Llywodraeth Cymru
Welsh Government

Welsh Government

Welsh Tax Policy Report 2019

December 2019

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Foreword

The tax devolution process begun by the Wales Act 2014 was completed in April. We have in place two fully devolved taxes (Land Transaction Tax and Landfill Disposals Tax), the Welsh Revenue Authority to collect them, and rate-setting powers over the UK Government's Income Tax. Together with non-domestic rates and council tax, some £5bn of spending on Welsh public services is now funded by revenue collected and managed by Welsh central or local government.

With the new arrangements in place, the Welsh Government is increasingly focused on how we can operate taxes more effectively and efficiently, with the aim of becoming an international exemplar for tax policy development and administration.

In February, I announced my tax work plan for 2019, identifying the issues which would be taken forward during the year. The various topics examine how taxes can support policy goals while funding essential public services, how tax administration can be improved, and how knowledge and understanding of taxation can be enhanced for everyone, according to their needs - from taxpayers to tax advisers, administrators and experts.

There are many challenges to this agenda, and it is clear many of our ambitions will be longer term developments. They will also only be achieved with the help of stakeholders from across all parts of Wales. To date, the Welsh Government has benefitted enormously from the indispensable assistance of a great many individuals and organisations who have contributed ideas and expertise, and represented the views and experiences of sectors of Welsh society through a variety of forums, including the Tax Advisory Group, the Tax Expert and Reference Groups, and the Welsh taxes conference.

This report summarises the progress made so far. We have made a good start but there is much more to do. In the new year, I will be announcing my tax work plans for 2020, drawing on what we have learned so far. If you have any thoughts about the issues we should be examining, please get in touch with the Welsh Treasury, using the contact details at the end of this report.

Rebecca Evans.

Rebecca Evans AM
Minister for Finance and Trefnydd

Background

Welsh taxes

1. The way public services are funded in Wales has changed in recent years, following the introduction of Welsh taxes - Land Transaction Tax (LTT), Landfill Disposals Tax (LDT), and Welsh Rates of Income Tax (WRIT)[1].

2. LTT and LDT were introduced on 1 April 2018, replacing the UK taxes Stamp Duty Land Tax (SDLT) and Landfill Tax (LfT) in Wales. They are fully devolved taxes, which means the Welsh Government has complete control over their design. The Welsh Revenue Authority (WRA) was established in October 2017 to collect these taxes.

3. WRIT, which was introduced on 6 April 2019, is partially devolved to Wales, enabling Welsh Ministers to vary the rates paid by Welsh basic, higher and additional rate taxpayers[2]. Her Majesty's Revenue and Customs (HMRC) retains responsibility for most aspects of the tax, including the collection and administration, setting the personal allowance and income thresholds, and taxing income from savings and dividends.

4. In return for the tax revenue generated by the Welsh taxes, the UK Government has reduced the block grant funding it provides to Wales by an equivalent amount. It is essential that Welsh taxes are operated efficiently and effectively, to generate the revenue needed to fund Wales' vital public services - such as health, social services, education, and transport infrastructure.

Welsh tax policy

5. The devolution of tax powers is allowing the Welsh Government 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. The Welsh Government set out its approach in 2017, in the Tax Policy Framework[3]. This includes five principles to shape Welsh taxes:

   Welsh taxes should:
   - Raise revenue to fund public services as fairly as possible;
   - Deliver Welsh Government policy objectives, in particular supporting jobs and growth;
   - 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.

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[1] The tax powers were devolved via the Wales Act 2014:
http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted
The Wales Act 2017 removed a requirement for a referendum about Income Tax devolution:
http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted

[2] In most cases, Welsh taxpayers are defined by their main place of residence but there are exceptions. A full definition is provided in the Wales act 2014:
http://www.legislation.gov.uk/ukpga/2014/29/section/8/enacted

[3] Tax policy framework (June 2017):
https://gov.wales/sites/default/files/publications/2018-10/tax-policy-framework.pdf

6. The Welsh Government has introduced an annual tax policy cycle, which comprises publication of a work plan, followed by research, analyses and engagement, and then a report on the emerging findings and conclusions, as part of the draft Budget process.

7. Publication of the work plan is intended to raise awareness among stakeholders and other interested people and organisations about what the Welsh Government is investigating, enabling them to ask questions, and contribute views, knowledge and experiences. To support this, the Welsh Government has held one-day tax conferences in summer 2018 and 2019, providing opportunity to discuss some of the work-streams and other tax issues in more detail.

8. The next tax policy work plan will be announced in early 2020.

Implementation of Welsh taxes

Background

9. Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT) were introduced on 1 April 2018, and are collected and managed by the Welsh Revenue Authority (WRA). Welsh Rates of Income Tax (WRIT) were introduced on 6 April 2019, and are collected and managed by HMRC.

10. The LTT rates remain the same as those which have applied since April 2018. Whilst the rates and bands are kept under review, the Welsh Government has maintained the same rates to create stability for taxpayers, consistent with our tax principles. The other two land transaction taxes in the UK are also subject to infrequent rate or band changes. For UK Stamp Duty Land Tax, the main residential rates and bands were last changed in 2014, and for non-residential transactions in 2016. In Scotland, the Land and Buildings Transaction Tax main rates and bands for residential transactions have not changed since the tax went live in 2015, although changes were made to the non-residential rates and bands in January 2019.

11. For LDT, the Welsh Government committed to maintain consistency with the UK Government's approach to Landfill Tax rates for the lower and standard rate of tax in 2018-19 and 2019-20. This was to support the LDT policy objective of reducing waste going to landfill in Wales, and to protect against the risk of waste being transferred across the Wales-England border to take advantage of lower rates in one or other country. The initial rates which applied on 1 April 2018 were increased on 1 April 2019 in line with inflation, consistent with Landfill Tax in England.

12. The WRIT rates in 2019-20 have been set so the tax rate paid by Welsh taxpayers is the same as that paid by taxpayers in England and Northern Ireland. The Welsh Government has committed to not increasing Income Tax rates during this National Assembly term.

Evidence and analysis

13. The WRA has published data for 2018-19 and the first few months of 2019-20 for both of the fully devolved taxes[4].

14. For LTT, the WRA has also published a 2018-19 annual statistical release[5]. This publication provides a more detailed account of LTT in its first year, allowing for analysis by local authority and trends over the year.

15. The first outturn data for WRIT, which will be for 2019-20, will be published by HMRC in the summer of 2021.

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[4] LTT and LDT statistics:
https://gov.wales/land-transaction-tax-statistics
https://gov.wales/landfill-disposals-tax-statistics
[5] *Land Transaction Tax statistics: April 2018 to March 2019*:
https://gov.wales/land-transaction-tax-statistics-april-2018-march-2019-html

16. The 2020-21 revenue forecasts by the Office for Budget Responsibility (OBR) are:

WRIT	£2,206m
LTT	£245m
LDT	£36m

17. The Welsh Government forecasts of LDT and LTT for 2018-19 which were assured by Bangor University have been evaluated (see Annex one).

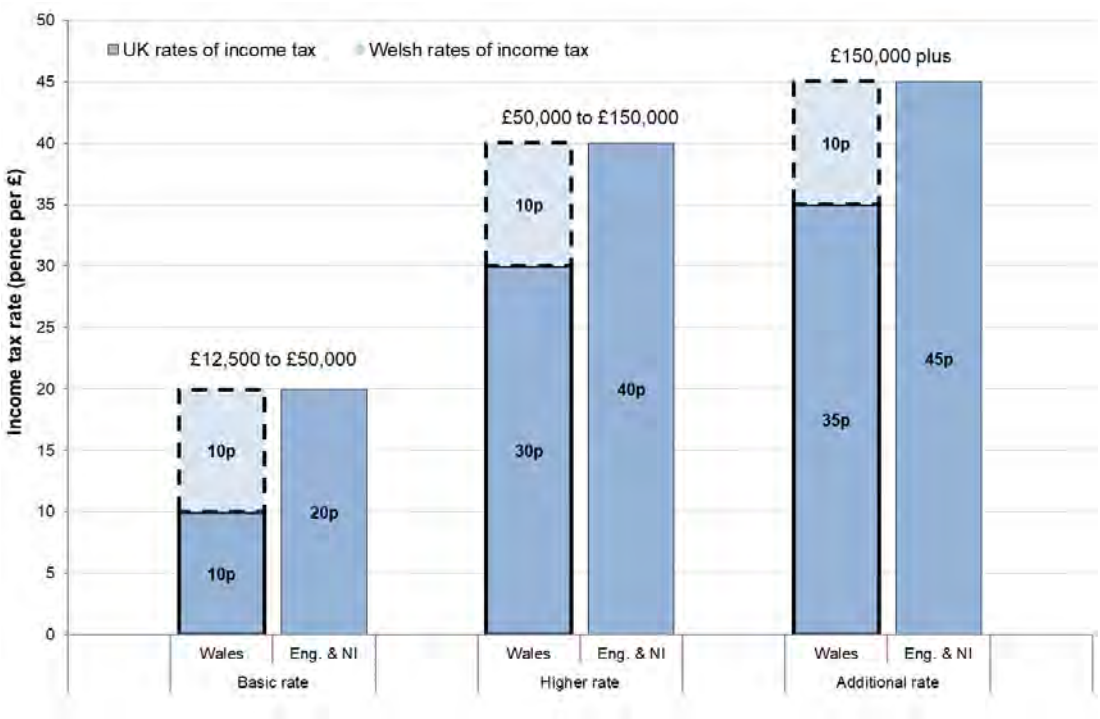
Outcome and next steps

18. Should the next UK Government make policy changes to Income Tax, Stamp Duty Land Tax or Landfill Tax policy in a way which impacts on Welsh tax revenue and affects the Welsh Government's net resources, the Welsh Government will review whether its tax plans remain appropriate for Wales.

Welsh Rates of Income Tax

19. For 2020-21, the Welsh Government intends to set the rates for WRIT at 10p. The rates of Income Tax paid by Welsh taxpayers will therefore continue to be the same as those paid by English and Northern Irish taxpayers. The National Assembly will need to confirm this proposal through a motion prior to the final Budget. The motion will be laid prior to the final Budget debate, enabling the vote on the Welsh rates to be taken before the final Budget debate. Figure one shows the rates and thresholds, based on the 2019-20 Income Tax thresholds and personal allowance[6].

Figure one: Income Tax in Wales, 2019-20



In 2019-20, income up to £12,500 is not liable for Income Tax due to the personal allowance.

[6] The Income Tax thresholds and personal allowance for 2020-21 will be set by the new UK Government.

Land Transaction Tax

20. For 2020-21, LTT rates will remain unchanged and are set out below. This is to maintain consistency and stability in the property markets in Wales. As there is no change to the rates, there is no requirement for the National Assembly to approve these rates.

Table one: LTT residential main rates

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

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

Table two: LTT non-residential main rates

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

Table three: LTT non-residential lease rent rates

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

Landfill Disposals Tax

21. For 2020-21, the Welsh Government intends to increase the tax rates with inflation from 1 April 2020, subject to confirmation from the National Assembly, continuing the policy of maintaining consistency with the UK Government's approach to Landfill Tax rates. The proposed rates, which are subject to approval by the National Assembly, will therefore increase as set out in the table below.

Table four: LDT rates, £ per tonne

Price threshold	2019-20	2020-21
Standard rate	£91.35	£94.15
Lower rate	£2.90	£3
Unauthorised disposals rate	£137.00	£141.20

Tax policy work plan 2019

A) Develop tax policy which raises revenue to fund public services as fairly as possible, aligning with Welsh Government policy priorities

In 2017, the Welsh Government committed to commission research into the resilience of the Welsh tax-base, in the context of the devolution of tax powers. The Wales Centre for Public Policy (WCPP) published its analysis in May 2018, highlighting the longer term risks to the Welsh tax-base and setting out some possible areas for consideration. The Welsh Government worked with the authors to build knowledge and understanding about these challenges both internally and externally over 2018.

1) We will develop and share our proposals to build the Welsh tax-base over the medium to longer term.

2) We will develop a wider policy framework for consideration of non-residential land and property taxation, informed by existing published evidence (including the WCPP report[7]), research into alternative local taxes, and aligning with the progress we are making to devolve powers over a Vacant Land Tax to Wales.

3) We will continue to consider the evidence on taxation of residential property, including non-primary residences. The Welsh Revenue Authority (WRA) will publish the first year's data on Land Transaction Tax (LTT) higher rates in different local authority areas, and we will continue to monitor the effectiveness of legislation in this area (both from the 2017 work plan).

4) After Welsh Rates of Income Tax go live on 6 April 2019, we will continue to work with Her Majesty's Revenue and Customs (HMRC) to ensure effective management. We will look to promote fairness in tax policy across the Welsh taxes, continuing work on funding options for social care in the future, delivering our local taxation agenda, and promoting a considered and progressive approach to personal taxes.

5) We will continue to ensure the development of tax policy and other policy areas are aligned. We will continue: making the case for devolution of Air Passenger Duty to Wales; progressing Tourism Tax and the local taxation agenda; and working with the UK Government on disposable plastics and other environmental taxes.

B) Build a more effective and coordinated approach to tax across existing Welsh taxes and across the wider tax landscape

1) We have made a number of improvements to the Welsh tax system in 2018, including adjustments to the legislation, improvements to WRA guidance and services such as the LTT return. We will continue to monitor whether Welsh taxes are operating as intended, making changes as appropriate.

2) We will build the evidence base to consider whether the Welsh tax system could be more efficient and proportionate, delivering more for businesses,

[7] *The Welsh Tax Base: Risks and Opportunities after Fiscal Devolution* (July 2018): https://www.wcpp.org.uk/publication/the-welsh-tax-base-risks-and-opportunities-after-fiscal-devolution/

communities, citizens, wider public sector organisations and taxpayers in Wales. This work will seek to look across the Welsh taxes and include:

i) Publishing objectives on local tax administration;
ii) Engaging with business, taxpayers and representative groups across Wales, communicating changes to the tax system which will directly affect businesses;
iii) Considering the case for taking a more strategic and joined-up approach to tax administration priorities over the medium term.

3) We will consider options for developing information resources, including data-sharing and analysis, to strengthen the evidence base for tax policy decisions and improved tax administration in Wales. The WRA will elaborate on its role and priorities in relation to this in its 2019-22 corporate plan.

4) We will establish agreed governance mechanisms with the UK Government for the administration of Welsh Rates of Income Tax following implementation in April 2019, in particular the publication of, and commitment to, the HMRC service level agreement.

C) Engagement, communications and capacity building

1) We are striving for a best practice approach to our tax powers, for example our transparent and outward-focused tax policy making process. In 2019, we will build on this to improve how Welsh taxes are designed and operated, integrating policy and implementation, and the link between tax and non-tax policy, as far as possible. The WRA is well-placed to support this, and will elaborate on its role in this in its 2019-22 corporate plan.

2) We will develop the audience base for engaging on taxation matters, promoting a positive case for taxation by illustrating the link between taxes and spend on public services in Wales.

i) Engage and communicate with stakeholders to increase understanding of our approach to taxation in Wales and enable us to develop tax policy through collaboration and involvement;
ii) Develop a narrative around tax and spend which resonates with stakeholders and citizens more widely, and through which we can build knowledge and awareness of Welsh taxes across Wales.

3) We will develop a long-term plan to build capacity and capability in Wales on tax policy and administration across the public and private sectors, with focus on developing linkages and informed debate.

4) We will work with the UK Government and the National Assembly to ensure UK tax policy, and tax decisions on the devolved tax equivalents, are understood and managed effectively in Wales.

5) We will work with the UK Government and other devolved administrations, as well as international partners, to share good practice, to collaborate to address shared challenges, and to promote our tax policy principles and strategic approach to developing tax policy.

A. Develop tax policy which raises revenue to fund public services as fairly as possible, aligning with Welsh Government policy priorities

A1. The Welsh tax-base

"We will develop and share our proposals to build the Welsh tax-base over the medium to longer term."

Background

22. The National Strategy: Prosperity for All sets out the Welsh Government's ambition for a Welsh economy which delivers individual and national prosperity, while spreading opportunity and tackling inequality. The strategy recognises the importance of economic growth in generating the tax revenue that enables the delivery of high quality public services.

Evidence and analysis

23. The devolved tax-base faces certain risks but it also presents opportunities for the Welsh Government to design policies to develop the tax-base and thereby increase tax revenues.

1. A declining working-age population and an increasing dependency ratio

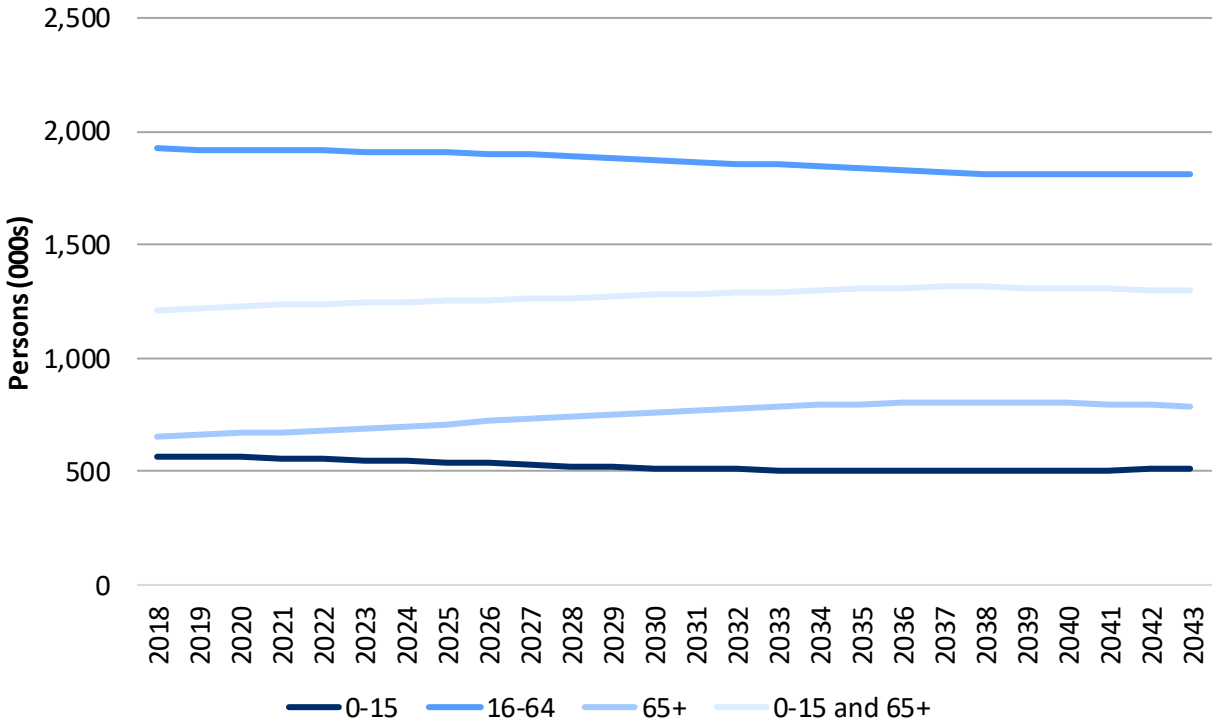
24. Figure two illustrates that people aged 16 to 64 is projected to decrease from 1,921,371 in 2019 to 1,813,517 in 2043[8]. Over the same period, children under 16 and people aged 65 or over is projected to increase from 1,223,659 in 2019 to 1,296,321. As a result, the number of dependants per 1,000 persons of working age is projected to increase from 637 in 2019 to 715 in 2043[9]. The corresponding ratio in the UK is also projected to increase but from a lower level - from 600 in 2019 to 696 in 2043[10].

[8] Source: 2018-based national population projections for Wales, Office for National Statistics: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/bulletins/nationalpopulationprojections/2018based

[9] https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/tablea15principalprojectionwalessummary

[10] https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/tablea11principalprojectionuksummary

Figure two: Welsh population projections



Source: 2018-based national population projections for Wales, Office for National Statistics[11]

2. A larger proportion of the population outside the workforce

25. Inactivity rates in Wales have been persistently higher than the UK for decades, but fell steeply recently to be more comparable to the UK rate. Figure three illustrates that, in the year ending December 2018, the economic inactivity rate excluding students and retirees in Wales was 16.5 per cent. For the same period, the UK rate was 15.1 per cent. This is a gap of 1.4 percentage points between Wales and the UK.

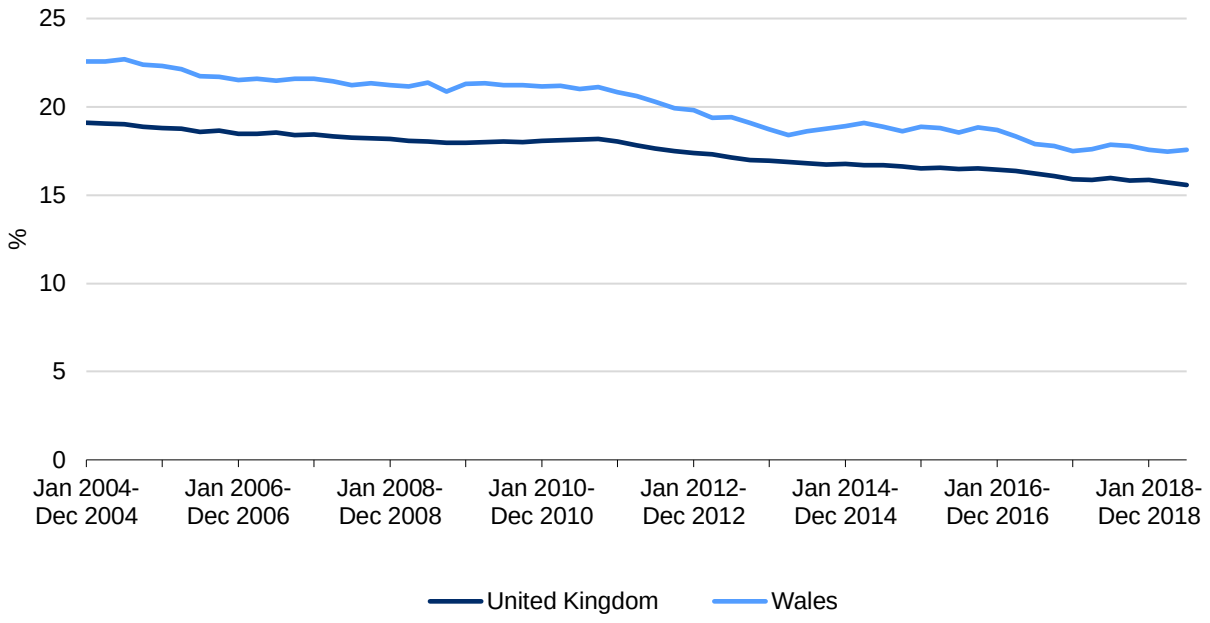
3. Lower labour productivity

26. Over the long term, the key driver of higher material living standards is improvements in productivity - the efficiency with which outputs are produced from inputs. Productivity improvements generates the scope to increase real wages and provides the potential sources of tax revenues. Figure four shows that labour productivity, measured by gross value added balanced approach (GVA (B))[12], in Wales over the last 15 years has been around 80 to 85 per cent of the UK average.

[11] 2018-based national population projections for Wales, Office for National Statistics: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/tablea15principalprojectionwalessummary

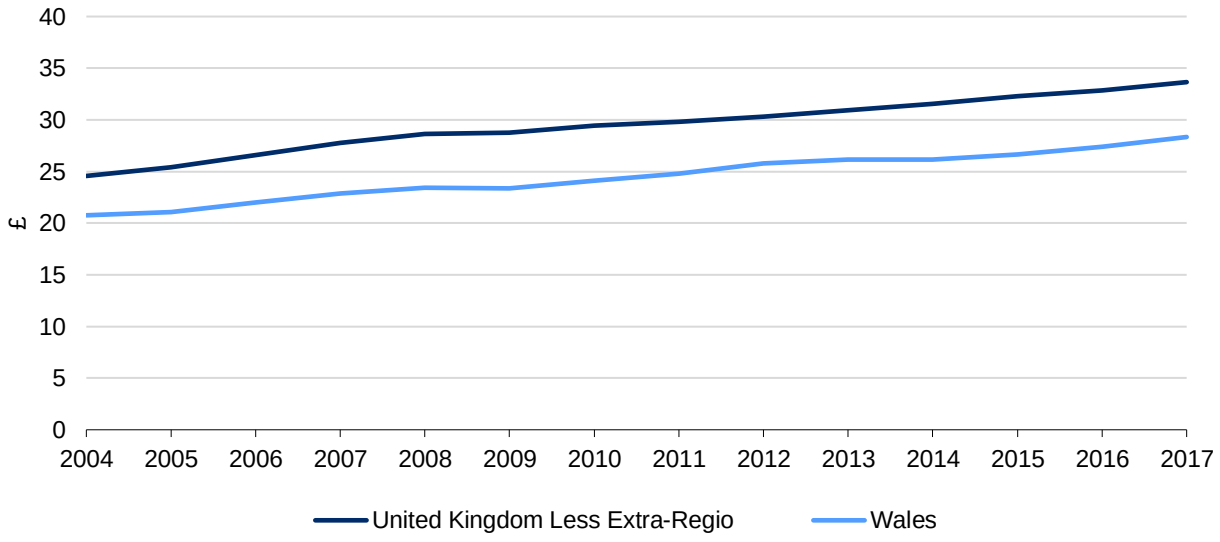
[12] Further information about GVA (B) is provided at: https://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedbalanceduk/1998to2017

Figure three: Economic inactivity rate excluding students and retirees, persons



Source: Welsh Government analysis of the Annual Population Survey, Office for National Statistics

Figure four: GVA (B) per hour worked in Wales and the UK



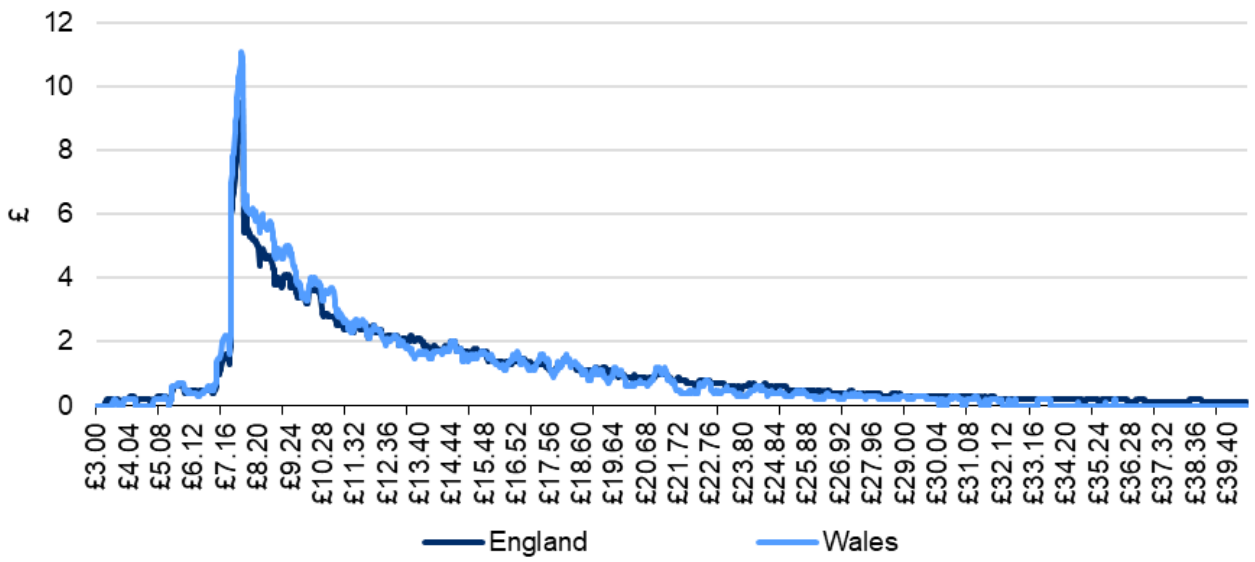
Source: Sub regional productivity, Office for National Statistics[13]

[13] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/datasets/subregionalproductivitylabourproductivitygvaperhourworkedandgvaperfilledjobindicesbyuknuts2andnuts3subregions

4. Lower average earnings

27. The lower productivity in Wales is also reflected lower average earnings in Wales (figure five). The distribution of hourly earnings in England and Wales follows the same broad distribution but with relatively fewer jobs with highest hourly earnings.

Figure five: Distribution of hourly earnings for England and Wales, 2017



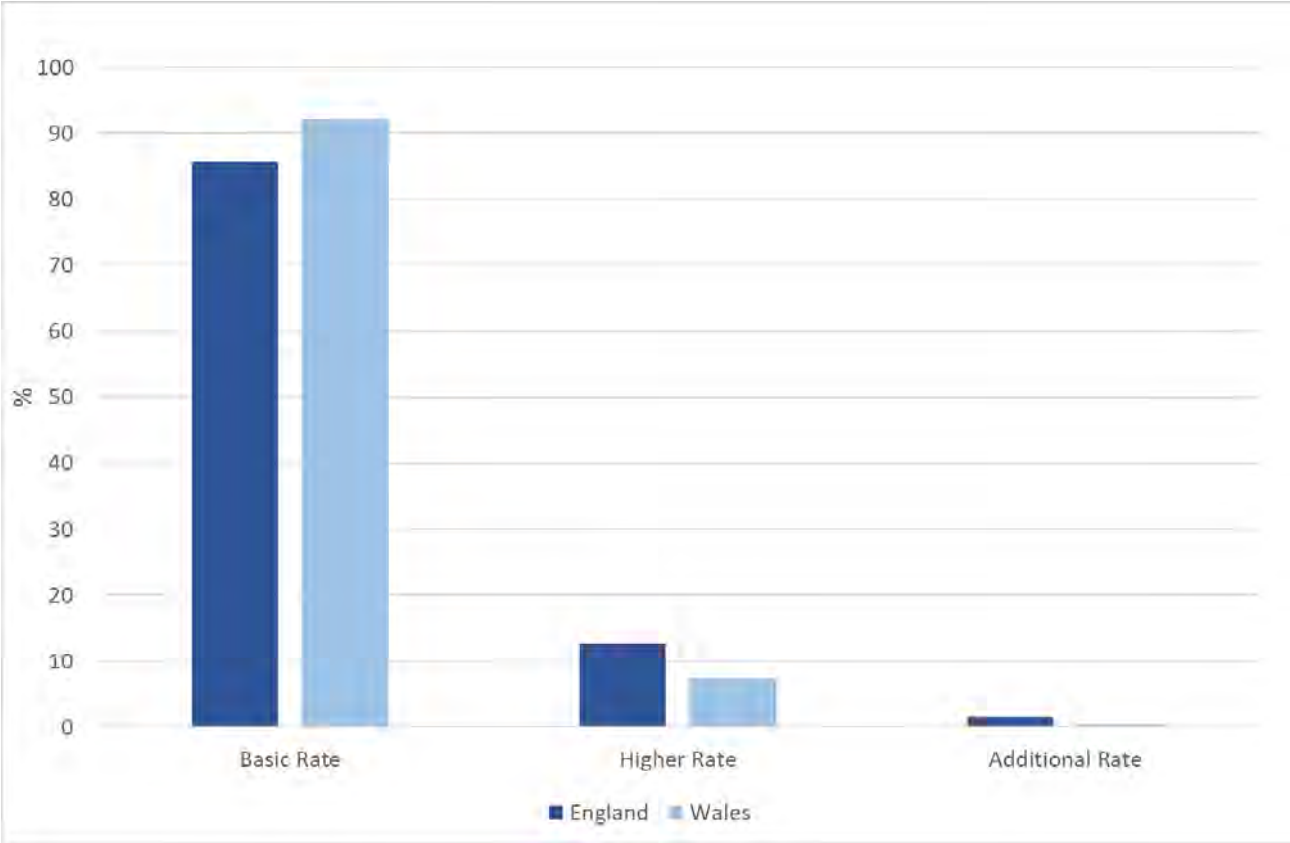
Source: Office for National Statistics, Annual Survey of Hours and Earnings

Notes
1. 2017 data are provisional.
2. Each point on the x-axis represents a rolling sum of the density of jobs receiving greater than or equal to 20 pence below, and strictly less than 20 pence above, the stated hourly earnings.

5. Fewer Higher and Additional rate taxpayers

28. Lower average earnings and relatively fewer very high earners, are reflected in the distribution of individual Income Taxpayers by marginal rate (figure six). Around six thousand individuals in Wales pay Income Tax at the additional rate - less than half of one per cent of all Income Tax payers - roughly a third of the percentage in England, where more than 1.5 per cent of Income Tax payers pay the additional rate.

Figure six: The distribution of individual Income Tax payers by marginal rate in Wales and England



Source: HMRC, number of income tax payers by country, 2019-20[14]

Outcome and next steps

29. We will address these issues using policy levers from across the Welsh Government.

Migration policy

30. We celebrate the fact that citizens from outside the UK have come to Wales as neighbours, colleagues, friends and family for many years. They make an important contribution to our economic prosperity and our tax-base. Recognising this and the interconnectivity between migration and our devolved responsibilities for public services such as education, health and local government, we will continue to press the UK Government to ensure we will be given the opportunity to contribute our views, and that these views will be considered, before the UK Government sets out its future immigration policy.

Supporting EU citizens to stay in Wales

31. We recognise the current circumstances and uncertainty around the UK's departure from the EU must be very unsettling. We will use every opportunity to ensure the rights

[14] https://www.gov.uk/government/statistics/number-of-individual-income-taxpayers-by-marginal-rate-gender-and-age-by-country

and status of EU citizens in Wales are protected. In particular, we are keen to support EU nationals in applying for the EU Settlement Scheme to secure their entitlements after December 2020. The Welsh Government has funded Citizens Advice Cymru and Newfields Law to provide free and independent legal advice to EU citizens applying for the scheme. In order to ensure all those entitled to support are aware of how to receive it, we are working with a network of volunteers through the Ethnic Minorities and Youth Support Team and Settled, to reach out to communities in Wales.

32. In addition to support we are funding, we are also co-ordinating Home Office and Welsh Government advice and support services to ensure these services will be joined up in a coherent way and provide a comprehensive support package for EU citizens in Wales.

The National Development Framework

33. The National Development Framework (NDF) will support the growth in the tax-base by identifying where housing and employment, and the services and infrastructure which support them, will be located.

34. The Welsh Government will submit the NDF to the National Assembly in April 2020 with the aim of publishing the final version in September 2020. The NDF will cover the 20 year period up to 2040 and will be reviewed every five years.

35. The NDF identifies three national growth areas – Wrexham and Deeside, Swansea Bay and Llanelli, and Cardiff, Newport and the Valleys. The Welsh Government wishes to see national growth focussed in these areas over the next 20 years. The NDF will inform Welsh Government decisions on spending and investment to support growth in the areas.

36. The NDF identifies that 114,000 new homes are needed in Wales by 2038 and these will extend the tax-base for residential properties. We have committed to delivering 20,000 affordable homes during this government term. Good progress is being made towards achieving the target. We are confident we can deliver on this commitment, due in no small part to our record investment of £1.7bn in housing during this National Assembly term.

Fair Work

37. At the beginning of 2017, the then First Minister set out an ambition for Wales to become a Fair Work Nation. Building on the work of the Fair Work Board, in May 2019, the Fair Work Commission published it report, *Fair Work Wales*, setting out the results of the Commission's work defining fair work and identifying levers for promoting it in Wales.

38. Workers being fairly rewarded is a key element of the definition of the definition of Fair Work recommended by the Commission:
"Fair work is where workers are fairly rewarded, heard and represented, secure and able to progress in a healthy, inclusive environment where rights are respected."

39. The Welsh Government has immediately and unequivocally accepted this definition and it will be adopted and used across Welsh Government and in its promotion of fair work.

40. The Commission's findings will be used to inform the development of the proposed Social Partnership Act. The intention is to introduce legislation by July 2020 and pass the legislation by May 2021.

Economic Action Plan and Employability Plan

41. Evidence shows that improving skills is the most direct way of helping more people into employment and increasing the earnings of those in employment. Thus, improving the skills of the people of Wales is central to improving the Welsh tax-base.

42. The Welsh Government's Economic Action Plan[15] signals that businesses seeking financial support from the Welsh Government will be expected to contribute to at least one of our five Calls to Action, including high quality employment, skills development and fair work[16].

43. The Economic Action Plan also indicated a shift towards a regional model of economic development to help drive opportunities in every part of Wales. We will use the development of the Regional Economic Frameworks to further strengthen the Welsh tax-base.

44. The Welsh Government's Employability Plan[17] sets out our ambitions to support people into work today, whilst also preparing the workforce for challenges of the future. Ten year targets were set to close the gap with the rest of the UK to reduce unemployment, economic inactivity, increase qualification levels and increase disability employment.

45. Several components of the plan have already been implemented. Working Wales, the new employability advice service for Wales was launched in May 2019 to reduce the complexity of our existing employability delivery model for young people and adults, and complement regional and community level delivery.

46. Bespoke provision is delivered at varying intensity to support people into employment: £31m is invested at the heart of the community; £426m through Further Education, Community and Work Based Learning. We are investing nearly £7m in 2019-20 to deliver a health focused employment support programme, which includes the Out of Work Peer Mentoring Service, which is helping people recovering from substance misuse and mental health conditions into work, and the In Work Support Service which is providing free and rapid access to therapeutic support to prevent people from falling out of employment due to poor health.

47. We are exceeding the performance profile by seven per cent on Apprenticeships, with this flagship £120m programme continuing to raise the profile of 'on the job' training in Wales. 69,645 apprentices have started since the 100,000 target was introduced.

48. We have improved the financial support for higher education students and part-time learning through a new package of student maintenance grants and loans enabling students, regardless of age, or household or family income, to access higher education.

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[15] https://gov.wales/sites/default/files/publications/2019-02/prosperity-for-all-economic-action-plan.pdf
[16] https://tradeandinvest.wales/our-services/calls-action
[17] https://gov.wales/employability-plan

49. We are investing £2m in Personal Learning Account pilots from September 2019 to support an estimated 1,000 employed adults in low paid and low skilled work to switch careers or enter employment at a higher level in priority sectors.

50. We are testing new approaches to helping people with mental health conditions to stay or to find work through £1.5m UK Government investment in an Individual Placement Support research project.

51. The new £139m Children and Communities Grant has amalgamated a suite of seven existing grants to enable local authorities a greater degree of flexibility to allocate resources to meet local priorities and create efficiencies.

52. We are raising the quality of apprenticeships to increase the return on investment by encouraging learning to at least level three and increasing the uptake at higher levels and priority sectors. Enhanced support retains level two training for young people, disabled people and those seeking Health and Social Care or Childcare framework.

53. An action learning grant of £300,000 is supporting Further Education institutions to deliver flexible adult learning in communities to reduce barriers such as work commitments, transport, childcare and caring responsibilities.

54. Intelligence and labour market information is shaping the deployment of Further Education and Work-based learning provision through £495,000 investment in the three Regional Skills Partnerships.

55. Further activities are already planned to maximise resources to support individuals to achieve better outcomes. Across government, work is underway to increase the labour market participation of disabled people by using existing budgets and refocussing existing programmes to deliver better outcomes for disabled people.

56. Business Wales is committed to supporting new and existing Social Firms to thrive and supporting more disabled people with start-up advice and to create new enterprises.

57. Job Support Wales will launch in April 2020, to streamline investment and reshape employability support into one flexible intervention which will support people into work by addressing their barriers to employment. Job Support Wales will replace Jobs Growth Wales, ReAct, Traineeships, Access and the Employability Skills Programme.

58. We are reforming Post Compulsory Education and Training (PCET) over the next five years by establishing a new Commission for Education Training and Research (CETR) to create a joined up post compulsory education and training system in Wales, which integrates Further Education (including sixth form), Adult Community Learning, Work Based Learning and Universities.

59. We are exploring the potential to build upon interventions such as the £741,000 Healthy Working Wales programme to increase the level and proportion of employers supported, and focus on promoting recruitment and retention of people with disabilities and/or work limiting health conditions, either directly or through signposting.

60. The £1.653m Wales Union Learning Fund (WULF) is being adapted to respond to workplace changes relating to the UK's departure from the EU, and to help employers exploit new digital technologies.

61. Through continued joint working with the Department for Work and Pensions (DWP) we seek to maximise DWP/Job Centre resources and funding streams (such as Access to Work) to support individuals with a disability or physical or mental health condition to gain and maintain employment and improve health in the workplace.

International Strategy

62. The Welsh Government's International Strategy is being developed and will be published in due course. It sets out three strategic goals to support Wales' international ambitions:
    - To increase our exports and encourage inward investment;
    - To grow our economy;
    - To create new jobs and opportunities for people in Wales.

63. To deliver this goal, the Welsh Government has identified three industries to showcase as centres of excellence and highlight investment opportunities. These industries will create new opportunities for employment in Wales, as well as encouraging innovation, research and development. These sectors will highlight to the wider world the skills on offer in Wales and the diversity of its manufacturing and creative sectors. The sectors are:
    - Cyber security;
    - Compound-semiconductors;
    - Creative industries - television and film.

64. These are industries where expertise already exists in Wales and where companies are already at the forefront of production and development. There is a solid basis on which Wales can build further excellence, in the face of the challenges posed by the UK's departure from the EU. The focus on these three sectors does not mean Wales will not be seeking investment from other industries, rather the focus is about presenting Wales as a modern and vibrant economy and moving away from the traditional image of heavy industry.

A2. Non-residential land and property taxation

"We will develop a wider policy framework for consideration of non-residential land and property taxation, informed by existing published evidence (including the WCPP report), research into alternative local taxes, and aligning with the progress we are making to devolve powers over a Vacant Land Tax to Wales."

Background

65. There are a number of areas where the Welsh Government is undertaking work in relation to the taxation of non-residential land and property. While there are distinct pieces of work focussing on particular issues, we are taking a joined up approach to the taxation of non-residential property, taking advantage of learning and evidence from work being undertaken in different areas and considering the development of policy in the round, taking into account any cumulative impacts changes to non-residential taxation may have.

66. As announced in 2018, the Welsh Government is seeking new tax powers for a potential Vacant Land Tax. This would support the policy objective of bringing idle land back into productive use, including land which already has permissions associated with it or is within the local development plan, but is not currently being developed[18]. In pursuing these new tax powers, we are both aiming to acquire powers which could provide an additional lever with which to achieve our housing and regeneration ambitions for Wales, as well as testing the Wales Act mechanism by which new tax powers can be devolved.

67. The process to devolve new tax powers is, rightly, not a straightforward one and it is important we take the time, working with the UK Government to get the process and the powers right. However, the process has taken longer than first anticipated to secure the necessary agreements from the UK Government, ahead of putting proposals for the devolution of new tax powers to the UK Parliament and the National Assembly.

68. The Welsh Government is committed to the principle that it is necessary to secure powers ahead of undertaking detailed policy development. However it is using the time during which negotiations with the UK Government are continuing to establish the necessary policy considerations, and to further build the evidence base.

69. A programme of work has also been in train since 2016 to review and reform the local government finance system, including one of its key component parts - non-domestic rates. The Welsh Government has delivered a number of improvements to non-domestic rates since the beginning of this government term in line with specific commitments, and our focus is now on delivering detailed research into alternative approaches. The latest report on the programme, *Reforming Local Government Finance in Wales: An Update*, was published on 5 November 2019[19].

70. One of the alternative approaches being explored is the idea of a local land value tax as a potential replacement to council tax and non-domestic rates. The overarching policy aim in exploring alternative arrangements would be to raise stable and regular

[18] Further information is provided in the *Welsh Tax Policy Report 2018*, pages 17-19: https://gov.wales/welsh-tax-policy-report-2018

[19] *Reforming Local Government Finance in Wales: 2019 update*, published 5 November 2019: https://gov.wales/reforming-local-government-finance-annual-updates

revenue for local services, rather than a transactional tax or a behavioural change mechanism. However, the particular design of any new arrangements for locally-based taxes may provide opportunities to align with wider policy aims, for example to ensure better use of the land available in Wales.

Evidence and analysis

71. There are existing studies which give an indication of the problem of vacant land in Wales. However, rather than taking a broad view of the extent and nature of stalled development in Wales, these studies were targeted at specific issues and may not therefore represent a full picture of stalled sites. Previous research is also now out of date, having being undertaken in 2015.

72. The Welsh Government therefore commissioned further research into the extent and nature of stalled sites in Wales to update and build upon previous research. The specification for this research was produced by a cross-policy team including the Welsh Treasury, and the departments leading on planning, housing, regeneration, the economy and local government, as well as the Welsh Revenue Authority (WRA). We have also worked with external stakeholders including house builders, commercial developers, landowners, planning authorities, surveyors, housing associations and the third sector. Drawing on this wide-ranging expertise has helped us to identify the current evidence gaps, and develop a specification for initial research which will begin to develop a more robust evidence base on which future policy decisions can be based.

73. Further detail about our research into a local land value tax was published on 5 November 2019[20].

Outcome and next steps

74. We will continue to seek to secure powers for a Vacant Land Tax. Once the powers have been devolved, we will take forward a significant programme of work to develop the detailed policy, engage with businesses and the wider public, as well as issuing a formal public consultation.

75. Early stages of our research into a local land value tax as a potential replacement for council tax and non-domestic rates will be available towards the end of the year. The intention is to assess the practical implications to inform the debate ahead of and beyond the next National Assembly elections.

[20] *Reforming Local Government Finance in Wales: 2019 update*, published 5 November 2019: https://gov.wales/reforming-local-government-finance-annual-updates

A3. Residential property taxation

"We will continue to consider the evidence on taxation of residential property, including non-primary residences. The WRA will publish the first year's data on LTT higher rates in different local authority areas, and we will continue to monitor the effectiveness of legislation in this area (both from the 2017 work plan)."

Background

76. Residential property in Wales is subject to Land Transaction Tax (LTT) when it is purchased and, generally, council tax on a recurring basis (in some cases non-domestic rates are charged). LTT and council tax use different definitions for non-primary residences.

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

78. The higher rate of tax on additional properties was introduced for Stamp Duty Land Tax (SDLT) in April 2016. In replacing SDLT with LTT in Wales, the higher rates were replicated both because stakeholders stressed the importance of consistency across the taxes and the considerable amount of revenue raised by this aspect of the tax. If the higher rates had not been replicated, there would have been a need to raise this revenue from other taxpayers to maintain the funding available for public services in Wales.

79. During scrutiny of the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017, it was suggested local authorities should be able to make representations to Welsh Ministers about the higher rate surcharge, to help to meet the needs of different communities in Wales. Local authorities may make representations to Welsh Ministers and the then Cabinet Secretary for Finance and Local Government wrote to the leaders of all local authorities in Wales inviting their engagement about the operation of the higher rate surcharge in their area once sufficient data are available to inform these discussions.

80. Local authorities are responsible for setting and collecting council tax as a contribution towards the funding of local services. From 1 April 2017, councils have been able to apply a council tax premium of up to 100 per cent on long-term empty homes (unfurnished and empty for over 12 months) and second homes (dwellings which are not a person’s sole or main home and which are substantially furnished). Certain properties are excepted from the premiums.

81. These are discretionary powers and it is up to each local authority to decide whether to apply any premium, and at what level. The powers were introduced to help authorities tackle issues of local housing supply, not as a revenue-raising measure.

Evidence and analysis

82. At the end of June, the WRA published the first annual statistical release for LTT covering the first year of operation, providing a range of information about residential property transactions[21].

83. As previously committed to in the 2017 work plan, now the WRA has sufficient data, it has analysed LTT data in relation to the higher rates for additional properties on a local authority basis. The data show a wide variation between local authorities in the level of higher rate residential transactions as a percentage of all residential transactions.

84. The Welsh Government publishes detailed data on the tax-base for council tax each year. The figures include breakdowns, by authority, of the number of dwellings in each council tax band and the numbers subject to exemptions and discounts. Since 2017-18, the figures have included information on which authorities are charging premiums on long-term empty and second homes, and at what level, and how many dwellings are captured by the premiums[22].

85. The regular data releases have been complemented by a series of tailored research commissions as set out in our published programme[23]. These include projects being carried out by the Institute for Fiscal Studies and Sheffield University to model the effect of revaluations of the council tax tax-base in Wales. The findings are expected to be published in early 2020.

Outcome and next steps

86. LTT data will be used by the Welsh Government to assess the nature and impact of residential property taxes, especially on non-primary residences. The Welsh Treasury will engage local authorities to understand their experience and views of the impact of LTT in their areas. Discussions have also started between the WRA and the Welsh Treasury around some interactions within the legislation in relation to non-primary residences.

87. The Welsh Government has been monitoring how local authorities have been exercising their discretionary powers to introduce council tax premiums on long-term empty and/or second homes. Given the relatively recent introduction of the powers, limited information is available. However, the Welsh Government has been working with the local government and the Valuation Office Agency to assess the use of the powers, identify patterns and ensure good practice is shared between authorities. This work will continue as more authorities consider implementing premiums.

88. As set out in the update on our work exploring options for the development of the local government finance system in Wales, we intend to bring together the findings from our research work to inform the debate leading into the next National Assembly term.

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[21] Land Transaction Tax statistics April 2018 to March 2019:
https://gov.wales/land-transaction-tax-statistics-april-2018-march-2019-html
[22] Council Tax Dwellings: April 2019 to March 2020:
https://gov.wales/council-tax-dwellings-april-2019-march-2020
[23] *Reforming Local Government Finance in Wales: 2019 update*, published 5 November 2019:
https://gov.wales/reforming-local-government-finance-annual-updates

A4. Fairness in tax policy

"After Welsh Rates of Income Tax go live on 6 April 2019, we will continue to work with HMRC to ensure effective management. We will look to promote fairness in tax policy across the Welsh taxes, continuing work on funding options for social care in the future, delivering our local taxation agenda, and promoting a considered and progressive approach to personal taxes."

Background

89. The devolution of tax powers gives the Welsh Government an opportunity to work with its stakeholders to design and operate taxes in a way which better meets the social, economic and environmental needs of Wales, and supports the Welsh Government's wider policy ambitions. Fairness, stability and certainty are principles underpinning the Welsh Government's approach to taxes, as set out in the Tax Policy Framework[24], together with the aim of contributing to the Well-Being of Future Generations Act goal of creating a more equal Wales.

90. Taxes raise revenue to support public services, and those who benefit the most from public services tend to be those on below-average incomes. As the Welsh Government's largest areas of spend, directly or via local government, are education and health services, young people and older people receive a greater proportion of Welsh Government expenditures.

Welsh Rates of Income Tax

91. The Welsh Government introduced Welsh Rates of Income Tax (WRIT) on 6 April 2019. The National Assembly sets the rates annually through a budget motion, the first of which was made in January 2019. The first Welsh rates were set at 10p, ensuring continuity and consistency with rates paid by taxpayers in England and Northern Ireland. The 2019-20 rates help to fulfil the commitment not to increase Income Tax during this National Assembly term.

92. With the introduction of WRIT, around £5bn of devolved spending in Wales will be funded through devolved and local taxation. This will enable us to further tailor taxes to meet Welsh needs and circumstances.

Land Transaction Tax

93. The Welsh Government has ensured Land Transaction Tax is more progressive than UK Stamp Duty Land Tax. At £180,000, LTT residential rates have the highest starting threshold for residential rates in the UK. At one per cent, Wales also has a lower starting rate of tax for the purchase of business premises than Stamp Duty Land Tax. All businesses buying premises up to £1.1m in Wales either pay no tax or up to £1,000 less tax than under Stamp Duty Land Tax, benefiting small and medium-sized businesses.

[24] Tax Policy Framework (June 2017): https://gov.wales/sites/default/files/publications/2018-10/tax-policy-framework.pdf

Paying for Social Care

94. The Welsh Government's Inter-Ministerial Group on Paying for Social Care brings a cross-government approach to bear on this agenda. Early work taken forward under the auspices of the Inter-Ministerial Group has reinforced the commitment to our tax principles. In particular, Ministers have emphasised the importance of ensuring any funding model or solution where this comprises a tax related option, must be progressive and fair to taxpayers.

Local taxes

95. In *Taking Wales Forward* the Welsh Government committed to working with local government to review council tax to make it fairer. In addition, the rollout of the UK Government's welfare reforms is having an impact on household finances, levels of debt and eligibility for council tax support. The Welsh Government has delivered a number of improvements to council tax since the beginning of this government term, including removing the sanction of imprisonment for non-payment and further support for vulnerable groups such as care leavers and severely mentally impaired people. Further detail about the agreed programme of work was published on 5 November 2019[25].

Evidence and analysis

Welsh Rates of Income Tax

96. The Welsh Government will work with HMRC, HM Treasury and the Scottish Government to ensure Income Tax policy serves all taxpayers in a way which is aligned to the tax policy principles. We will use data provided by HMRC and the Office for Budget Responsibility (OBR) to influence future rate setting decisions.

Land Transaction Tax

97. The Welsh Government is assessing the impact of residential and non-residential rates. The residential LTT rates have reduced the tax burden for around 20,000 homebuyers, and the average homebuyer in Wales has a tax cut of around £800 compared to Stamp Duty Land Tax. For non-residential transactions, the volatility each month and over successive years makes it difficult to draw immediate inferences on what, if any, effect the new tax rates are having on the commercial sector. However non-residential revenues in Wales in 2018-19 were higher than the outturns in four of the previous five years.

Paying for Social Care

98. Paying for social care comprises a multi-faceted and complex challenge seeking to draw together the need for transformational change to services, with sustainable, flexible and fair funding solutions, which must take account of the current framework of service provision, funding and delivery with wider interdependencies with the UK tax and benefits system.

[25] *Reforming Local Government Finance in Wales: 2019 update*, published 5 November 2019: https://gov.wales/reforming-local-government-finance-annual-updates

99. The Inter-Ministerial Group has framed its approach to exploring their options within the context of the commitment to person-centred services and prevention established by the Social Services and Well-being (Wales) Act 2014, and continued with the Welsh Government's long-term plan for health and social care, *A Healthier Wales,* and the vision for a seamless service for citizens.

100. The Inter-Ministerial Group has drawn on Professor Holtham's idea for a system of enhanced social insurance and his model for a Social Care Levy published in his independent report, Paying for Social Care (June 2018), to frame the approach to considering funding models. Although Professor Holtham's model is designed to address the increasing costs of care for older people only, his conceptual evaluation framework outlines four key principles which have informed the Inter-Ministerial Group's early deliberations. Professor Holtham's principles explore the importance of hypothecation in the context of public acceptability for any new proposal; the importance of inter-generational fairness and progressivity; whether benefits should be linked to financial contributions; and whether the approach to generating resources should be in the mould of traditional 'pay-as-you-go' to meet immediate costs or based on a 'funded' approach so at least some of the resources generated would be invested to meet future care costs. These conceptual questions have served to inform the development of evaluation criteria to support the assessment of any proposed funding model to meet future social care costs.

Outcome and next steps

Welsh Rates of Income Tax

101. A service level agreement between the Welsh Government and HMRC is in place. The agreement sets out the management arrangements for WRIT, including the day-to-day relationships, provision of business intelligence, dispute resolution and running costs.

102. We will continue to work closely with HMRC to maintain the successful implementation of WRIT, and will ensure the commitments set out in the service level agreement are delivered.

103. The Welsh Government has committed not to raise Income Tax rates during this National Assembly term and continues to explore the feasibility of drawing upon its new tax raising powers to generate resources for future social care needs. However, it is recognised raising WRIT is an option open to future Welsh Governments to generate additional resources for social care.

104. Any decision to change Income Tax rates in future would need to be carefully considered. Together with the block grant, Welsh taxes will fund the vital public services upon which many in society depend. A future Welsh Government would need to consider the impact of wider economic factors and our need to protect Welsh public services and set tax rates accordingly. Having this flexibility is an important additional tool to ensure we continue to balance fairness to taxpayers with the need to deliver high quality public services to all citizens.

Land Transaction Tax

105. The Welsh Government will continue to examine the impact of residential and non-residential LTT rates.

Paying for Social Care

106. As part of the programme of the Inter-Ministerial Group on Paying for Social Care, work is underway to establish the evidence base from which Ministers may determine the exact nature of immediate and longer-term funding pressures across social services. Further work is planned into identifying the short to medium term operational and cost pressures facing social care.

A5. Alignment of Welsh taxes with other policy ambitions

"We will continue to ensure the development of tax policy and other policy areas are aligned. We will continue: making the case for devolution of Air Passenger Duty to Wales; progressing Tourism Tax and the local taxation agenda; and working with the UK Government on disposable plastics and other environmental taxes."

Background

107. Taxation can be a powerful lever for influencing behaviour change. The Welsh Government is considering how it can support the achievement of policy objectives through the use of new and existing taxes. Earlier sections have commented on a Vacant Land Tax, which could help achieve housing and regeneration ambitions for Wales (A2 Non-residential land and property taxation, page 21) and how tax could help pay for social care (A4 Fairness in tax policy, page 25).

Air Passenger Duty

108. Air Passenger Duty (APD) is an excise duty levied on the carriage, from a UK airport, of chargeable passengers on a chargeable aircraft. APD has been devolved in full to Scotland, and direct long-haul APD has been devolved to Northern Ireland.

109. In September 2018 the Welsh Affairs Committee announced an inquiry into the devolution of APD to Wales, to which the Welsh Government submitted robust evidence. The final report of the Committee unanimously recommended the UK Government fully devolve APD to Wales by 2021[26]. The Committee noted the willingness of the UK Government to devolve APD partially to Northern Ireland and fully to Scotland, but not to Wales, raised a question of equity in the devolution process.

110. The UK Government responded to the unanimous recommendation of the Committee by reiterating it has no current plans to devolve APD to Wales.

Tourism Tax

111. Tourism taxes can take many forms but one of the most common is a tax on overnight accommodation. With a tax on tourist accommodation being considered in many cities around the UK and some having been introduced in cities and countries internationally, it is possible a Tourism Tax of some form will be introduced by a UK administration in the future.

112. Given the growing interest in tourism taxes, the Welsh Government has begun working with the tourism sector and with local government to begin to explore the nature and possible impact of a local Tourism Tax, and the merits and concerns the tourism sector has expressed about the idea.

[26] House of Commons Welsh Affairs Committee *Devolution of Air Passenger Duty to Wales* (June 2019): https://www.parliament.uk/business/committees/committees-a-z/commons-select/welsh-affairs-committee/inquiries/parliament-2017/air-passenger-duty-wales-17-19/

Disposable Plastics Tax

113. The Welsh Government has committed to exploring the potential for a Disposable Plastics Tax in Wales. Recognising the benefits of a consistent UK-wide approach in this area, we are currently engaged in the widespread activity at the UK-level to examine options for tackling unnecessary plastic use and its associated waste. Over the past 12-18 months, the Welsh Government has been working with the UK Government to support consultations on a UK Plastic Packaging Tax, Extended Producer Responsibility for packaging (EPR) and a Deposit Return Scheme (DRS) for drinks containers.

Local taxes

114. The two local taxes – council tax and non-domestic rates – contribute almost £3bn towards the annual funding available for local services. These services support the delivery of policy objectives across all the Welsh Government's portfolios. The core purpose of both taxes is to provide a stable funding stream to finance these services. This purpose underpins our work exploring potential longer-terms reforms to the local government finance system and governs the development of the two existing taxes.

115. In developing these taxes, the main opportunities for further alignment with wider policy goals are in the design of discounts exemptions, reduction and relief schemes. Our work in relation to council tax is focused on making the system fairer, particularly for vulnerable and low-income households, for example raising awareness of the support available and providing targeted support to specific groups such as care leavers. In relation to non-domestic rates, we have been developing our relief schemes to target support towards sectors which make a particular contribution to the Welsh Government's wider objectives, for example childcare providers.

Evidence and analysis

Air Passenger Duty

116. The UK Government has stated it "remains concerned about the competitive impact of introducing tax competition within a single aviation market. We consider Cardiff and Bristol airports to serve the same market."

117. In November 2017, the Welsh Government published the findings of research by Northpoint Consultants into the potential market, competition and economic implications of devolving APD to Wales. The peer-reviewed analysis showed Cardiff and Bristol airports operate in largely distinct catchment areas. In its final report, after carefully considering the evidence, the Welsh Affairs Committee concluded: "We understand the arguments made by Bristol Airport, but as it is already a strong performer with far more passengers than Cardiff Airport, we are not persuaded that its successful business would suffer significant and lasting damage, even if APD were abolished entirely."

118. There is unanimous support for the devolution of APD to Wales from aviation, tourism and business sectors in Wales, and compelling evidence for the economic benefits it could bring, enabling growth in the aviation sector and wider economy.

Tourism Tax

119. We have continued to monitor progress and consider examples, both internationally and within the UK, of how tourism taxes work in practice. A number of policy issues have been identified which require further exploration and consideration, including Value Added Tax (VAT) rates on tourist accommodation, and how local tourism taxes would intersect with other key policy areas such as local taxes and existing regulatory pressures, and the potential need for statutory registration.

120. We continue to monitor detailed tourism statistics, which are published by the Welsh Government quarterly and annually.

Disposable Plastics Tax

121. The Welsh Government has been gathering evidence from key stakeholders in Wales in relation to the consultations. In April 2019, Welsh Government - alongside WRAP Cymru and HM Treasury - led a series of engagement events across Wales to encourage Welsh stakeholders to submit their views. In July 2019, at the Welsh Government's annual tax conference, stakeholders from retail, manufacturing and non-government organisations contributed to a workshop on ideas to address the use of single-use plastic cups in Wales.

122. The Welsh Government is also exploring where taxes or charges can further our policy goal of reducing the consumption of problematic single-use items, such as drinks cups, to encourage long-term and sustainable changes to consumer and producer behaviour. Given the suite of UK Government measures is intended to see gradual improvement in reducing plastic use (and the associated waste) over the medium to long term, the Welsh Government will also continue to develop thinking on interventions which could deliver a more rapid impact.

123. It is recognised the evidence base to address the impact of single-use use cup consumption needs to be strengthened, and more learning from evidence is needed to inform policy development and promote behaviour change, in particular expanding on the drivers of responsible consumption.

Local taxes

124. The Welsh Government collects and publishes a wide range of statistical information on council tax and non-domestic rates, including extensive data on the tax-base, discounts exemptions, reduction and relief schemes. A report on the Council Tax Reduction Scheme is published each year, containing detailed analysis of households and the amount of support provided[27]. As mentioned earlier, tailored research has been commissioned to support the development of the existing taxes and the exploration of alternatives.

[27] Council Tax Reduction Scheme Annual Reports:
https://gov.wales/council-tax-reduction-scheme-annual-reports

Outcome and next steps

Air Passenger Duty

125. The UK Government remains unwilling to accept the mounting evidence that APD should be devolved to Wales. We will continue to raise this issue with UK Ministers, and to press the UK Government to review its untenable position. Furthermore, we continue to build the evidence base on the benefits devolution of APD would bring to Wales, for example enabling growth in the aviation sector and wider economy.

Tourism Tax

126. The Welsh Government will publish a call for evidence in 2020, seeking to understand the opportunities, challenges and implications of a potential tax. We will focus on assessing the likely impact on the sector as a whole, the wider business community, and for the places most affected by tourism.

127. The call for evidence aligns to the Welsh Government's commitment to transparency in the development of tax policy in Wales, and to raising awareness and involving our stakeholders in the process. We will continue to examine these issues in partnership with the tourism sector and local government, over the longer term.

128. We will also begin to develop a picture of the potential tax-base for Tourism Tax, using the regularly published Welsh Government tourism statistics.

Disposable Plastics Tax

129. In recognition of the response from Welsh industry that any policy interventions be consistently applied across the UK, it will be important to maintain a collaborative approach to any future plastic packaging taxes. The Welsh Treasury will continue to work with the UK Government on the co-design and implementation arrangements of the consultation proposals. We will also work to ensure Welsh stakeholders are fully engaged in the more detailed technical consultation round expected early next year.

130. The Welsh Government will also continue to explore options for applying charges and taxes to problematic single-use items. Any potential tax or charge measure on single-use drinks containers would need to be carefully co-ordinated with the respective initiatives for EPR, DRS, and bans on specific single-use plastic items. Central to the approach we take in Wales will be to ensure the right steps are taken to improve on Wales' world leading waste agenda.

Local taxes

131. We intend to bring together our analysis of the existing systems and the findings from our research work to inform the development of proposals into the next National Assembly term. This will include examining whether there are opportunities for closer alignment with key policy objectives.

B. Build a more effective and coordinated approach to tax across existing Welsh taxes and across the wider tax landscape

B1. Operation of the Welsh devolved taxes

"We have made a number of improvements to the Welsh tax system in 2018, including adjustments to the legislation, improvements to WRA guidance and services such as the LTT return. We will continue to monitor whether Welsh taxes are operating as intended, making changes as appropriate."

Background

132. Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT) started operating in Wales on 1 April 2018. The Welsh Revenue Authority (WRA) is responsible for the collection and management of the taxes and for any engagement with taxpayers in relation to their affairs. The revenue from the two taxes directly funds public services in Wales, replacing some of the funding the Welsh Government receives from the UK Government.

133. The National Assembly sets the rates for both taxes through regulations. Since it started operating in Wales, the rates for LTT have remained unchanged from the initial rates and bands approved by the National Assembly in January 2018. The initial LDT rates for 2018-19 were also approved in January 2018. They have been uplifted in line with inflation for the 2019-20 year, with the necessary regulations approved by the National Assembly in January 2019. The LDT rate changes ensure the LDT rates match those charged under the UK's Landfill Tax meeting the Welsh Government's commitment to keep the lower and standard rate of tax consistent with the UK Government during 2018-19 and 2019-20, to provide certainty for businesses and to help prevent waste tourism.

134. The WRA will, through its daily work, be able to identify points where the legislation or its guidance require changes to ensure the taxes operate as intended. The work will identify changes which require a quick response and those which may justify a longer period of review.

135. UK Budget changes can have significant impacts on the operation of the UK equivalent taxes and the revenues they raise. This can include rates and bands changes, the introduction of a new relief, new rates for certain types of transaction, or to the structure of the tax. Changes to equivalent UK taxes can have significant impacts for Wales which need to be considered as part of monitoring the operation of the devolved taxes.

136. There is a statutory requirement for an independent review of LTT to be carried out before the end of May 2023. The Welsh Government has made a commitment for a similar review to be carried out for LDT. A review of the Landfill Disposals Tax Community Scheme (LDTCS) must be carried out within four years of the scheme starting to operate. In all cases, it is important there is a review following the operation of the taxes and scheme for a suitable period of time to ensure they meet the policy objectives for which they were originally established.

137. A UK departure from the EU would require changes to the Welsh Tax Acts, to ensure the legislation continues to operate correctly.

Evidence and analysis

138. As the two taxes have bedded in over the last 18 months, the WRA has received feedback and taken a proactive approach to identifying areas where its published guidance can be enhanced. In addition, reviewing tax returns received and engagement with taxpayers and their agents has highlighted areas where mistakes were being or could be made in returns.

139. The WRA became aware of issues concerning the reliefs related to LDT site restoration and refilling open-cast mines and quarries through engagement with their taxpayers and analysis from Natural Resources Wales (NRW).

140. Work to identify the areas where the devolved taxes were impacted by the UK exiting the EU were analysed by the Welsh Treasury, working in tandem with the UK and Scottish Governments.

141. The WRA is performing well against its measures, as reported in its first Annual Report and Accounts[28]. In particular in the fields of automated processing, electronic returns and payments, and user feedback. The WRA's current performance measures are included in its 2019-22 corporate plan[29], and will be reported on in the 2019-20 annual report in 2020. The WRA has published statistics about LTT and LDT returns, which include details of land transactions and waste disposals and revenue collected[30].

Outcome and next steps

142. The WRA has made more than 100 guidance changes to provide further support for taxpayers to get their tax liabilities right first time. These changes range from small amendments to aid understanding, to more detailed clarifications of WRA policy or interpretation of tax law. For example, the WRA recently enhanced its guidance on subsidiary dwellings and residential property in LTT, trialling the use of diagrams in technical guidance for the first time. Responding to the needs of taxpayers, the WRA has produced a series of simpler guides on common areas of interest, including penalties, enquiries and reviews and appeals, which have received positive feedback.

143. The Welsh Treasury and the WRA worked together on regulations (made in October 2018 and July 2019) to make the LDT legislation operate better and ensure the policy intent of reliefs for site restoration and refilling open-cast mines and quarries was fully achieved.

144. The WRA seeks feedback from stakeholders to enhance its guidance, including through feedback boxes on the majority of its guidance pages. The WRA has held a number of presentations and events, both online and at different locations throughout

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[28] *Welsh Revenue Authority, Annual Report and Accounts, 2017-19*: https://gov.wales/sites/default/files/publications/2019-07/wra-annual-report-accounts-2017-2019-en.pdf
[29] *Welsh Revenue Authority, Corporate Plan 2019-2022*: https://gov.wales/sites/default/files/publications/2019-05/welsh-revenue-authority-corporate-plan-2019-2022_0.pdf
[30] Land Transaction Tax statistics: April 2018 to March 2019: https://gov.wales/land-transaction-tax-statistics-april-2018-march-2019-html

Wales, to raise awareness of and help taxpayers and their agents with any areas of the tax regime which are perceived to be complex or potentially leading to the wrong amount of tax being paid.

145. The WRA has updated its online services to improve functionality for users filing LTT returns, with future plans for enhancements to LDT services planned. Updates to the online LTT return include changes to tax relief codes and calculations for tax on leases, all designed to support users in paying the right amount of tax first time.

146. The WRA, working closely with NRW, is developing its approach to charging LDT on unauthorised disposals of waste. These powers are an additional tool to tackle waste crime, and the WRA intends to use them to support the NRW's wider enforcement activity, with a particular focus on tackling the negative environmental consequences of waste crime and its unfair impact on the legitimate waste industry. The WRA and NRW have developed a close working relationship which is enabling the creation of a sustainable, longer-term strategy in respect of LDT.

147. For the 2019-20 Budget, LTT rates have been maintained at the current rates, which have applied since April 2018, recognising the need for stability, clarity and certainty for those buying and selling property. The Welsh Government does not propose any changes to those rates at present.

148. The Welsh Government will continue its current policy of raising the LDT rates each year in line with inflation and a set of regulations will be brought before the National Assembly in due course. This reflects the policy objective of LDT to reduce waste going to landfill in Wales and protects against the risk of waste being transferred across the Wales-England border.

149. The Welsh Government reviews UK Government Budgets to identify potential impacts on the devolved taxes. Should the UK Government make changes which impact on devolved tax revenue, affecting the Welsh Government's net resources, the Welsh Government will consider its response (discussed further at section C4).

150. Work on the tax issues arising from the UK leaving the EU, resulted in the making of the Welsh Tax Acts (Miscellaneous Amendments) (EU Exit) Regulations 2019 in April 2019, following approval by the National Assembly.

151. Work has commenced on the planning necessary for the independent reviews of the devolved taxes and the review of the LDTCS and will continue into the next year and beyond.

152. The Welsh Government will continue to review all available evidence about the impacts of the devolved taxes.

B2. Welsh tax systems

"We will build the evidence base to consider whether the Welsh tax system could be more efficient and proportionate, delivering more for businesses, communities, citizens, wider public sector organisations and taxpayers in Wales. This work will seek to look across the Welsh taxes and include:

i. Publishing objectives on local tax administration;
ii. Engaging with business, taxpayers and representative groups across Wales, communicating changes to the tax system which will directly affect businesses;
iii. Considering the case for taking a more strategic and joined-up approach to tax administration priorities over the medium term."

Background

153. The Welsh Government's Tax Policy Framework, published in June 2017, highlighted the importance of a simple, clear and stable tax system. It explains how fiscal devolution provides a range of opportunities to develop a Welsh approach to taxation. The Welsh Government has therefore been exploring how it might set out its expectations and ambitions for the administration of taxes in Wales to ultimately provide for high quality public services.

Evidence and analysis

154. There are a range of arrangements in place in relation to the administration of taxes in Wales. The Welsh Government has begun to consider some common principles to support effective administration across Welsh taxes:

- Welsh Rates of Income Tax (WRIT) collected by HMRC, with the appropriate revenues being directed to the Welsh Government;

- The two devolved taxes - Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT), which are collected and managed by the Welsh Revenue Authority;

- The two local taxes – council tax and non-domestic rates (NDR), which are collected and managed by local authorities and by the Welsh Government.

155. The Welsh Government is continuing to make the case for the devolution of Air Passenger Duty (APD) and is further exploring the development of a potential Vacant Land Tax and environmental taxes relating to plastics.

156. A defined work programme is being delivered to improve council tax and NDR in the short to medium term, whilst exploring more radical ideas over the longer term. The published programme includes priorities for improving the management and administration of the local taxes. The Welsh Government has worked closely with local government over the past year to agree the *Council Tax Protocol for Wales: Good Practice in Collection of Council Tax*. The new protocol has been adopted by all 22 billing authorities. Provisions to improve the administration of non-domestic rates are included in the Local Government and Elections (Wales) Bill.

157. Consideration is being given to ensuring a more strategic and joined-up approach to tax administration priorities in relation to any further fiscal devolution, as well as reformed local taxes.

158. The Welsh Government hopes to provide a point of reference to tax authorities, as well as providing principles to policy makers to steer any changes to both existing taxes and the design and establishment of new taxes.

159. Tax administration was discussed with the Tax Advisory Group in March, and at a workshop at the Welsh Government's Welsh Taxes Conference, in July.

Outcome and next steps

160. The Welsh Treasury will seek to engage with all of the tax authorities in Wales and external stakeholders more broadly to co-produce a more strategic and joined-up approach to tax administration priorities.

161. It is not expected technical guidance will be developed, but rather the Welsh Government will articulate the approach tax authorities should take from the perspective of the taxpayer in a coproduced agreement.

162. These principles and priorities will likely be uncontentious and many will be recognised as good practice. It will however form an important first step in fostering the development of a shared strategic approach to the administration of taxes in Wales.

B3. Tax information

"We will consider options for developing information resources, including data-sharing and analysis, to strengthen the evidence base for tax policy decisions and improved tax administration in Wales. The WRA will elaborate on its role and priorities in relation to this in its 2019-22 corporate plan.

- Developing a plan to agree a set of longer-term objectives on data sharing and analysis which supports and promotes policy and analytical needs;
- Consideration and articulation of the objectives of a data hub;
- Develop a plan to implement this."

Background, evidence and analysis

Welsh Rates of Income Tax

163. The Welsh Rates of Income Tax (WRIT) commenced in April 2019. As people have until the end of January 2021 to submit to HMRC their Self Assessment (SA) tax returns relating to tax year 2019-20, the first outturn of the WRIT is not expected until summer 2021. This will provide an important baseline level of information for analytical and forecasting purposes.

164. In addition to outturn data, a more detailed data source on Income Tax is HMRC's survey of personal incomes (SPI). This is a cross-sectional sample of UK Income Tax payers, including both SA and pay-as-you-earn (PAYE) taxpayers. It is also only available with long lags. For example, the most recent SPI is based on 2016-17 data.

165. Despite these long lead times for the key outturn data on the WRIT, the Welsh Government is already working to improve the coverage and timeliness of Income Tax data available for analysis. In particular, officials participate in an HMRC-led working group on Income Tax data, along with the Office for Budget Responsibility (OBR), the Scottish Government and the Scottish Fiscal Commission.

Local taxes

166. Local taxation forms an integral part of the system for funding local government in Wales, with approximately 1.4m domestic and 120,000 non-domestic properties in Wales. Council tax and non-domestic rates contribute around £1.7bn and £1.0bn respectively (net of reductions and reliefs) towards the annual funding of local services. The Welsh Government is providing over £230m of reliefs to non-domestic ratepayers in Wales this year and funds a range of support for council tax payers, including a national Council Tax Reduction Scheme which provides over £250m in support.

167. A wealth of information is required to manage the local taxation system, including the design of relief schemes, developing and maintaining fraud and avoidance policies and pursuing fundamental changes to the local taxation system as a whole.

168. There are three key stakeholders who collect information for local taxation purposes: the Welsh Government, the Valuation Office Agency and local authorities. Each stakeholder has a vital role in the operation of both non-domestic rates and council tax. Information sharing between these three bodies is an important element of delivering evidence based tax policy and ensuring the fundamental principles of taxation are being fulfilled.

Fully devolved taxes

169. The WRA has developed statistics covering Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT)[31]. This includes detailed aggregates relating to LTT data, including local area data, and high level aggregates relating to LDT showing weight and value of taxable disposals, and the discounts and reliefs which are applied.

Outcome and next steps

Welsh Rates of Income Tax

170. As a result of the Income Tax working group's efforts, there have been improvements to the timing and quality of the SPI public-use version which is created for users outside HMRC. This has provided a more robust, up to date and better understood evidence base for analysis of the Income Tax base in Wales.

171. In addition, the working group has played an active role in the development of HMRC's new Scottish Income Tax Outturn Statistics[32] release. This will have an important bearing on the likely contents of a future WRIT outturn release, making it more likely to reflect the Welsh Government's requirements.

172. The Welsh Government will continue to work with HMRC to improve the information resources and analysis to assist with WRIT.

Local taxes

173. Data sharing agreements have been developed and agreed between the Welsh Government, the Valuation Office Agency and local authorities. These have allowed additional information on both council tax and non-domestic rates to be collated to inform new local taxation policy and review the effectiveness of existing schemes and policies. Work is currently underway to further explore additional data sharing opportunities to support the delivery of local taxes.

174. Detailed local taxation information continues to be published via the Welsh Government's StatsWales website. In addition to detailed statistical information on the local tax-bases and the collection of both taxes, the Welsh Government publishes a comprehensive annual report on report on the Council Tax Reduction Scheme. The Valuation Office Agency complements this information with a series of statistical releases on property trends drawn from the council tax and non-domestic rating lists.

175. Work is continuing to explore data visualisation tools to make this information more accessible and manageable for interested external stakeholders.

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[31] Land Transaction Tax (LTT) statistics and Landfill Disposals Tax (LDT) statistics
https://gov.wales/land-transaction-tax-statistics
https://gov.wales/landfill-disposals-tax-statistics
[32] For more details
https://www.gov.uk/government/statistics/scottish-income-tax-outturn-statistics

Fully devolved taxes

176. In summer 2019, the Welsh Revenue Authority (WRA) published the first annual statistics for both LTT and LDT. To raise the profile and build understanding of these statistics, the WRA held a media briefing session about the LTT statistics and produced an accompanying press release[33].

177. The annual LTT statistics included new breakdowns for this tax by Local Authority, National Assembly Constituency, and an analysis by deprivation using the Welsh Index of Multiple Deprivation. The WRA published detailed price interval data for LTT, which the Welsh Treasury requires to forecast LTT revenues, and which will enable comprehensive external analysis of the LTT tax-base.

178. Most of the data are published in a machine-readable open data format, alongside detailed metadata, using the Welsh Government's StatsWales[34] service. LDT aggregates will be added to StatsWales later this year.

179. The WRA will continue to publish monthly and quarterly LTT statistics and quarterly LDT statistics, building on a recent change to use a series of linked web pages (rather than PDF documents), and thus making the statistics more accessible for a range of users.

180. In the coming months, the WRA will prioritise engagement with others about the Welsh taxpayer data it holds, the legal restrictions on how and what it can share and how the data could help local authorities and other government departments carry out their functions.

[33] Land Transaction Tax data for Welsh local authorities:
https://gov.wales/first-land-transaction-tax-data-released-all-welsh-local-authorities
[34] Land Transaction Tax data on StatsWales website:
https://statswales.gov.wales/Catalogue/Taxes-devolved-to-Wales/Land-Transaction-Tax

B4. Administration of Welsh Rates of Income Tax

"We will establish agreed governance mechanisms with the UK Government for the administration of Welsh Rates of Income Tax following implementation in April 2019, in particular the publication of, and commitment to, the HMRC service level agreement."

Background

181. The Welsh Government introduced Welsh Rates of Income Tax (WRIT) on 6 April 2019. The National Assembly sets the rates annually through a budget motion, the first of which was made in January 2019. The first Welsh rates were set at 10p, ensuring continuity and consistency with rates paid by taxpayers in England and Northern Ireland. The 2019-20 rates help to fulfil the commitment not to increase Income Tax during this National Assembly term.

182. A service level agreement is in place for the management of WRIT, which remains the responsibility of HMRC. This sets out the requirements, timescales and performance measures for the operation of WRIT. This will ensure a consistent quality of service to Welsh taxpayers and allow HMRC and the Welsh Government to meet our respective responsibilities in respect of operating WRIT.

Evidence and analysis

183. The Welsh Government will work with officials in HMRC, HM Treasury and the Scottish Government to ensure Income Tax policy serves all taxpayers in a way which is aligned to the tax policy principles.

184. We will use data provided by HMRC and the Office for Budget Responsibility (OBR) to develop Income Tax policy, rate-setting and budgeting for any variance in Income Tax collected against forecasts. Based on the OBR's current forecasts, setting WRIT at 10p for all bands is expected to raise £2,089m in 2019-20, and £2,206m in 2020-21.

Outcome and next steps

185. The WRIT project board which includes representatives from the Welsh Government, HMRC and HM Treasury is still in place and will remain so until all implementation work is completed and final costs are agreed. The board continues to meet monthly to review progress. In addition, risk review boards are held monthly and change control boards to agree costs are held as and when required. Implementation costs are currently estimated to be between £7.5m and £9.5m. Operating costs are estimated at £319k.

186. A joint UK Government and devolved administrations tax policy working group is being established to replace the HMRC Devolution Programme Board set up to oversee the introduction of the devolved taxes and WRIT. The group will ensure the issues important to Wales receive appropriate attention.

187. We will continue to work closely with HMRC to maintain the successful implementation of WRIT, and will ensure the commitments set out in the service level agreement are delivered.

C. Engagement, communications and capacity building

C1. Design of Welsh taxes

"We are striving for a best practice approach to our tax powers, for example our transparent and outward-focused tax policy making process. In 2019, we will build on this to improve how Welsh taxes are designed and operated, integrating policy and implementation, and the link between tax and non-tax policy, as far as possible. The WRA is well placed to support this, and will elaborate on its role in this in its 2019-22 corporate plan."

Background

188. As set out in the Tax Policy Framework[35], Wales has an opportunity to involve citizens and taxpayers in decisions about the levels and extent of revenue raising, alongside decisions about spending through debate and wider engagement.

189. Welsh taxes will be developed through collaboration and involvement. The Welsh Government is committed to undertake a transparent approach in relation to the tax policy making process both in relation to existing devolved taxes and potentially new taxes. This transparency is recognised as being essential to strengthening trust and confidence in fiscal devolution.

190. The Welsh Government and the Welsh Revenue Authority (WRA) work in equal partnership in relation to policy development and operational arrangements respectively for both Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT). More broadly, the WRA's expertise in the management and collection of taxes will play a role informing policy development in relation to wider fiscal devolution. The WRA Corporate Plan 2019-22 included a specific 'Design' objective which sets out "Our aim is to be a trusted partner for the design of end-to-end revenue services which achieve Welsh Government objectives, whether the services will be delivered by us or others."

Evidence and analysis

Paying for Social Care

191. Since the decision taken in 2017 to prioritise exploratory work on a tax related funding measure to generate additional resources for future social care costs, a programme of work has been established and is being taken forward under the auspices of the Inter-Ministerial Group on Paying for Social Care. Currently chaired by the Minister for Health and Social Services, the Group first came together in summer 2018 and has been considering the parameters for its specific focus under the priority awarded social care in the Welsh Government's national strategy, Prosperity for All. The Inter-Ministerial Group has firmly recognised the cross-cutting nature of the paying for care agenda and has ensured a proper cross-government focus is adopted in progressing its work programme. The Group has placed a fundamental emphasis on the importance of strategic engagement and communications in building consensus around the value of this wider agenda. It has ensured stakeholders are kept abreast of

[35] Tax policy framework (June 2017): https://gov.wales/sites/default/files/publications/2018-10/tax-policy-framework.pdf

progress and can relate to the scale of the challenge by delivering a series of statements to the National Assembly.

192. Early policy development considerations are being shaped by learning from international examples of social care funding and provision, ideas such as Professor Holtham's model for a Social Care Levy, and the Welsh Government's own experience of implementing WRIT, while tax design expertise has been provided by the WRA.

Vacant Land Tax

193. Work is continuing to seek powers for a Vacant Land Tax. While this process is progressing, we have taken a transparent approach. A reference group of key stakeholders has been meeting over the past year to contribute to the early policy thinking for this potential tax. While detailed policy development will not take place until the necessary powers have been devolved, the group has helped to identify key policy questions and evidence needs and has contributed to the development of a research specification to help fill some evidence gaps. This valuable engagement will continue to inform policy development as the work progresses following the devolution of powers.

194. The purpose of a Vacant Land Tax would not be to raise revenues but to contribute to wider policy objectives. In addition to engaging with stakeholders outside of government, we are working together across government to ensure this tax policy meets the wider policy objectives for housing, regeneration and the economy, working within the wider planning system and alongside other government interventions. The WRA has been contributing their expertise in collecting and managing taxes to help establish the design considerations which need to be made from the outset of policy development.

Taxes on Disposable Plastics

195. In April 2019, Welsh Government - alongside WRAP Cymru and HM Treasury - led a series of engagement events across Wales to encourage Welsh stakeholders to respond to the linked UK consultations on a plastic packaging tax, extended producer responsibility for packaging, and a deposit return scheme. We will continue this open approach to engagement for the further round of technical consultations expected in 2020. In July 2019, at the Welsh Government's annual tax conference, stakeholders from retail, manufacturing and non-government organisations contributed to a workshop on ideas to address the use of single-use plastic cups in Wales.

Tourism Tax

196. The Welsh Government is working with the tourism sector and with local government to understand the potential impacts of a local Tourism Tax, including the concerns raised by the tourism sector. Issues being considered include the relationship with Value Added Tax (VAT) on tourist accommodation, and how local tourism taxes would interact with regulatory pressures and other local taxes.

Air Passenger Duty

197. Welsh Government has played a key role engaging the business sector on the merits of devolution of Air Passenger Duty (APD), including the Council for Economic

Development, comprising senior business, trade union and third sector representatives from across Wales. This resulted in the Council submitting a letter to the Welsh Affairs Committee inquiry on devolving APD to Wales, urging the UK Government to review its current position on APD devolution for Wales and to make meaningful progress towards devolving the power.

Outcome and next steps

198. In developing its approach to new and existing taxes, the Welsh Government will ensure the design takes full consideration of how the tax will be implemented. In doing so, it will continue to widely engage with stakeholders in the relation to tax policy in Wales. To date this has enabled the Welsh Government to respond quickly to issues raised in relation to the operation of devolved taxes, such as LDT.

199. In taking forward policy development in respect of options for the funding and provision of social care in the future, the Inter-Ministerial Group's work programme has included practical considerations related to collection, administration, distribution and implementation needs as integral to the overall evaluation of any proposal. The WRA is a key partner in supporting knowledge and capability development in this area and is working with the Welsh Government to ensure any new tax related ideas for new funding generation is properly assessed. When policy proposals are fully developed, the Welsh Government will be seeking to test these with HM Treasury and HMRC, before seeking to consult more widely on the outcome of the Inter-Ministerial Group's work.

200. Utilising the learning from the successful engagement approach adopted for implementing WRIT, work is currently underway on stakeholder mapping. This exercise will serve to identify and gain an insight into the range of stakeholders with an interest in this agenda, and the nature of their specific interest and needs, so future communications and engagement activity can be designed and delivered appropriately.

201. The transparent approach to tax policy development and wider engagement will continue to support the Welsh Government in making the case for further fiscal devolution. As progress is made in relation to discussions about devolving or establishing additional Welsh taxes, engagement will ensure operational and administrative arrangements are consistent with our principles that taxes should be clear, stable and consistent.

C2. Public engagement

"We will develop the audience base for engaging on taxation matters, promoting a positive case for taxation by illustrating the link between taxes and spend on public services in Wales.

i. Engage and communicate with stakeholders to increase understanding of our approach to taxation in Wales and enable us to develop tax policy through collaboration and involvement.

ii. Develop a narrative around tax and spend which resonates with stakeholders and citizens more widely, and through which we can build knowledge and awareness of Welsh taxes across Wales."

Background

202. In April 2018, Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT) were introduced by the Welsh Government, and the Welsh Revenue Authority (WRA), began collecting and managing the taxes. This was preceded by a comprehensive programme of engagement and communications activity, providing a platform for key stakeholders and future customers of the WRA to involve themselves in tax policy development, including public consultations on each of the taxes and on the collection and management arrangements.

203. Following the introduction of the LTT and LDT, the Welsh Treasury and the WRA continued to collaborate on stakeholder engagement and communications activity, as the emphasis shifted to the operational side of collection and management. Consistency and clarity of message has been the focus of this partnership work, as well as ensuring the overall narrative around taxes in Wales is aligned and amplified through both separate and joint activity.

204. Over the past year, the WRA has focused on working with solicitors and conveyancers in Wales and England to support them to file and pay Land Transaction Tax. Events have been delivered throughout the year, including Tax Forums in Conwy, Cardiff, Newport, Bangor and Aberystwyth, with over 100 attendees in total. These have raised awareness of services and delivered technical training to solicitors and conveyancers across Wales. The WRA has delivered nine webinars, which attracted over 700 subscribers, and provided training on how to file the Higher Rate of LTT. To widen reach, the WRA has developed and shared videos on social media around Higher Rate. And useful information, such as updates to guidance, has been shared regularly on the WRA's social media channels.

205. Stakeholder relationships have been developed with several local Law Society branches across Wales and training delivered at their events in Carmarthen, Cardiff, Chester, and Swansea. To support this, the WRA has shared information in the Law Society Gazette and in other publications. The WRA plans to continue this programme of training through multiple channels, which will be informed by its data and user engagement. Communications activity will support this work by using different channels to help solicitors and conveyancers file LTT at the right time. Partnership working with other organisations will continue to be a focus for activity.

206. The introduction of Welsh Rates of Income Tax (WRIT), agreed with the UK Government as part of the Welsh Government's fiscal framework in December 2016, formed part of the backdrop for the stakeholder engagement. The partial devolution of

Income Tax marked the point when the impact of fiscal devolution would reach its widest audience - 1.34m taxpayers living in Wales. In 2016, the Welsh Labour manifesto committed to not increase Income Tax during the next National Assembly term (May 2016 - May 2021).

207. It was widely acknowledged amongst partners and stakeholders that communicating the partial devolution of Income Tax posed a significant challenge, particularly amidst the complex and changing landscape of fiscal devolution. Recent years had seen devolution affect change in taxation at both a local and national level, with a change to the fiscal responsibilities for non-domestic rates, the establishment of a new tax collection authority for Wales and two devolved taxes. However, the introduction of WRIT meant no change to Welsh taxpayers and there was no 'call to action' to use for messaging. HMRC would continue to collect WRIT and there would be no change to the rates or bands.

208. Strong engagement and collaboration with HMRC and UK Government would be essential to ensure a smooth transition for WRIT. Also important, was clarity of message that HMRC, not WRA, would collect WRIT. To this end, communications and engagement activity over the year for each of the taxes has been kept separate and distinct, whilst sharing the overall narrative of tax supporting public services in Wales.

Evidence and analysis

209. Taxation can be a difficult subject on which to engage. The Welsh Government has explored how other countries are tackling the challenge of raising awareness and encouraging engagement with citizens on the subject of taxation, and used this to develop an approach which draws attention to the links between revenue raised by taxes and spending on public services.

210. A survey was commissioned through Beaufort Research Limited to understand the baseline levels of awareness, before carrying out communications activity. The survey undertaken in June 2018 showed more than seven out of ten Wales Omnibus Survey respondents (72 per cent) would expect all or most of the money raised from Welsh taxes to go towards public services in Wales[36]. This supported the concept of a narrative linking taxes and spend on public services which could be shared by Welsh Government, local government and the WRA.

211. The Beaufort Research Survey was an opportunity to take a baseline measurement of awareness levels for the introduction of WRIT. Around one quarter of respondents (24 per cent) to the Wales Omnibus Survey said they were aware the Welsh Government would be able to set different Income Tax rates in Wales from April 2019.

212. In addition to survey data, learning was shared by HMRC and the Scottish Government in the approach taken to communicating the introduction of Scottish Rates of Income Tax (SRIT) in 2016. HMRC managed all aspects of communications activity for the introduction of SRIT as part of the overall devolution project.

213. Maximising impact with minimal cost was a major objective to communicating WRIT. No specific action was required from taxpayers, which meant expensive communications campaigns would not be prudent, and could threaten the long-term

[36] *Public Understanding of tax devolution: baseline report*: https://gov.wales/public-understanding-tax-devolution-baseline-report

objective of instilling trust and creating a positive case for taxation. Instead, a collaborative approach with HMRC was agreed: HMRC would focus on customer based communications through its established and owned channels (for example utilising existing bulletins, factsheets and publications, and engaging through stakeholder groups and forums), while the Welsh Government would use WRIT to promote its high-level narrative on tax and spend in Wales, aligning the messaging with fiscal devolution and tax strategy in Wales.

214. An important element to this collaboration was securing agreement with HMRC to include a Welsh Government flyer in the notification letter sent out to all taxpayers as part of the identification process. By utilising an existing HMRC mail-out this direct marketing opportunity represented excellent value for money and enabled Welsh Government messaging to reach 2m taxpayers in Wales. This was the first time HMRC had agreed to include marketing content from another government organisation, reflecting the positive partnership work between the organisations.

215. Messaging from the leaflet was tested externally with user groups during pre-production. Opinions expressed during this process provided valuable insight into the resonance and impact of the message, and the leaflet went through a number of iterations to reflect this.

216. During the period between October 2018 and April 2019 four social media campaigns were carried out by the Welsh Government, including one communications campaign commissioned from Working Word PR split into two phases, and three 'zero-cost' campaigns developed by the Welsh Treasury communications team. In between campaign periods, communications activity continued via the Welsh Treasury/Trysorlys Cymru Twitter channels through engagement with relevant and interesting content to maintain momentum. All social media activity was channelled through Welsh Government channels and amplified via partner and stakeholder channels. Additional activity included:
    - Notification letter and flyer mail out in November;
    - Briefings to National Assembly Members, the Finance Committee and other principal stakeholders;
    - Presentations at conferences and events;
    - Media activity around the day of introduction with the Finance Minister visiting Year 6 pupils at a primary school.

217. This activity dovetailed with customer facing communications sent through HMRC channels and engagement with its customer stakeholder groups.

218. Learning from the experience of Scotland, the first communications campaign was aligned with the autumn draft Budget in 2018, when the Welsh rates were announced. Subsequent campaigns focused on the HMRC notification letter mail-out and continued into spring 2019.

219. A variety of digital assets were produced throughout the campaign period, these included infographics, quote cards, videos and case studies. In addition to the messaging linking tax and spend, factual messaging was included at key points in the timeline, informed by the external user testing. Social media schedules were developed to coordinate publishing of content on Welsh Government, Welsh Treasury and HMRC channels. Throughout the campaign, communications effort was supported by direct engagement with stakeholders and partners who were kept informed of

scheduling and were able to cascade content accordingly. The collaboration with HMRC was significant at engagement level as its customer engagement extended beyond Wales, targeting Welsh taxpayers in England and providing clarity for those close to the border.

220. An additional objective to the communications activity for WRIT was to promote HMRC's Welsh language service and to demonstrate excellence in Welsh language communications. Meeting the communications requirements of Welsh language speakers is a high priority for the Welsh Treasury. Content was either originated in Welsh or interpreted creatively to be engaging to Welsh speakers. Great care was taken to source case studies which would resonate equally with Welsh and English speakers, and the Welsh Treasury communications team worked closely with HMRC to support and amplify its Welsh language activity.

221. Evaluation of HMRC activity evidences an increase of 377 users to its Welsh language service. Also notable is the performance of the Welsh case studies, with one in particular out-performing the English video by 3.5K views.

222. Evaluation of each mini-campaign during the whole campaign period enabled reflection and learning to be incorporated at each stage. This included increased resource directed towards engaging influencers on social media channels between the 1st and 2nd phases of the PR campaign which evidenced an increased engagement from certain audiences, for example National Assembly Members. It informed the timing of the set of bilingual case studies, developed to illustrate the impact of those working in public services in Wales. Evaluation of the campaign demonstrates these case studies were significant in shifting engagement sentiment from 12 per cent positive, to 79 per cent positive, between March and April 2019 - just prior to introduction[37].

Outcomes and next steps

223. An important objective for the combined communication campaign activity was to increase awareness that the Welsh Government would be able to set different Income Tax rates from 6 April 2019. This was measured against the baseline survey result in June 2018, with subsequent surveys in March 2019 and June 2019[38]. The findings from the later surveys are due to be published in early 2020.

224. Evaluation of all communications activity evidences considerable reach across social media channels, which surpassed expectations. Performance on the Welsh Government Facebook page was notable with reach exceeding targets by 162 per cent. Posts published on Facebook elicited more comments and engagements than Twitter, with some people taking the opportunity to voice concerns about funding. The platform also prompted a number of tax and spend related questions which were answered.

225. A major outcome was the collaboration evident between organisations, stakeholders and partners, increasing the reach and impact of all communications, but in particular

[37] From the first phase of activity (4-18 March) there was 27 per cent negative sentiment surrounding the campaign compared to 12 per cent positive and 62 per cent neutral. In the second phase (9-26 April) there was a significant change in sentiment with 79 per cent positive, 21 per cent neutral and 0 per cent negative.
[38] Beaufort Research Ltd. Question: Are you aware from 6 April 2019 the Welsh Government will be able to set different Income Tax rates in Wales? *Public Understanding of tax devolution: baseline report*: https://gov.wales/public-understanding-tax-devolution-baseline-report

the 'zero cost' campaigns. New ways of working were forged with HMRC and the National Assembly, which have since paved the way for further collaboration.

226. During the seven month period of planned communications activity (between October 2018 and April 2019), followers to the owned and established Welsh Treasury and Trysorlys Cymru twitter channels increased by 23 per cent and 19 per cent respectively. The minimal difference in increase between the English and Welsh language channels is testament to the continued emphasis placed by the Welsh Treasury on its Welsh language communications activity.

227. In its report *Fiscal Devolution in Wales: devolved taxes and Welsh Rates of Income Tax* (December 2018), the Wales Audit Office found the Welsh Government and HMRC were working well together effectively to communicate with the public over WRIT. They also reported the communications and engagement activity was "clear and proportionate" and "demonstrate an appropriate balance between activity and cost".

228. Next steps for communications and engagement are focused on exploring the narrative of tax and spend as communicated through Welsh Government's main fiscal events, in particular the autumn draft Budget. Understanding how best to demonstrate the impact of how money spent in Wales benefits the people of Wales is central to promoting a positive case for taxation. Reflection and learning from communicating WRIT has been key in developing our approach:

- We will continue to concentrate on digital products produced 'in house';
- We will continue to support communications through strategic engagement with partners and stakeholders to cascade and amplify our messaging.

229. Stakeholder mapping and analysis will be used to understand the engagement effort required as new taxes are explored. We will strive to maximise impact through communications and provide transparency through collaboration and engagement.

C3. Building tax capability in Wales

"We will develop a long-term plan to build capacity and capability in Wales on tax policy and administration across the public and private sectors, with focus on developing linkages and informed debate."

Background

230. As we continue to develop a Welsh approach to taxation, we want to enable wide engagement with stakeholders - taxpayers, experts and industry representatives - at an early stage in the tax policy-making process. This will lead to more robust and better-understood tax policy.

Evidence and analysis

Tax forecasts

231. The Welsh Government produced its own tax forecasts for the 2018-19 and 2019-20 Budgets. Independent scrutiny of these forecasts was provided by Bangor Business School, with reports published alongside both draft and final Budgets.

Wales Fiscal Analysis (WFA)

232. We are providing funding to support the work of Wales Fiscal Analysis (WFA) based at Cardiff University. Since the last Welsh Government Draft Budget, WFA has published five reports on various aspects of public finance in Wales, including an analysis of all public sector revenues raised in Wales in its *Government Expenditure and Revenue Wales 2019* report[39]. WFA has also published four briefing papers analysing UK and Welsh Government fiscal events as well as an updated analysis of the Welsh Income Tax base. WFA has held five public events and presented its research to various audiences, including the political party conferences, local authority representatives and National Assembly committees.

Welsh Revenue Authority (WRA)

233. During 2018-19, the WRA has worked with solicitors and conveyancers in Wales and England to support them to file and pay Land Transaction Tax (further information is provided under section C2. Public engagement, paragraph 192).

Outcome and next steps

Tax forecasts

234. The Office for Budget Responsibility (OBR) will provide Welsh tax forecasts for future years. These new arrangements will provide tax revenue forecasts for the 2020-21 Welsh Government Budget and beyond. This new arrangement will produce high-quality forecasts, which will provide a robust foundation for the financing element of the Welsh Government's Budget.

[39] https://www.cardiff.ac.uk/__data/assets/pdf_file/0004/1540498/Government-Expenditure-and-Revenue-Wales-2019.pdf

235. The OBR has, and will continue, to increase its presence in Wales by engaging more substantially with interested organisations and individuals, including the National Assembly's Finance Committee.

236. The WRA will continue its programme of training through multiple channels and be informed by the WRA's data and user engagement.

C4. Responding to UK Government budget changes

"We will work with the UK Government and the National Assembly for Wales to ensure UK tax policy, and tax decisions on the devolved tax equivalents, are understood and managed effectively in Wales."

Background

237. The UK Government normally has a Budget at least once a year. The budget includes a Finance Bill, which sets rates for those taxes which must be set annually and those which change. In addition, the Finance Bill makes changes to the legislation for existing taxes, or exceptionally introduces new taxes.

238. In recent years, there have been some significant changes made to the UK versions of the devolved taxes, but none since April 2018 when the devolved taxes began operating in Wales. Such changes have included the introduction of the higher rates for additional residential dwellings introduced in April 2016 (following the announcement in Autumn Statement 2015), and the first time buyers relief introduced at Autumn Budget 2017.

239. The consequences of UK Budget changes that increase or reduce the Stamp Duty Land Tax (SDLT) or Landfill Tax effort have an impact on the block grant adjustment made. In the event the UK taxes make a greater effort, then the block grant adjustment will be increased and the monies available to the Welsh Government will decrease. In the event the UK taxes make a lesser effort, then the block grant adjustment is reduced and the Welsh Government will have greater resources.

240. However, the Welsh Government may wish to respond in order to protect Welsh revenues and therefore spending on public services, or to provide tax reductions for Welsh taxpayers. The response could be either to closely replicate the UK measures or to use alternative Welsh specific measures, where that is more appropriate or better meets Welsh Government priorities.

241. The Welsh Tax Acts currently have a number of regulation-making powers which enable changes to be made to certain aspects of devolved tax policy. Examples in Land Transaction Tax (LTT) include powers to modify the higher rates rules, the partnership rules and powers to create, remove or modify tax reliefs. Rates of tax (and for LTT the bands) can also be set by the Welsh Ministers through regulations subject to the provisional affirmative procedure.

242. Despite these powers, there will be times when the changes necessary cannot be brought into force through regulation-making powers alone. For example, the introduction of the SDLT higher rates for additional residential dwellings would have required primary legislation to be introduced (however the rules, as adapted, were introduced at Stage 2 of the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act's passage through the National Assembly).

243. More generally, changes in the interpretation or application of UK tax law, whether by HMRC or resulting from decisions in the Courts, can affect how Welsh devolved taxes are applied. It is therefore important the evolution of UK taxes is followed closely, and impacts on the equivalent devolved taxes are carefully considered, so the Welsh Government can respond accordingly.

Evidence and analysis

244. To date only one UK Budget has occurred since the devolved taxes went live in April 2018 (Autumn Budget 2018/Finance Act 2019). The Welsh Revenue Authority (WRA) and Welsh Treasury reviewed the changes made to the relevant UK taxes and concluded no changes needed a response.

245. The Welsh Treasury has analysed UK Budgets over a number of years and has identified a number of circumstances where the ability of the Welsh Ministers to make changes to devolved taxes quickly is important. Consideration has been given to other times when quick changes would be needed:

    i. To close an avoidance scheme with immediate effect to reduce the risk to the revenue;

    ii. Following a departure from the EU, it is possible new trade deals may include reciprocal changes which may impact on the operation of Welsh taxes. The Welsh Government has been clear we should be involved in early discussions on trade issues, to ensure the full implications of the UK entering into trade deals (including the impact on the devolved administrations) are properly considered, and the devolved administrations are involved in agreeing positions where implementation is devolved. In the context of new trade deals, the Welsh Government may need to respond quickly to new international obligations, in line with the Government of Wales Act 2006;

    iii. To respond to changes made at the UK Budget which may result in a greater or lesser 'tax effort', affecting the block grant adjustment, especially in regards to Stamp Duty Land Tax (SDLT).

246. Welsh Treasury officials met HM Treasury and HMRC officials to explore routes to creating cooperative relationships in relation to UK Budget changes. Those discussions were useful and helped to inform potential options to deal with the need to make quick changes to the Welsh Tax Acts.

247. The WRA engages with counterparts in HMRC and Revenue Scotland to discuss emerging policy issues around the application of UK and equivalent devolved taxes. This is particularly important where there are directly equivalent provisions in the corresponding taxes. The engagement both informs WRA policy development and enables the WRA to support and influence policy thinking on UK taxes.

Outcome and next steps

248. Proposals to respond to UK Budget changes have been scoped and the Welsh Treasury is starting a programme of informal engagement activity with stakeholders. The engagement will help identify issues with, and shape, the Welsh Government's preferred proposals for how it will address the need to respond quickly to change, especially when it impacts on the Welsh Government's revenues available to spend on public services.

249. Positive relationships have been developed with other treasury bodies and tax authorities in the UK, both by the WRA and by the Welsh Treasury. Work will continue

to build and enhance these relationships further. As an example, Welsh Treasury officials attend the Scottish Government's Devolved Taxes Legislation Working Group. WRA officials will continue to engage with their UK and Scottish counterparts on each of the devolved taxes to share lessons learned and inform development in both policy and operational thinking.

C5. Sharing good practice in taxation

"We will work with the UK Government and other devolved administrations, as well as international partners, to share good practice, to collaborate to address shared challenges, and to promote our tax policy principles and strategic approach to developing tax policy."

Background

250. The Welsh Government's 2017 Tax Policy Framework sets out the principles to which the Welsh Government is committed in relation to developing tax policy. We remain committed to these principles, which includes taking a proactive and transparent approach to collaboration and involvement.

Evidence and analysis

251. An important feature of this commitment is reflected in our work with HM Treasury and HMRC, together with the Scottish Government and officials from the Northern Ireland Civil Service, as well as our approach to foster new strategic relationships with the tax expert community, businesses and other organisations, and international partners and governments. The development of tax policy has continued to benefit from the expert input of the Tax Advisory Group, chaired by the Minister for Finance and Trefnydd, and reference groups established to support our specific policy programmes, such as the Vacant Land Tax Reference Group.

252. The successful introduction of Welsh Rates of Income Tax (WRIT) in April 2019 demonstrated further how the Welsh Treasury and HMRC can work together in partnership to deliver common goals. The WRIT implementation project provided opportunities to share good practice on communication and engagement which then informed the design of the Welsh Treasury's approach to raise awareness of the introduction of WRIT with over 2m taxpayer customers in Wales.

253. The new Welsh taxes programme - developing the evidence and policy principles to inform Ministers' future decisions on paying for social care and potential new tax measures relating to vacant land, disposable plastics and tourism - is being informed by evidence on international exemplars in the respective areas.

254. In May 2019, the Welsh Revenue Authority hosted the British Isles Tax Forum. This comprises senior officials and board members from the tax authorities for Wales, Scotland, England, Northern Island, Isle of Man, Jersey and Guernsey. It meets twice a year to discuss best practice and share strategic insight. The forum plays an important role in enabling closer working at operational and policy level across the tax authorities.

255. Fiscal devolution has presented new opportunities for co-operating with international partners, of which we have been able to take advantage. For instance, as part of the Memorandum of Understanding between the governments of Wales and the Basque Country, we are sharing information about tax policy approaches, and sharing good practice and working together to address common challenges and opportunities on tax. We have extended our outreach via overseas administrations and partners, such as the Organisation for Economic Co-operation and Development (OECD) to help inform the new taxes programme.

Outcome and next steps

256. We have made significant progress during 2019 in fostering new partnerships to promote our tax agenda and our ways of working, while benefiting from the Minister for Finance and Trefnydd's Tax Advisory Group, and working effectively with the UK Government to implement Welsh Rates of Income Tax and support new tax priorities. We will continue to develop our approach to sharing good practice to help develop Wales' tax policy and tax management capability.

Annex one: Evaluation of Land Transaction Tax and Landfill Disposals Tax forecasts

Introduction

A1. The Welsh Government produced revenue forecasts for Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT) for the 2018-19 final budget, published in December 2017, and the 2019-20 final budget, published in December 2018. These forecasts were assured by Bangor Business School[40].

A2. Tax revenue outturn information relating to 2018-19 is now available for LTT and LDT. Using this information, the forecasts for 2018-19 can be evaluated.

Limitations to forecasting

A3. Forecasting involves the estimation of something which is uncertain: how tax revenues will change in the future. Therefore it is not unexpected for revenue outturns to differ from forecasts.

A4. Deviations of the forecast from the outturn are not described as 'errors' here, consistent with the approach taken by the Office for Budget Responsibility (OBR). They are referred to as 'differences'. This is because they are largely unavoidable given the information available at the time of the forecast. This is different to genuine errors which can occur in forecasting models. It is important to make this distinction when evaluating forecasts.

A5. The forecasting models used by the Welsh Government have been through a series of quality assurance processes which have then been given further external scrutiny by Bangor Business School[41]. The quality assurance processes should reduce the risk of modelling errors and ensure the assumptions or judgements applied were reasonable and based on the best information which was available at the time.

A6. As forecasts are expected to be different to outturn, it is important for these differences to be analysed in order to highlight any particular uncertainties or incorrect assumptions used.

[40] Starting with the 2020-21 final budget, the Office for Budget Responsibility (OBR) is responsible for producing independent forecasts for devolved tax revenues to accompany Welsh Government budgets, and will provide evaluations of those forecasts.
Welsh Rates of Income Tax (WRIT) were introduced on 6 April 2019. Outturn for the first year of WRIT (2019-2020) will be published by HMRC in 2021.
[41] For further details see:
https://gov.wales/sites/default/files/bangor-final-report.pdf

Land Transaction Tax

Outturn and forecasts summary

A7. The annual outturn for Land Transaction Tax in 2018-19 was £227.8m, as published in the Welsh Revenue Authority's public accounts[42].

A8. Forecasts were produced for both the Draft and Final budgets each year. As it is the final Budget forecasts – December 2017 and December 2018 - which are ultimately used to establish the Welsh Government's budget each year, these forecasts have been evaluated here.

A9. The outturn was £22.2m lower than the Welsh Government's forecast in December 2017 (£250.0m) and £11.6m lower than the December 2018 forecast (£239.4m). This increase in forecast accuracy is to be expected, as more is known part way through the year in question.

A10. The two forecasts are analysed separately in the following sections.

December 2017 forecast performance

A11. Table five shows the outturn was lower than the December 2017 forecast for all three transaction types, but by varying degrees.

Table five: 2018-19 outturn and December 2017 forecast

Transaction type	Dec-17 (£m)[43]	Outturn (£m)	Outturn difference to forecast (£m)	Outturn difference to forecast (%)
Residential (excluding additional residential)	106.9	95.4	-11.5	-12%
Additional residential	60.2	60.0	-0.2	0%
Non-residential	82.9	72.4	-10.5	-15%
Total	250.0	227.8	-22.2	-10%

[42] Available from: https://gov.wales/sites/default/files/publications/2019-07/wra-annual-report-accounts-2017-2019-en.pdf

[43] To enable the December 2017 forecast to be comparable with the 2018-19 outturn, two adjustments to the published figures have been applied. Firstly, the refunds to additional residential rate transactions in 2018-19 which were expected to occur in future years have been excluded, as the outturn only includes those refunds which happened in 2018-19. The removal of future years' refunds increases the forecast by £6.3m. Secondly, the revenue from forestalling which it was assumed the UK Government would transfer to the Welsh Government in 2018-19 has been removed. This reduces the forecast by £5.9m. The treatment of revenues as a result of forestalling is yet to be agreed with the UK Government. The overall net impact of these changes is very small, but the revenue mix between transaction types is affected. These adjustments are only applied to the December 2017 forecast, as subsequent forecasts were produced on a basis consistent with the outturn.

Decomposition of outturn difference to December 2017 forecast

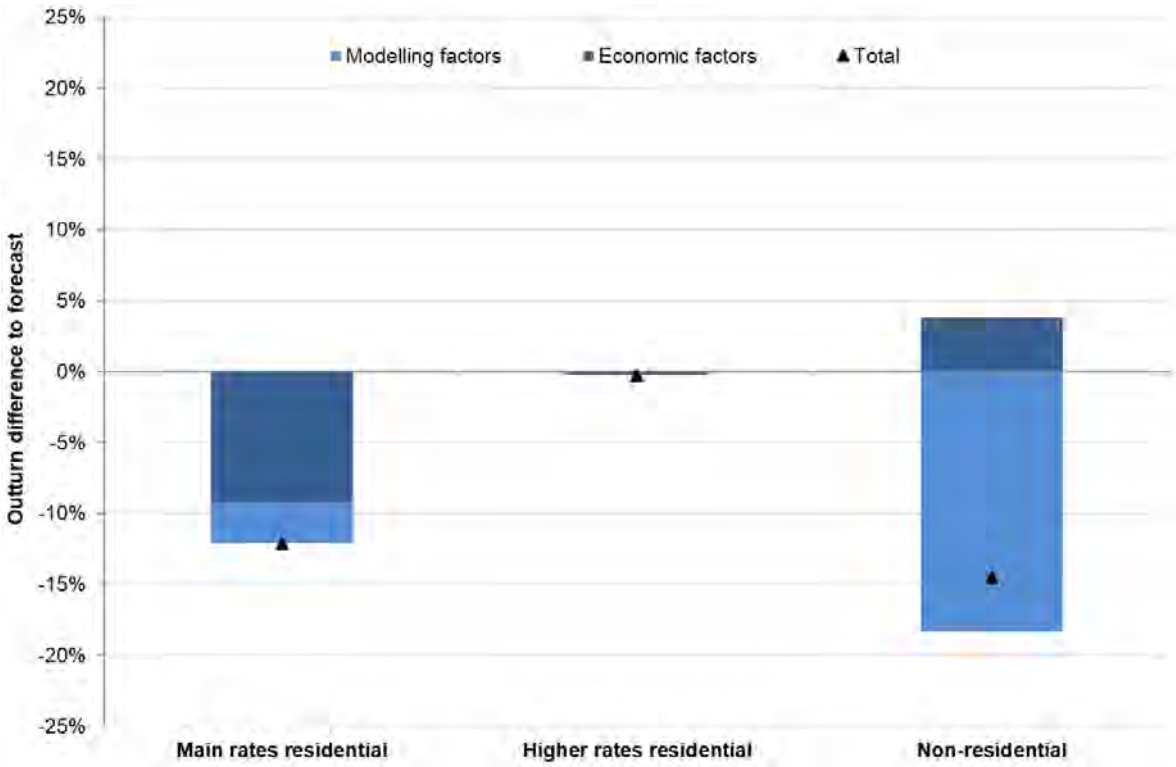
A12. To decompose the differences between the 2018-19 outturns and the December 2017 forecast, the following two elements are used, consistent with how the Office for Budget Responsibility (OBR) evaluates its forecasts:

1. Economic factors
2. Modelling factors

A13. The economic factors in the context of LTT are the property price and transaction growth forecasts. These are applied to the models to account for expected changes to the property market. The Welsh Government used the OBR's UK forecasts for these two factors.

A14. The modelling factors include all other elements of the difference between the forecast and outturn. Amongst other possible elements, these include: changes to the property price distribution from the base assumption used in the models and behavioural effects following tax rate changes[44]. Figure seven shows a decomposition of the outturn difference from forecast using these factors across the three main types of transactions.

Figure seven: Decomposition of 2018-19 December 2017 forecast



Source: Welsh Government

A15. For the residential main rates, economic factors explain three quarters of the difference and modelling factors the other quarter. The difference in outturn from forecast for the additional residential rates was very small, so the decomposition factors are also very small.

[44] A further potential reason for differences between outturn and forecasts would be policy changes announced after the forecast was made. There were no such changes in this case.

A16. For non-residential, the modelling factor (-18 per cent) explains more than the total difference. That factor was caused by the high Stamp Duty Land Tax (SDLT) revenues in Wales in 2017-18. The forecast judgement was to assume this high level of revenue would continue in future years, consistent with the OBR assessment. The high level of non-residential revenues in Wales in 2017-18 now appears to have been a one-off rather than a sustained upward shift in revenues.

A17. There are bigger risks in the non-residential forecast due to a greater reliance on a few high value commercial transactions to generate revenues. This makes the revenues from this source very volatile and more prone to forecast inaccuracy. This will continue to be an on-going risk in future LTT revenue forecasts.

December 2018 forecast performance

A18. Table six shows the outturn was five per cent lower than the December 2018 forecast. The differences were mainly in the additional residential and non-residential forecasts.

Table six: 2018-19 outturn and December 2018 forecast

Transaction type	Dec-18 (£m)	Outturn (£m)	Outturn difference to forecast (£m)	Outturn difference to forecast (%)
Residential (excluding additional residential)	96.8	95.4	-1.4	-1%
Additional residential	65.5	60.0	-5.5	-9%
Non-residential	77.1	72.4	-4.7	-7%
Total	239.4	227.8	-11.6	-5%

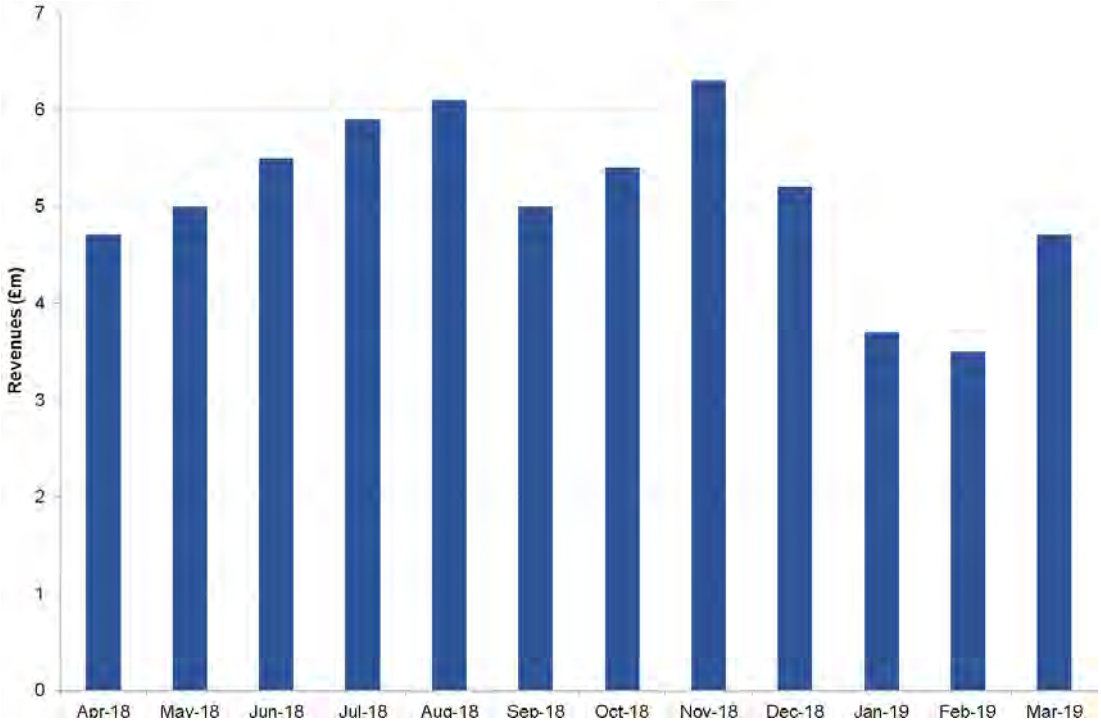
A19. The 2018-19 December 2018 forecast was produced in-year. At that stage, the in-year tax revenue data are of primary importance in forecasting the full year position. In general this improved the forecast performance, but it was not the case for all transaction types.

A20. The additional residential property forecast was less accurate in December 2017 (-0.3 per cent) than in December 2018 (-9.1 per cent). This was primarily as a result of the way in-year revenues were interpreted. The judgment on in-year revenues for additional residential property transactions was based on relatively little historical data, as this element was only introduced into Stamp Duty Land Tax in March 2016. Given the limited data period, and the presence of forestalling effects during the period, it was difficult to judge the seasonal pattern of these revenues.

A21. Figure eight shows how the monthly revenues from this type of transaction in 2018-19 peaked towards the middle of the financial year and were relatively low towards the end. This end-year reduction was not fully anticipated in the December 2018 forecast, resulting in the forecast inaccuracy shown in table six.

A22. It is not yet clear whether the monthly path shown in figure eight reflects a stable seasonal pattern for additional property residential transactions, or whether it might also reflect a more general or structural downturn in this type of transaction activity towards the end of 2018-19.

Figure eight: Additional residential property rates revenues, by month 2018-19



Source: WRA, Welsh Government

How does this compare to other forecasters?

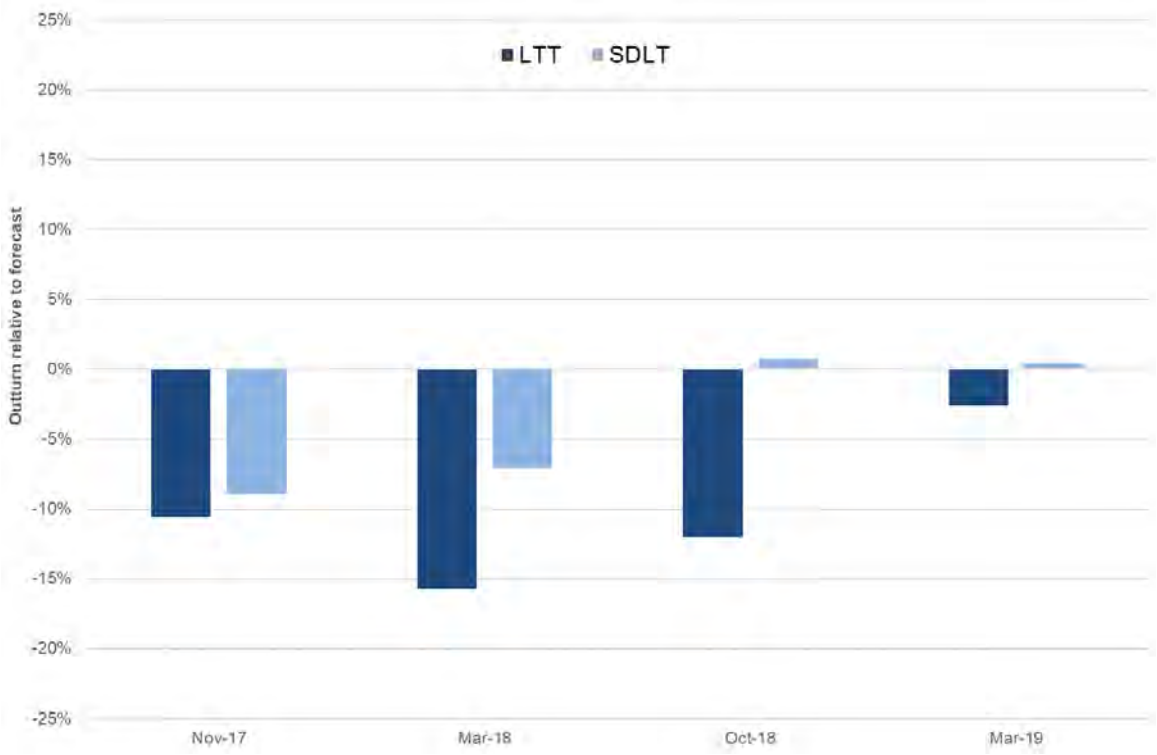
A23. The OBR has produced forecasts of LTT and SDLT over the same period the Welsh Government has produced its own forecasts, although not on the same dates.

A24. The 2018-19 LTT outturn was lower than any of the OBR's forecasts (see figure nine). The difference ranged from 15.6 per cent to 2.6 per cent over the period of November 2017[45] to March 2019. This is similar to the Welsh Government's performance, both in terms of scale and direction, over the same period.

A25. The outturn for SDLT was 8.9 per cent lower than the OBR's November 2017 forecast. This is the most comparable period to the Welsh Government's December 2017 LTT forecast and the forecast performance was very similar. The OBR's SDLT forecast accuracy also improved over time, as more information about the forecast year became available.

[45] The November 2017 OBR forecast used the tax rates which had been announced by the Welsh Government at the time. The residential rates were revised by the Welsh Government in December 2017, with the effect of reducing revenues. So the outturn difference from forecast is partly explained by policy changes in this case.

Figure nine: OBR's LTT and SDLT relative outturn to forecast difference, 2018-19



Source: OBR and HMRC (provisional outturn)

A26. In Scotland, the 2018-19 outturn for Land and Buildings Transaction Tax (LBTT, the replacement for SDLT) was six per cent lower than the Scottish Fiscal Commission's (SFC) December 2017 forecast[46].

Conclusions

A27. Outturn for LTT revenue in 2018-19 was lower than the forecasts published in both December 2017 and December 2018, although the difference was smaller in the later forecast. The sign and relative size of the difference was consistent with other UK property transaction taxes forecasts produced by the SFC and the OBR one to two years ahead.

Landfill Disposals Tax

Outturn and Forecast Summary

A28. The 2018-19 outturn from LDT was £44.4m, as shown in the Welsh Revenue Authority (WRA) annual accounts[47].

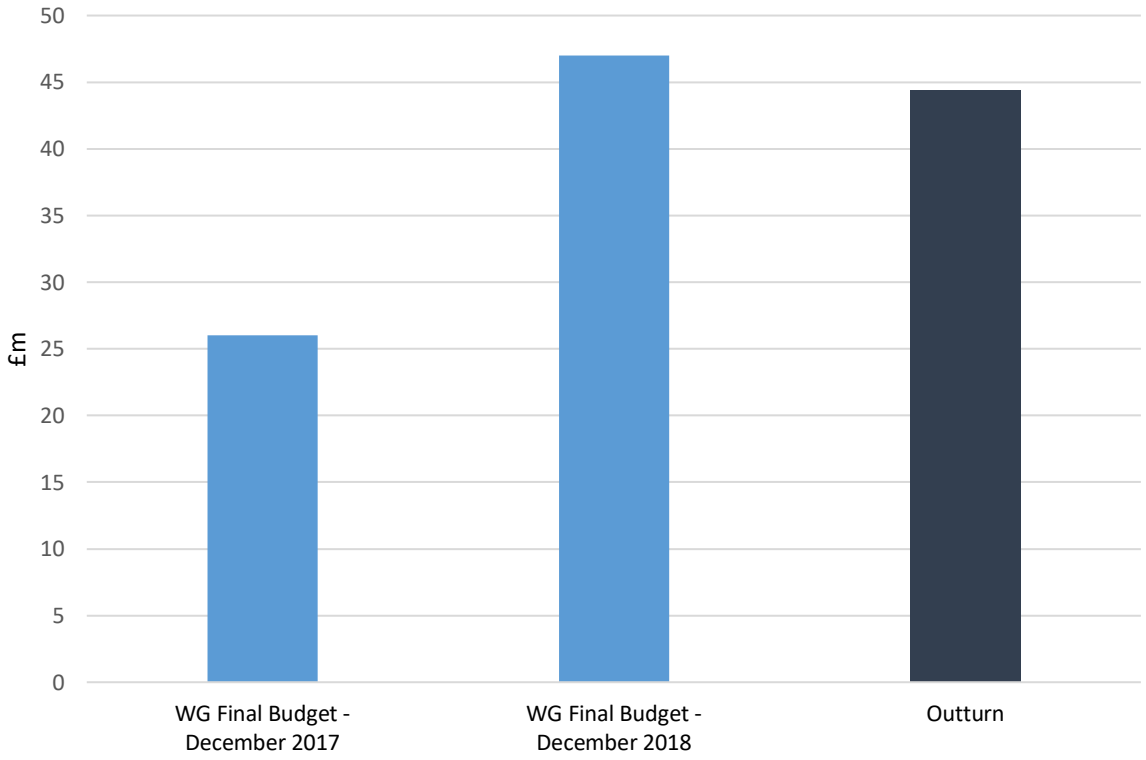
[46] This excludes policy changes to LBTT which were announced in December 2018 and came into effect towards the end of January 2019. The effects of these changes was to slightly increase revenues in 2018-19. For more details see:
https://www.revenue.scot/news/news/scottish-budget-sets-out-proposed-changes-devolved-taxes

[47] Available from:
https://gov.wales/sites/default/files/publications/2019-07/wra-annual-report-accounts-2017-2019-en.pdf

A29. This is higher than the Welsh Government's December 2017 forecast of £26m. The December 2018 forecast benefited from the publication of in-year outturn data by the WRA and was much closer to the final outturn figure (see figure ten).

A30. Prior to the publication of outturn data there were no administrative data available on the amount of landfill tax collected in Wales. In contrast to LTT where HMRC data on Stamp Duty Land Tax could be disaggregated prior to the devolution of the tax, HMRC data on landfill tax receipts could not be disaggregated.

Figure ten: Landfill Disposals Tax forecasts and outturn for 2018-19



Source: WRA, Welsh Government

December 2017 forecast performance

A31. Following the decomposition elements used for LTT and by the OBR, the differences between forecast and outturn have been allocated across a two-way classification:

1. Economic Factors
2. Modelling Factors[48]

A32. For LDT, the economic factors are limited. This is because the prices per tonne of waste are set in advance and increase in line with Retail Price Index (RPI).

A33. Modelling factors include any changes to the methodology, newly available waste data, changes to the assumptions regarding waste infrastructure and the interpretation of in-year revenue. The main elements of uncertainty are the total

[48] The OBR also include policy factors, however the policy for landfill did not alter between the forecasts and therefore has had no impact.

volume of waste and the split of waste between standard and lower rates, both of which would be classified as modelling factors.

A34. The forecast for the 2017 December budget of £26m was undertaken before any data on LDT was available. This forecast was based on landfill data from site operators collected by Natural Resources Wales and municipal waste data from local authorities.

A35. The majority of the disparity between the 2017 budget forecast and the final outturn is due to the classification of waste.

A36. The total forecast tonnes of waste going to landfill in 2018-19 was within five per cent of the final volume outturn data, excluding reliefs and discounts. However, the amount classified as standard rate was higher than forecast, and the amount classified as lower rate was lower.

A37. The big difference between standard (£88.95 tonne) and lower (£2.80 tonne) tax rates on waste means the split of waste between the rates has a very large impact on the amount of tax collected.

A38. The waste data from site operators used in the model is broken down into a number of categories. These were initially allocated to standard and lower tax rates in the forecasting model based on interpretation of the waste category descriptions. There is no direct relationship between the waste categories and the tax rates. With the publication of outturn data by the WRA, it became apparent the allocations used did not match the way the tax rates were being applied. The WRA's administration of the tax has meant a higher proportion of waste to landfill is being classified as standard rate waste than originally estimated. Subsequent forecasts have taken account of the standard and lower rate split evident in the revenue outturn data.

A39. To a lesser extent, operational issues also explain some of the difference between outturn and forecast. Local authority waste plans were used in the forecast. However, local authority waste reduced by less than expected. This is as a result of a partial suspension of a waste operator licence which processed residual waste into refuse derived fuel for export, and higher residual waste from those authorities who entered contracts with Energy from Waste plants. These issues resulted in higher amounts of standard rate waste than forecast being sent to landfill.

December 2018 forecast performance

A40. The December 2018 forecast of £47m benefitted from two quarters of outturn data. A quarterly profile was calculated using an eight year average of HMRC UK landfill tax data. This suggested a UK seasonal pattern to the revenue. On average 54 per cent of annual revenue was due in the first two quarters. This UK seasonal pattern was used to create an uprating factor which was applied to the first two quarters of LDT outturn to generate a full year forecast.

A41. The December 2018 forecast was slightly higher than outturn as revenue in the 3rd and 4th quarters came in a little lower than the historical UK seasonal pattern would suggest.

How does this compare to other forecasters?

A42. The OBR's November 2017 forecast for 2018-19 LDT was £23m based on an estimated Welsh share of UK Landfill Tax receipts of 3.8 per cent. This was £3m lower than the Welsh Government forecast and £21m lower than outturn. The reason for this large difference between outturn and forecast was the lack of disaggregated administrative data, as with the Welsh Government forecast.

A43. The Scottish Government faced the same challenge with their first Scottish Landfill Tax (SLfT) forecast as HMRC data on landfill tax receipts could not be disaggregated prior to devolution of the tax[49]. On this basis, the Scottish Government forecast in December 2014 for SLfT in 2015-16 was 20 per cent lower than outturn.

A44. The Scottish Fiscal Commission's December 2017 forecast for SLfT in 2018-19 was also lower than outturn (25 per cent below outturn), even after outturn information was available. The majority of this difference was due to delays in incineration capacity coming online. The Wales forecast is unlikely to experience similar issues as the majority of municipal waste is already diverted away from landfill and can be accommodated within current incineration capacity.

Conclusions

A45. The December 2017 budget forecast underestimated the amount of LDT by a significant amount. This scale of forecast difference is unlikely to be repeated now revenue outturn information is available from the WRA. The methodology has been updated to take account of outturn data. In addition, a more cautious assessment of local authority waste plans is applied, leaving a residual amount of waste in the forecast once a contract with an Energy from Waste operator is entered into.

Next steps for forecasting LTT and LDT

A46. The OBR has produced independent forecasts for LTT and LDT revenues for the 2020-21 draft Budget and will maintain this role for future budgets. However, Welsh Government analysts will still play a role in those forecasts. The information obtained from this evaluation and from the process of undertaking the forecasts will help to inform future modelling changes and forecast judgments.

[49] On the 1 April 2017 the Scottish Fiscal Commission took on responsibility for producing tax forecasts for Scotland.

Annex two: Abbreviations used in this report

APD	Air Passenger Duty
CETR	Commission for Education Training and Research
DRS	Deposit Return Schemes
DWP	Department for Work and Pensions
EPR	Extended Producer Responsibility
GVA (B)	Gross Value Added (Balanced)
HMRC	Her Majesty's Revenue and Customs
LBTT	Land and Buildings Transaction Tax
LDT	Landfill Disposals Tax
LDTCS	Landfill Disposals Tax Community Scheme
LfT	Landfill Tax
LTT	Land Transaction Tax
NDR	non-domestic rates (or 'business rates')
NRW	Natural Resources Wales
NDF	National Development Framework
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
PAYE	pay-as-you-earn
PCET	Post Compulsory Education and Training
RPI	Retail Price Index
SA	Self Assessment
SDLT	Stamp Duty Land Tax
SLfT	Scottish Landfill Tax
SRIT	Scottish Rates of Income Tax
SFC	Scottish Fiscal Commission

SPA	State Pension Age
SPI	Survey of Personal Incomes
VAT	Value Added Tax
WCPP	Wales Centre for Public Policy
WFA	Wales Fiscal Analysis
WRA	Welsh Revenue Authority
WRIT	Welsh Rates of Income Tax
WULF	Wales Union Learning Fund

Annex three: Contact details for further information

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

https://gov.wales/welsh-taxes
https://llyw.cymru/trethi-cymru

You can contact us:

via the Welsh Treasury twitter account:

@WelshTreasury
@TrysorlysCymru

or by email:

WelshTreasury@gov.wales
TrysorlysCymru@llyw.cymru