax'. This formal request was in keeping with the process agreed between UK and Welsh Ministers for the devolution of new tax powers to Wales. This is the first time we have tested the mechanism for Welsh-specific taxes, and the request follows two years of work to ensure HM Treasury has sufficient information to assess Welsh Government proposals. The experience of moving through the process has been protracted and challenging. It has become clear the agreed process for devolution of tax competence to Wales is not fit for purpose.

Our experience of attempts to devolve Air Passenger Duty – despite strong evidence and support from the UK Parliament's Welsh Affairs Committee and others – have similarly been disappointing. However, we will continue to progress the case for clear and stable tax devolution to Wales, as we invest effort in pursuing constructive discussions with HM Treasury to establish a fit for purpose mechanism for devolving new tax powers to Wales. This is essential if the ability of this government and future governments to use tax as a lever to influence behaviour or support public spending to meet the needs of the people of Wales is to be fully realised, in keeping with the spirit of the Command Paper and Wales Act 2014.

Planned activity and outputs

The work will be characterised by on-going dialogue with HM Treasury and the wider UK Government. We will take all opportunities available to continue to press our case with the UK Government and report back on progress through our annual report published alongside the Draft Budget and through statements to the Senedd and its Finance Committee, as appropriate.

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

Purpose

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

Background

During the last Senedd term, Ministers agreed a preference for introducing charges on single-use plastics items such as disposable cups and food containers, opting for the UK Environment Bill as the preferred legislative mechanism and the “Beyond Recycling” Circular Economy Strategy as the preferred mechanism within which to take the commitment forward in Wales.

We continue to support the UK Government into the final stages of introducing UK wide legislation for a plastics packaging tax. This will involve a continued communications and engagement effort with the plastic packaging industry in Wales to raise awareness and input ahead of introduction in April 2022.

Following the UK Government’s review of the UK Aggregates Levy (UKAL), it confirmed its commitment to keep devolution of UKAL to Wales under review, citing cross-border impacts as a particular concern. We will continue to work with the Scottish Government, to inform our work on the possible devolution of the UKAL to better understand any potential implications.

Planned activity and outputs

Over the course of autumn/winter 2021-22 we will work to ready the ground for implementation of the plastics packaging tax in April 2022. This includes supporting the publication of the main guidance and a joint communications and engagement push across England and Wales.

We will continue to work collaboratively with UK Government in relation to any post hoc impact evaluation of the plastics packaging tax in Wales. We will keep under review our options in relation to devolving the aggregates levy and wider environmental related tax policies, reporting progress as part of our annual report published alongside the Draft Budget.

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

6. Development of land transaction tax policy

Purpose

To ensure land transaction tax continues to meet the Welsh Government's policy aims, while achieving its primary purpose to raise revenue to support delivery of public services in Wales.

Background

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

The importance of housing to individuals and of commercial property to businesses and the wider economy, means LTT is significant for a number of different Welsh Government policy areas. Changes to LTT will sometimes be required to ensure it continues to help deliver the Welsh Government's policy aims. For example, the decision to introduce the 1% increase in LTT for additional residential properties.

Planned activity and outputs

There are a number of strands to the on-going management of LTT policy. This includes working closely with the Welsh Revenue Authority (WRA) to ensure the effective operation of the tax, including monitoring any threats to the tax base through evasion and anti-avoidance activity.

The management of LTT policy also requires the monitoring of developments to the UK Stamp Duty Land Tax (SDLT) in order to assess implications of any SDLT changes for LTT and related revenue generation.

The rates and thresholds for LTT are kept under review, including in the lead up to the preparation of the Welsh Government's Draft Budget.

As part of a broad piece of cross-government action to address the impact of second homes, we will consider if LTT has a role to play in providing an advantage to people buying homes for permanent occupation.

We will report progress on LTT policy development in our annual report published alongside the Draft Budget.

7. Development of landfill disposals tax policy

Purpose

Ensure landfill disposals tax policy is operating as intended, and consider opportunities for the tax to support wider government policy objectives.

Background

The Welsh Revenue Authority (WRA) has been collecting and managing the landfill disposals tax (LDT) successfully since its introduction in April 2018.

To date, LDT rates have matched the UK landfill tax rates, to maintain consistency with the UK Government's approach to landfill tax rates for the lower and standard rate of tax. We review this approach each year as part of the annual rate setting process where consideration is given to the benefits and dis-benefits of changing the rates in the future to advance wider environmental objectives.

Planned activity and outputs

As part of our on-going activity to monitor the implementation of landfill disposals tax policy we continue to work closely with the WRA to ensure its effective operation.

Beginning in autumn 2021 we will initiate the rate-setting process for LDT for the annual budget cycle. This will ensure the LDT regulations for the 2022-23 LDT rates will come into force for April 2022.

8. Land transaction tax review

Purpose

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

Background

The Wales Act 2014 paved the way for new tax powers to be devolved to Wales, further strengthening our ability to manage our own financial affairs. Land transaction tax (LTT) was one of the first new devolved taxes for Wales. Land transaction tax replaced the UK Stamp Duty Land Tax (SDLT) from April 2018. This is a tax on land transactions with separate rates on residential and non-residential transactions.

There is a statutory obligation for Welsh Ministers to make arrangements for an independent review of the LTTA to be completed before the expiry of 6 years, beginning with the date the legal requirement came into force. The deadline by which the review must be completed is therefore May 2023. The review will evaluate the effectiveness of the legislation, and consider whether the changes made at the time of enacting the LTTA compared to SDLT have achieved the desired intent.

Planned activity and outputs

The procurement process has been initiated with a view to having the contract for undertaking the independent statutory review of the LTTA awarded early 2022. The successful contractors will be required to provide a full and final bilingual report on their findings to the Welsh Government.

9. Landfill disposals tax review

Purpose

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

Background

The primary function of the Landfill Disposals Tax (LDT) is to change behaviour in respect of delivering waste policy aims, ultimately, to reduce waste sent to landfill.

In introducing LDT, Welsh Ministers committed to an independent review of the effectiveness of tax within six years. Work is in the initial scoping stage to determine the specific requirements of the review.

Section 92 of the Landfill Disposals Tax (Wales) Act 2017 places a duty on the Welsh Ministers to prepare and publish a Landfill Disposals Tax Communities Scheme, which makes provision for grant funding for the benefit of communities affected by landfill disposals or activities at waste transfer stations. The scheme provides funding to support activities which are considered to promote or improve the social or environmental well-being of local communities. A requirement of the Act is to review the scheme administration in the period of four years beginning with the day on which it is first published. This is a separate review and is being managed under the Minister for Climate Change's portfolio. However, Welsh Treasury will feed in to the review in recognition of the importance of aligning the outcomes of both reviews.

Planned activity and outputs

The procurement process for the LDT review will be initiated later this year, with the contract expected to be awarded in early 2022.

The successful contractors will be required to provide a full and final bilingual report on their findings to the Welsh Government.

The review of the LDT Communities Scheme started in August 2021 and is due to report by spring 2022.

10. Developing the Welsh tax base

Purpose

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

Background

The evolution of the tax-base in Wales will have medium to longer-term implications for tax revenue and the money available to spend on public services in Wales. Where possible, the Welsh Government's policies should actively contribute towards the overall development and growth of the Welsh tax base. The Welsh Government should also use its levers and influence to ensure a similar direction of travel in wider public sector policies.

A wide range of factors including both tax and non-tax policy levers influence the size and trajectory of the Welsh tax-base. Policies relating to the economy, skills, education and housing (among others) will have a direct effect on the performance of the Welsh tax base. As these are cross-portfolio responsibilities, it will be necessary to take a shared, cross-government approach to this work.

This work builds upon the research and learning undertaken over the last Senedd term to better understand the Welsh tax base and identify future threats and opportunities¹.

Planned activity and outputs

Early work is focusing on the development of a robust evidence base and fostering of a cross-Welsh Government understanding of the impact of policy proposals on the Welsh tax base, including cross-border implications.

Subsequent work will seek to identify changes to processes and structures that could facilitate engagement between Welsh Treasury and policy colleagues across Welsh Government during policy development.

11. Enabling changes to the Welsh Tax Acts

Purpose

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

Background

The Counsel General and Minister for the Constitution announced on 6 July 2021 the legislative programme for the first year of the Senedd. This included a Bill to enable changes to the Welsh Tax Acts. Currently, our powers to amend devolved taxes are not sufficient to respond quickly to unexpected events, such as court judgments, loopholes or changes in equivalent English taxes, which could have a significant impact on the liabilities of individuals and on our revenues. The Bill will provide us with an agile, flexible way of responding, and the Senedd with the opportunity to scrutinise and approve changes.

Planned activity and outputs

The Bill is scheduled for introduction to the Senedd in December 2021 with stage 1 of the legislative scrutiny process commencing directly thereafter. Stage 2 proceedings is currently planned for spring 2022, with stages 3 and 4 taking place in the summer of 2022, to allow for royal assent by autumn 2022.

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

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

Purpose

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

Background

A range of different and effective administrative processes exist aligned to the individual Welsh taxes. However, policy decisions in relation to the approach taken for each tax should be taken with the coherence of the whole tax system in Wales in mind.

With greater fiscal devolution, the establishment of the Welsh Revenue Authority and the potential to collect further and new taxes in Wales, we now have an opportunity to develop a strategic, *and distinct* Welsh approach to the way taxes are administered in Wales. However, it will be important to do so, respecting the financial and political autonomy of local authorities in Wales who have responsibility for local tax policy implementation and administration.

To support the development of a distinct Welsh approach to the management of taxes, we will explore and work towards establishing a Welsh tax administrators' community of practice working collaboratively with our delivery partners including local government in Wales, the Welsh Revenue Authority, HMRC and the Valuation Office Agency to reflect on different approaches and processes with the intention for best practice to emerge and evolve.

Planned activity and outputs

This work is currently in the exploratory stages where initial research and learning will inform the parameters of the work stream. In setting the scope it will be important to develop strong relationships with all delivery partners to establish a common understanding and wider buy-in to the direction of travel.

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

Purpose

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

Background

While our responsibilities in terms of devolved and partially devolved taxes are relatively new, we have a much longer history of developing and implementing local tax policy. However, knowledge and engagement on tax matters remains relatively low amongst the wider public. Increasing awareness and understanding is vital to increasing understanding of the implications of fiscal devolution for people and businesses.

We have undertaken survey work with Beaufort Research and the National Survey of Wales to understand knowledge and awareness of Welsh taxes amongst wider citizens. There is evidence of increased awareness in some areas (Welsh rates of income tax Public understanding of tax devolution: update report 2020 | GOV.WALES). We will continue our efforts to improve on this.

We will build on the engagement activity we have undertaken since tax devolution to explore and implement creative opportunities to raise wider awareness of taxes alongside improving awareness and engagement around Welsh budgets and other fiscal events.

Planned activity and outputs

Engagement to raise awareness of the role of taxes in funding public services, as well as of wider fiscal events is a continuous process, where all opportunities are taken to reach new and traditionally hard to reach audiences. Engagement activity will remain a core priority for this Welsh Government, recognising the importance of strengthening democratic accountability with all Welsh citizens.

We will also seek out opportunities to evaluate the effectiveness of our engagement and messaging in order to inform communications going forward. We will report on progress as appropriate, in our annual report published alongside the Draft Budget.