



Llywodraeth Cymru
Welsh Government

The seventh and final report by Welsh Ministers about the implementation and operation of Part 2 (Finance) of the Wales Act 2014

Laid before Senedd Cymru and presented to Parliament,
pursuant to Section 23 of the Wales Act 2014

April 2021

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Foreword



This is the seventh and final report on the implementation of the finance powers contained in the Wales Act 2014. In accordance with the requirements of section 23 of the Act, this Report has been made as soon as practicable after the first anniversary of the day on which the last provisions were implemented - Welsh Rates of Income Tax were implemented in financial year 2019-20 - and therefore covers a much shorter period than the previous reports.

While our journey to deliver the type of progressive and fair tax system we want to see for Wales continues, this report recognises the completion of the programme of work which has resulted in the successful introduction of the two devolved Welsh taxes - Land Transaction Tax and Landfill Disposals Tax, the introduction of Welsh Rates of Income Tax, and the establishment of the Welsh Revenue Authority to collect and administer the two devolved taxes.

£2.3bn of Welsh Government spending on public services is now being funded by revenue from the three Welsh taxes, strengthening the lines of accountability between the Welsh Government and the Senedd with the people of Wales.

We have reached this point, after more than a decade, with the assistance of many individuals and organisations, who have contributed in a variety of ways - joining advisory or engagement groups, responding to consultations, commenting at public events or meetings, and writing to me with their views and experiences. I am grateful to all those who have taken the time to help. In particular I thank the Finance Committee and other Senedd Members who have scrutinised the financial provisions.

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 Trefnydd
April 2021

Introduction

Under section 23 of the Wales Act 2014¹, the Welsh Ministers and the Secretary of State for Wales are each required to report annually on the progress made in implementing the provisions in Part 2, until the first anniversary after the final provisions have been implemented.

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.

This is the seventh and final report by Welsh Ministers. It is being issued one year after the end of the financial year in which Welsh Rates of Income Tax became the last of the measures under Part 2 to be introduced.

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).

¹ Wales Act 2014:
<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 Senedd Cymru² 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 2018³.

Landfill Disposals Tax

Section 18 of the Wales Act 2014 amends GOWA 2006 to enable the Senedd 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 order⁴ 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 Acts⁵ came into force and the Welsh Revenue Authority (WRA) began collecting the two fully devolved Welsh taxes – Land Transaction Tax and Landfill Disposals Tax.

Land Transaction Tax

2. The rates and bands for Land Transaction Tax (LTT) 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 Senedd on 30 January 2018⁶.

² References to the National Assembly for Wales now have effect as references to Senedd Cymru, by virtue of section 150A(2) of the Government of Wales Act 2006 (c. 32).

³ *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

⁴ 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).

⁵ 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.

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

Main Residential Rates: Tax Rates and Tax Bands

3. As part of the Welsh Government's coronavirus response on 27 July 2020, the rates and bands for the main rates of LTT were changed for a time limited period. The rates and bands for the temporary tax reduction period initially applied from 27 July to 31 March 2021⁷. On 3 March 2021, the end date for the temporary tax reduction period was extended from 31 March 2021 to 30 June 2021⁸. From 1 July 2021 the rates set out in table one below will again apply to the main residential rates. For the change to have permanent effect the regulations making the changes must receive Senedd approval. The Senedd approved the first regulations on 29 September 2020 and the regulations providing the extension of the temporary tax reduction period were approved on 23 March 2021.

Table one: Land Transaction Tax residential main rates (1 April 2020 - 26 July 2020, and from 1 July 2021)

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%

Table two: Land Transaction Tax residential main rates (27 July 2020 - 30 June 2021)

Price threshold	LTT rate
£0 to £250,000	0%
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 Residential Rates: Tax Rates and Tax Bands

4. The Welsh Government made the decision not to provide any temporary tax reductions to taxpayers liable to the higher residential rates. The tax rates and bands therefore remained the same as initially chargeable from 1 April 2018 when LTT came into force. These are set out in table three below.
5. However, as part of the draft Welsh budget announced on 21 December 2020, the higher residential rates were increased by 1 percentage point each. This change came into effect on 22 December 2020 and provided transitional rules for those taxpayers

⁷ Explanatory Memorandum to The Land Transaction Tax (Temporary Variation of Rates and Bands for Residential Property Transactions) (Wales) Regulations 2020:

<https://senedd.wales/laid%20documents/sub-ld13367-em/sub-ld13367-em%20-e.pdf>

⁸ Explanatory Memorandum to The Land Transaction Tax (Temporary Variation of Rates and Bands for Residential Property Transactions) (Wales) (Amendment) Regulations 2020:

<https://senedd.wales/media/l2nozj1k/sub-ld14189-em-e.pdf>

who had exchanged contracts on or before 21 December. The Minister for Finance and Trefnydd set out the changes in a Written Statement on devolved and partially devolved taxes⁹. For the change to have permanent effect, the regulations making the change must receive Senedd approval, and that was given on 2 February 2021.

6. The rates and bands that applied for the period up to and including 21 December 2020 are set out in table three and the rates that apply from 22 December set out in table four below.

Table three: LTT residential higher rates (until 21 December 2020)

Price threshold	LTT rate
£0 to £180,000	3%
More than £180,000 to £250,000	6.5%
More than £250,000 to £400,000	8%
More than £400,000 to £750,000	10.5%
More than £750,000 to £1,500,000	13%
£1.5m-plus	15%

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

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

Non-residential Rates: Tax Rates and Tax Bands

7. As part of the Welsh Government's draft Budget 2021-22 announced on 21 December 2020, the zero rate tax bands that apply to non-residential property transactions were increased from £0-£150,000 to £0-£225,000. The changes therefore apply to both the non-residential main rates and also the non-residential lease rent rates. These changes came into effect on 22 December 2020 and provide reductions for all taxpayers that complete on or after 22 December.
8. The draft Budget also announced a change to the specified amount of relevant rent, increasing it by 50% from £9,000 to £13,500. The relevant rent amount is used to apply an anti-avoidance rule and increasing the amount by the same percentage as the tax bands ensures that it will operate in the same manner and to the same extent, as before the changes were made.
9. For the changes to the rates and bands to have permanent effect, the regulations making the change must receive Senedd approval, and that was given on 2 February 2021. The new amount of relevant rent then applied from 4 February 2021.

⁹ <https://gov.wales/written-statement-welsh-devolved-taxes-and-welsh-rates-income-tax-draft-budget-2021-22>

10. The rates and bands that applied for the period up to and including 21 December 2020 are set out in table five, and seven in relation to lease rents, and the rates that apply from 22 December set out in table six, and eight in relation to lease rents, below.

Table five: LTT non-residential main rates (until 21 December 2020)

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	6.0%

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

Price threshold	LTT rate
£0 to £225,000	0%
More than £225,000 to £250,000	1%
More than £250,000 to £1,000,000	5%
£1m-plus	6.0%

Table seven: LTT non-residential lease rent rates (until 21 December 2020)

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

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

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

Landfill Disposals Tax

11. To date, Landfill Disposals Tax rates have matched UK landfill tax rates. The standard and lower tax rates for 2021-22 were again set to match UK landfill tax rates and were approved by the Senedd in February 2021. The unauthorised disposals rate is set higher than the standard rate (standard rate + 150%), creating an additional financial deterrent for people seeking to avoid their environmental obligations and dispose of waste illegally. The landfill disposals tax rates for 2021-22 will increase as set out in Table nine and will apply to taxable disposals made on or after 1 April 2021 in Wales.
12. This continues the policy of maintaining consistency with the UK Government's approach to landfill tax rates. This approach provides stability and certainty to those stakeholders impacted by the tax and protects against risk of waste being transferred across the Wales-England border to take advantage of lower rates.

Table nine: LDT rates (rate per tonne) 2021-22

Rate	2021-22
Standard	£96.70
Lower	£3.10
Unauthorised	£145.05

Quarterly statistics for Land Transaction Tax and Landfill Disposals tax

13. Information about tax returns and revenue raised by the Welsh taxes is published regularly by the WRA¹⁰. The annual outturns for financial year 2019-20 were £260m for Land Transaction Tax, and £37m for Landfill Disposals Tax, as published in the WRA's public accounts¹¹.

Regulations

14. Regulations introduced since the previous report was laid (14 December 2020) are listed at appendix 1.

Reviews of Land Transaction Tax and Landfill Disposals Tax

15. The Welsh Government will consider the scope and arrangements for independent reviews of Land Transaction Tax and Landfill Disposals Tax. These will meet commitments to conduct reviews of both taxes within six years of the original tax legislation receiving Royal Assent - by May 2023 for Land Transaction Tax and by September 2023 for Landfill Disposals Tax.

Enabling changes to the Welsh Tax Acts

16. A summary of the responses to the *Tax Devolution: Enabling changes to the Welsh Tax Acts* consultation¹² was published on 21 December 2020. While work on drafting legislation continues to be progressed, the decision about whether to take this forward through the legislative process will be for the next Senedd. The ability to make changes to tax legislation quickly is intended to enable the Welsh Government to respond to scenarios where it is desirable for the change to have effect immediately or very soon thereafter. A change of this kind may be appropriate where the Welsh Treasury and the Welsh Revenue Authority need to promptly 'close-down' tax avoidance schemes, or to enable the Welsh Government to respond to tax policy changes made by a UK government to predecessor UK taxes (that is, one where we have an equivalent devolved tax). In this scenario, the legislation would provide Welsh Ministers with a proportionate mechanism to protect Welsh revenues.

¹⁰ Latest Land Transaction Tax data:

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

Landfill Disposals Tax data:

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

¹¹ WRA *Annual Accounts 2019-20*:

<https://gov.wales/sites/default/files/publications/2020-07/welsh-revenue-authority-annual-accounts-2019-2020.pdf>

¹² *Tax Devolution in Wales - Enabling changes to the Welsh Tax Acts* (July 2020):

<https://gov.wales/enabling-changes-to-welsh-tax-legislation>

Welsh Revenue Authority

17. 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 Minister for Finance and Trefnydd re-confirmed the priorities in a letter to the WRA on 3 July 2020. The WRA's Corporate Plan 2019-22, published on 14 May 2019¹³, 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.
18. The WRA has developed what it calls '*Our Approach*' – a Welsh way of doing tax – and its corporate plan includes case studies of how this works in practice.
19. The corporate plan includes six strategic objectives reflecting the Minister's expectations, which focus on supporting taxpayers to pay the right amount of tax at the right time, plus objectives to contribute to the design of Welsh revenue services, and to make the most of Welsh taxpayer data.
20. Established as a cloud-based organisation, the WRA's digital services were able to continue operating when its headquarters was flooded in February 2020, and when people were required to work remotely in response to COVID-19, with minimal disruption for taxpayers, their representatives, and WRA staff.
21. The COVID-19 outbreak has had a significant impact on the number of property transactions and has likely been a factor in levels of waste disposed during the first half of 2020-21¹⁴.
22. The WRA has established a partnership with Natural Resources Wales (NRW), and delegated certain Landfill Disposals Tax compliance functions to NRW in January 2018. A joint operational team has been established to work with authorised landfill site operators to ensure they pay the right tax, and the organisations are working closely to develop a joined up approach to charging tax on unauthorised disposals of waste. This relationship is underpinned by a new Memorandum of Understanding, extending arrangements for the joint operational team until at least March 2023.

¹³ WRA *Corporate Plan 2019-22*:

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

¹⁴ For details please see the WRA's latest statistical releases:

https://gov.wales/statistics-and-research?field_stats_series_external_organisation%5B543%5D=543

23. The WRA published its second Annual Report and Accounts on 20 October 2020¹⁵, which reported on the WRA's first year of progress against the objectives and measures in the WRA's three year Corporate Plan.

¹⁵ WRA *Annual Report and Accounts 2019-20*:
<https://gov.wales/welsh-revenue-authority-annual-report-accounts-2019-2020>

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 Senedd 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 2017¹⁶.

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.

24. 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 taxpayers¹⁷ by 10p.
25. On 9 March 2021, the Senedd agreed the Welsh Government's proposal to set the Welsh Rates of Income Tax for 2021-22 at 10p, ensuring the Income Tax rates paid by Welsh taxpayers remained the same as those paid by English and Northern Irish tax payers¹⁸.
26. 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 the bands. The UK Government continues to have responsibility for the revenues from Income Tax on savings and dividend income from taxpayers in Wales.
27. Following the successful implementation of the Welsh Rates of Income Tax Project, the Tax Devolution Programme Board was succeeded by the Welsh Rates of Income Tax Board, which is chaired jointly by the Welsh Government and HMRC. The Board meets quarterly, and membership includes officials from HMRC, HM Treasury and Welsh Government. In addition, there are monthly finance meetings to scrutinise Welsh Rates of Income Tax costs, and to manage ongoing business as usual expenditure. The National Audit Office (NAO) independently audits HMRC's work to ensure good governance and value for money. The third report¹⁹, published 21 January 2021, indicates the NAO is satisfied with the arrangements which HMRC has in place

¹⁶ The Wales Act 2017 received Royal Assent 31 January 2017:
<http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

¹⁷ 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>

¹⁸ The motion to set the Welsh Rates of Income Tax for 2021-22 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/11183>

¹⁹ The National Audit Office report can be found at:
<https://www.nao.org.uk/report/administration-of-welsh-income-tax-2019-20/>

for administering Welsh Rates of Income Tax, and it is also satisfied that the governance arrangements and the costs paid by Welsh Government are accurate and fair.

28. A devolved income tax analytical working group oversees the analysis of devolved income tax statistics, including the publication of outturn. This group comprises officials from HMRC, the Welsh Government, the Office for Budget Responsibility (OBR), the Scottish Fiscal Commission, and the Scottish Government.
29. Work to prepare HMRC's PAYE systems, online self-assessment, and Relief at Source has been completed. The final element of the WRIT implementation project was delivering a Welsh specific version of the Annual Tax Summary (ATS) recognising the Welsh element of income tax. The changes to the ATS went live in December 2020. The ATS now shows the amount of Welsh Rates of Income Tax paid by Welsh taxpayers and includes a link to a Welsh Rates of Income Tax calculator, which will provide a high level breakdown of where individual contributions have been allocated across key public services. The calculator can also be accessed directly via the Welsh Government website.
30. A Service Level Agreement is in place with HMRC for the management of Welsh Rates of Income Tax²⁰. This sets out the requirements, timescales and performance measures for its operation. It will ensure a consistent quality of service to Welsh taxpayers, and allow HMRC and the Welsh Government to meet their respective responsibilities in operating Welsh Rates of Income Tax. In summer 2020, officials in the Welsh Government and HMRC reviewed the Service Level Agreement, principally to ensure it remained fit for purpose for the 'business as usual' phase of administering Welsh Rates of Income Tax. Officials also took the opportunity to review the governance arrangements, the future administration costs of Welsh Rates of Income Tax, and Welsh language provision.
31. As set out in the Service Level Agreement, HMRC is required to report annually on its delivery of Welsh Rates of Income Tax. The first Annual Report was published on the UK Government's website²¹ on 29 September 2020. The report provides information about HMRC's administration of Welsh Rates of Income Tax, covering:
 1. Compliance activity (including address assurance).
 2. The collection of, and accounting for, revenues.
 3. Customer service and support.
 4. Data for rate setting and forecasting.
 5. Data for Welsh Government cash management.
 6. The costs of delivering Welsh Rates of Income Tax, and recharging of HMRC costs.
32. The Annual Report records the cost of implementing Welsh Rates of Income Tax over the three years 2017-2020 totalled £7.5m. Since the annual report has been published, and following receipt of final costs relating to the creation of the Annual Tax Summary, and to project closure, HMRC has confirmed the total cost of implementation was

²⁰ Service level agreement for operation of Welsh Rates of Income Tax by HMRC:
<https://www.gov.uk/government/publications/service-level-agreement-for-operation-of-welsh-rates-of-income-tax-by-hmrc>

²¹ *Welsh Rates of Income Tax: HMRC Annual Report 2020*:
<https://www.gov.uk/government/publications/welsh-rates-of-income-tax-hmrc-annual-report-2020>

£7.9m. This figure is under the original estimate provided by HMRC of between £8m-£9m.

33. The business as usual costs for Welsh Rates of Income Tax in 2020-21 are estimated to be approximately £550,000, down from £700,000 quoted at the start of the year.

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 Senedd. 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 Government²².

34. 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. The Vacant Land Tax is being used to test the intergovernmental mechanism for introducing new taxes, while work continues on the other three ideas²³.

Vacant Land Tax and the intergovernmental process for new taxes

35. In March 2020, following agreement at a Joint Exchequer Committee that Welsh Government proposals for a 'vacant land tax' were sufficiently developed to move to the next stage of the process, the Welsh Government submitted a formal request to the UK Government for devolution of the legislative competence in this area. This formal request was in keeping with the process agreed between UK and Welsh Ministers for the devolution of new tax powers to Wales, as provided by the Wales Act 2014. On the 19 August 2020, the Financial Secretary to the Treasury responded that yet more detail would be required before the formal request could be taken forward.
36. The Welsh Government's experience of moving through the process has been protracted and challenging, with HM Treasury continually requesting detail relating to the specific operation of the proposed tax - which is a matter for Wales - rather than information related to devolving competence for legislation in a new area of taxation. It has become apparent there are serious flaws in the agreed process for devolution of further tax competence. As the process currently stands, it is difficult to envisage a scenario whereby the Welsh Government could successfully make the case for further tax competence. The process needs urgent review and reform.

Paying for social care

37. The considerations of the Inter-Ministerial Group on Paying for Social Care (IMG), chaired by the Minister for Health and Social Services, have been guided by the

²² Wales Bill Command Paper *Financial empowerment and accountability*, published in March 2014: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/294470/Wales_Bill_Command_Paper_-_English.pdf

²³ 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> and *Welsh Tax Policy Report 2019* (December 2019), pages 21 and 43: <https://gov.wales/sites/default/files/publications/2019-12/welsh-tax-policy-report-2019.pdf>

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*²⁴; and the vision for a seamless service for citizens.

38. In addition, the Welsh Government's, Prosperity for All: economic action plan (2017)²⁵ identifies social care as one of the foundation sectors that provides essential goods and services, and plays an important role in the lives of people and communities.
39. A UK wide answer to social care funding matters is preferable, as it could take account properly of the important interlinks with the tax and benefits system. However, given that a UK wide answer does not appear likely in the short to medium term, we need to develop sustainable long term solutions for Wales. The IMG has undertaken extensive work to explore options for long-term improvement, including exploring new models of care, offsetting elements of charges, and service quality improvements from investments in the social care workforce. These areas would require increased annual investment, and the Group has considered the potential use of taxes in the longer-term to support the considerations of a future government.
40. However, the spread of COVID-19, and the actions to contain it, have led to a sharp increase in government borrowing and debt²⁶. The outlook for economic activity and the public sector finances in Wales, and other countries, remains highly uncertain. It is a very challenging fiscal environment and highly uncertain future. The Office for Budget Responsibility's most recent Fiscal Sustainability Report concluded that "in almost any conceivable world there would be a need, at some point, to raise tax revenues and/or reduce spending (as a share of national income) to put the public finances on a sustainable path".²⁷
41. The pandemic along with the current economic and fiscal climate has had a significant impact on the work of the IMG. The IMG concluded that a tax solution for raising funds for social care is now a longer-term potential solution and not a likely solution in the near future.

Disposable plastics tax

UK Plastic Packaging Tax

42. 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

²⁴ *A Healthier Wales: long term plan for health and social care:*

<https://gov.wales/healthier-wales-long-term-plan-health-and-social-care>

²⁵ *Prosperity for All: economic action plan:*

<https://gov.wales/prosperity-all-economic-action-plan>

²⁶ The Office for National Statistics estimated that UK Public sector net borrowing (excluding public sector banks, or PSNB ex) is estimated to have been £8.8 billion in January 2021, £18.4 billion more than in January 2020, which is both the highest January borrowing since monthly records began in 1993 and the first January deficit for 10 years. Public sector net debt (excluding public sector banks, or PSND ex) rose by £316.4 billion over the first 10 months of this financial year to reach £2,114.6 billion at the end of January 2021, or around 97.9% of GDP; maintaining a level not seen since the early sixties.

²⁷ <https://obr.uk/fsr/fiscal-sustainability-report-july-2020/>

Responsibility (EPR) for packaging, and a Deposit Return Scheme for drinks containers.

43. The UK Government announced a further consultation on the detailed design of the plastic packaging tax as part the UK Budget in March 2020. In August 2020, the Welsh Government, WRAP Cymru, HM Treasury, and HMRC led engagement events to encourage Welsh stakeholders to submit their views. A summary of responses to the policy design consultation was published in November²⁸. The primary legislation was introduced in the Finance Bill in 2021 to establish the tax and set out its key features. This will be followed by publication of the secondary legislation and guidance giving more detail to aid businesses in their preparation for introduction of the tax, and to meet the new requirements from April 2022.

Tax or charges on single-use plastic cups

44. The Welsh Government is currently building an evidence base to assess the merits of introducing a tax or charge on single-use plastic cups. The Welsh Government is also working with UK Government on wider research to gain a better understanding of the single-use cup market and usage. The 'Beyond Recycling' strategy was published in March 2021²⁹ and sets out a position to develop options for a tax or charge on single-use plastic cups and food containers in Wales – this will include action to remove unnecessary single-use items including single-use plastic cups from events in Wales.
45. Within the proposed EPR scheme for packaging, waste producers of commonly littered packaging, such as fast food packaging and single-use cups, will be made responsible for the costs of end of life management of these products. This will place a strong incentive on these producers to seek to prevent littering. In addition, retailers of single-use cups will be required to provide in-store takeback of single use cups and ensure they are recycled.
46. Any potential tax or charge measure on single-use drinks cups would need to be carefully coordinated with the respective initiatives for a plastic packaging tax, EPR schemes for packaging and bans on specific single-use plastic items. It will also be important that any potential social and economic impacts are considered and factored into policy design to ensure a proportionate impact across different social groups and businesses in Wales.

Tourism tax

47. Some limited work exploring the revenue raising potential for a Tourism Tax in Wales is being taken forward following a period when the work has been paused due to the impact of COVID-19. It will be for the next Welsh Government to take this forward if it wishes. This would be within the context of the need to support the tourism, hospitality and events sector during the recovery.

²⁸ Summary of responses to the plastic packaging tax policy design consultation:
<https://www.gov.uk/government/consultations/plastic-packaging-tax-policy-design>

²⁹ 'Beyond Recycling' strategy, published February 2021:
<https://gov.wales/beyond-recycling>

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 GOWA 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 bonds³⁰.

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

In response to a request from the Welsh Government³¹, the UK Government introduced the Government of Wales Act 2006 (Variation of Borrowing Power) Order 2018, which came into force on 1 December 2018. The Order amends section 121(1A) of GOWA 2006 to provide that, with the approval of the Treasury, in addition to being able to borrow by

³⁰ 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>

³¹ Cabinet statement about Welsh Government bonds (October 2018):

<https://gov.wales/written-statement-welsh-government-bonds>

way of loan sums required by them for the purpose of meeting capital expenditure, the Welsh Ministers can also issue bonds (other than bonds transferable by delivery).

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.

Capital borrowing

48. 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. While budget plans for 2020-21 were set on the basis of utilising £125m of capital borrowing in 2019-20 and 2020-21 as a result of in-year allocations of funding no further borrowing has been undertaken by Welsh Government during this period. Capital spending plans for 2021-22 have been set on the basis of utilising full capital borrowing of £150m, as outlined in the Welsh Government's draft Budget published on 21 December 2020.
49. 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.

Revenue borrowing and the Wales Reserve

50. 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.
51. 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.
52. As of 1 April 2020, the Wales Reserve held £335.9m to support future Welsh Government spending. £175m of this has been drawn to support 2020-21 in-year spending.

Block grant adjustment and forecasting

Block grant adjustment

53. The methodologies for adjusting the Welsh block grant following the devolution of tax powers were agreed as part of the Welsh Government's Fiscal Framework³². The adjustments for 2019-20 in relation to Land Transaction Tax and Landfill Disposals Tax were originally based on the forecasts in the *Economic and Fiscal Outlook* (October 2018) published by the Office for Budget Responsibility (OBR)³³. These were updated using the OBR forecasts published in March 2020. The adjustments for 2020-21 have been based on the same March 2020 forecast and were then updated using the OBR's November *Economic and Fiscal Outlook*.
54. The adjustment accompanying the introduction of the Welsh Rates of Income Tax was set equal to the revenues in 2019-20, a transitional year. For 2020-21, the adjustment is based on the OBR's March 2020 forecast. The first outturn data for the Welsh Rates for 2019-20 will be published by HMRC later this year.

Forecasting

55. In line with the Fiscal Framework Agreement, the Welsh Government has entered into an arrangement with the OBR for the provision of independent Welsh tax revenue forecasts for the 2020-21 Budget and beyond. The arrangement with the OBR started in April 2019, with supporting documents published on the OBR's website³⁴.
56. The OBR produced two reports in support of the 2020-21 budget process. A full *Welsh Taxes Outlook* report accompanied the draft Budget in December 2019, and an update was published alongside the final Budget in February. These included forecasts for Land Transaction Tax, Landfill Disposals Tax, and the Welsh Rates of Income Tax, using the OBR's most recent macro-economic forecast and relevant specific data for Wales. As part of the Welsh Government's budget process for 2021-22, the OBR published its second *Welsh Taxes Outlook* alongside the Welsh Government's draft Budget for 2021-22 on 21 December 2020³⁵.
57. As part of the new arrangements, the OBR has increased its presence in Wales by engaging more substantially with interested organisations and individuals. This has included regular appearances at the Senedd Finance Committee and meetings with the Minister for Finance and Trefnydd. A representative of the OBR's Budget Responsibility Committee gave the opening presentation at the Welsh Government's virtual tax conference in October 2020.
58. For the first two years of tax devolution, the Welsh Government produced its own tax revenue forecasts, independently assured by Bangor Business School. An evaluation

³² *The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework*, December 2016:
<https://gov.wales/sites/default/files/publications/2018-11/agreement-on-welsh-government-fiscal-framework.pdf>

³³ OBR *Economic and fiscal outlook*, October 2018:
<https://obr.uk/efo/economic-fiscal-outlook-october-2018/>

³⁴ OBR's *Welsh Taxes Outlook* – December 2019:
<https://obr.uk/welsh-taxes-outlook-december-2019/>

³⁵ OBR's *Welsh Taxes Outlook* – December 2020:
<https://obr.uk/welsh-taxes-outlook-december-2020/>

of the 2018-19 forecasts was published as an annex to the Tax Policy Report 2019, alongside the Welsh Government's draft Budget in December 2019. An evaluation of the 2019-20 forecasts was published as part of the Tax Policy Report in March 2021.

Appendix 1: Regulations

Statutory instruments made December 2020 - March 2021.

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

The Landfill Disposals Tax (Tax Rates) (Wales) (Amendment) (No. 2) Regulations 2020 (made in December 2020)

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

The Land Transaction Tax (Tax Bands and Tax Rates) (Wales) (Amendment) Regulations 2020 (made in December 2020)

The Land Transaction Tax (Specified Amount of Relevant Rent) (Wales) (Amendment) Regulations 2021 (made in February 2021)

The Land Transaction Tax (Temporary Variation of Rates and Bands for Residential Property Transactions) (Wales) (Amendment) Regulations 2021 (made in March 2021)

Appendix 2: Engagement

Tax Engagement Group

Following the successful introduction of Welsh Rates of Income tax, Land Transaction Tax, and Landfill Disposals Tax, and the establishment of the Welsh Revenue Authority, the work of the Tax Advisory Group had been completed, and the group was stood down in February 2020.

In order to continue providing a forum for organisations representing businesses, local government, and the third sector to discuss tax policy developments, the Minister for Finance and Trefnydd has established a Tax Engagement Group, which she chairs.

The Tax Engagement Group includes representatives of:

- Bevan Foundation
- CBI Wales
- Chartered Institute of Taxation
- Federation of Small Businesses
- Institute of Chartered Accountants in England and Wales
- Institute of Directors
- Law Society
- Wales Council for Voluntary Action
- Welsh Local Government Association

The group, which met for the first time in November 2020, has the following remit:

- i) To comment on the impacts of existing and emerging tax policy developments on communities and businesses in Wales;
- ii) To consider the content of the Welsh Government's tax policy work plan;
- iii) To actively support engagement activity intended to increase levels of awareness, knowledge and understanding of Welsh taxes, tax policy and administration among people and businesses in Wales.

Further information about the Tax Engagement Group is available on the Welsh Government's website³⁶.

Tax conference

In October 2020, the Minister for Finance and Trefnydd hosted the Welsh Government's third annual Welsh Taxes Conference. This year's event was held online, due to the restrictions on public meetings during the COVID-19 pandemic. The event attracted more than 100 attendees across the range of stakeholders from business, the public sector, academia and the third sector. The presentations covered: the economic and fiscal scenarios during the COVID-19 pandemic, managing tax risk, research on public attitudes to tax, the Welsh Revenue Authority's experience of operating a Cloud based revenue service, and a question and answer session.

³⁶ Tax Engagement Group:
<https://gov.wales/tax-engagement-group>

Welsh Revenue Authority engagement activity

The Welsh Revenue Authority (WRA) has developed '*Our Approach*' to explain how it wants to work collaboratively with all of its stakeholders – including taxpayers, their representatives, professional bodies and the wider public, government colleagues and partner organisations – to ensure taxes are collected and managed in a way that is supportive and fair, and delivers the best value for money for the Welsh public. Adopting a partnership-led approach is fundamental to the way the WRA collects and manages the devolved taxes in Wales.

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 hosts events with local Law Societies and runs its own webinars – webinars have proved a very successful way of reaching a large number of people during the COVID-19 pandemic. 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) 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, plus 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 tax system, 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

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, and factsheets and leaflets: 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 channel³⁷.

³⁷ <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#HolthamCommissionreports>

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 Senedd Cymru

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>

Enabling changes to the Welsh Tax Acts

The ability to make changes to tax legislation quickly is intended to enable the Welsh Government to respond to scenarios where it is desirable for the change to have effect immediately, or very soon thereafter. While work on drafting legislation continues to be progressed, the decision about whether to take this forward through the legislative process will be a matter for the next Senedd.

A summary of the responses to the *Tax Devolution: Enabling changes to the Welsh Tax Acts* consultation was published on 21 December 2020:

<https://gov.wales/enabling-changes-to-welsh-tax-legislation>

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. Work plans and progress reports describe issues under consideration, and provide analysis, findings and emerging conclusions:

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

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://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/294470/Wales_Bill_Command_Paper_-_English.pdf

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 Senedd 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

ATS	Annual Tax Summary
EPR	Extended Producer Responsibility
GOWA 2006	Government of Wales Act 2006
HMRC	Her Majesty's Revenue and Customs
LDT	Landfill Disposals Tax
LTT	Land Transaction Tax
NAO	National Audit Office
NRW	Natural Resources Wales
OBR	Office for Budget Responsibility
PAYE	Pay As You Earn
PSNB ex	Public sector net borrowing, excluding public sector banks
PSND ex	Public sector net debt, excluding public sector banks
WRA	Welsh Revenue Authority