



Llywodraeth Cymru  
Welsh Government

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

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

December 2018

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## Foreword



The last 12 months has seen the culmination of more than five years' work on the development of the first Welsh taxes of the modern era – land transaction tax and landfill disposals tax. The smooth and efficient introduction of the taxes on 1 April 2018, which are managed and collected by the new Welsh Revenue Authority (WRA), is in part a testimony to the quality of the advice provided by the many organisations and individuals who have assisted the Welsh Government, and latterly the WRA, through the processes of design and systems testing. I am grateful for this support.

We are on schedule for the introduction of Welsh rates of income tax on 6 April 2019. HMRC is responsible for administering and collecting the Welsh rates of income tax – as it is currently for income tax. The Welsh Government has been working closely with HMRC and the Department for Work and Pensions to ensure Wales' unique circumstances are considered and reflected in the new arrangements. In October, I announced the first Welsh rates of income tax and the National Assembly will be voting on these as part of the final Budget process.

Welsh rates of income tax will be the final element of the financial provisions in the Wales Act 2014 to be introduced. This will bring to a close a period of significant change for Wales, moving from a position where our budget was determined wholly by the UK Government via a block grant, to one where some 20% of our budget is raised through Welsh tax powers.

I would like to thank the National Assembly for its scrutiny of the implementation of the Wales Act 2014 financial provisions. I look forward to continuing to work with the National Assembly – and with stakeholders and tax experts across Wales – as we complete the phased introduction of taxes and focus on the development of a distinctively Welsh tax policy, ensuring we have a principled approach, which works with our wider policy ambitions to tackle the issues of importance for Wales.

A handwritten signature in black ink that reads "Mark Drakeford". The signature is written in a cursive, slightly slanted style.

Mark Drakeford AM  
Cabinet Secretary for Finance

December 2018

## Introduction

Under section 23 of the Wales Act 2014<sup>1</sup>, Welsh Ministers and the Secretary of State for Wales are each required to report annually on the progress made in effecting the provisions under Part 2, until the first anniversary after the final provisions have been implemented. This is the fourth annual report by Welsh Ministers.

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

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

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

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

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<sup>1</sup> <http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

## Welsh taxes and the Welsh Revenue Authority

### Land transaction tax

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

The Command Paper issued by the UK Government alongside the Wales Bill (March 2014) additionally specifies that stamp duty land tax would be 'switched off' from April 2018<sup>2</sup>.

### Landfill disposals tax

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

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

The Treasury exercised the powers contained in sections 16 and 19 of the Wales Act 2014 to make an order<sup>3</sup> to dis-apply stamp duty land tax and UK landfill tax in Wales on 1 April 2018.

## Welsh taxes

1. The Welsh Tax Acts<sup>4</sup> came into force on 1 April 2018, enabling the Welsh Revenue Authority (WRA) to begin collecting the two fully devolved Welsh taxes – land transaction tax and landfill disposals tax – on 1 April 2018.
2. The rates and bands for these two Welsh taxes were announced by the Welsh Government as part of the Budget process 2018-19. Indicative rates were published in the 2017 *Welsh Tax Policy Report* on 3 October 2017, alongside the outline draft Budget, to aid scrutiny of the Welsh Government's tax and spending decisions and to provide an early indication for taxpayers. Following an assessment of the effects for Wales of changes to stamp duty land tax made by the UK Government in its Autumn Budget 2017, the Welsh Government announced revised land transaction tax rates on 11 December 2017<sup>5</sup>.

<sup>2</sup> *Wales Bill: financial empowerment and accountability* Cm 8838, para 16:  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/294470/Wales\\_Bill\\_Command\\_Paper\\_-\\_English.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294470/Wales_Bill_Command_Paper_-_English.pdf)

<sup>3</sup> Wales Act 2014, Sections 16 and 19 (Disapplication of UK Stamp Duty Land Tax and UK Landfill Tax) (Appointed Date) Order 2018 (S.I. 2018/214).

<sup>4</sup> The Welsh Tax Acts consist of the Tax Collection and Management (Wales) Act 2016, the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 and the Landfill Disposals Tax (Wales) Act 2017.

<sup>5</sup> Rates and bands for land transaction tax and landfill disposals tax are published here:  
Land transaction tax:

3. The regulations to bring into effect the rates and bands for land transaction tax<sup>6</sup> and landfill disposals tax<sup>7</sup> were agreed by the National Assembly on 30 January 2018 and have applied since the taxes came into force on 1 April 2018.
4. The rates and bands for land transaction tax will remain in place until amended. The Government's intention is that the rates of landfill disposals tax will increase in line with inflation in 2019-20, maintaining consistency with the UK Government's approach to landfill tax rates. The regulations setting the new landfill disposals tax rates were laid on 26 November, for consideration by the National Assembly in early 2019.
5. Information about tax returns and revenue raised by the Welsh taxes is published regularly by the WRA<sup>8</sup>. The latest landfill disposals tax data, covering the period 1 April to 30 September 2018, show £25.3m of tax revenue is due to the WRA from disposals to landfill. The latest land transaction tax data, covering the period 1 April to 31 October 2018, show £131.7m revenue is due to the WRA as a result of land transaction tax.
6. The HMRC-led tax devolution programme board oversaw the transition from stamp duty land tax and landfill tax to land transaction tax and landfill disposals tax, respectively. It is also overseeing the Welsh rates of income tax project – see paragraph 18). The director of the Welsh Treasury and the deputy director of tax strategy, policy and engagement are members of the tax devolution programme board, which provides a route for the resolution of project-level challenges, and is overseeing the transition to business-as-usual arrangements in the Welsh Government's relationship with HMRC.
7. HMRC has confirmed the annual rebate to the Welsh Government as a result of no longer operating stamp duty land tax and landfill tax in Wales is £172,473. The stamp duty land tax/landfill tax transition project is due for closure in 2018-19, subject to completion of the final IT changes by HMRC.
8. Regulations introduced in the last year are listed at appendix 1.

## Welsh Revenue Authority (WRA)

9. The Cabinet Secretary for Finance issued the WRA with its first remit letter on 19 December 2018. This outlined three key priorities:

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<https://gov.wales/funding/fiscal-reform/welsh-taxes/land-transaction-tax/?lang=en>

Landfill disposals tax:

<https://gov.wales/funding/fiscal-reform/welsh-taxes/landfill-disposals-tax/?lang=en>

Cabinet statement (December 2017) about changes to land transaction tax rates and bands:

<https://gov.wales/about/cabinet/cabinetstatements/2017/ltratesandbands/?lang=en>

Further information about rate setting for the Welsh taxes is provided in the *Welsh tax policy report 2017* (October 2017) and the *Welsh tax policy report - devolved taxes update* (January 2018):

<https://gov.wales/funding/fiscal-reform/tax-policy-framework/?lang=en>

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

<sup>7</sup> The Landfill Disposals Tax (Tax Rates) (Wales) Regulations 2018 (S.I. 2018/131).

<sup>8</sup> Latest land transaction tax data:

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

Landfill disposals tax data:

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

- 1) Devolved tax collection – enabling people to pay the right amount of tax at the right time;
  - 2) Managing the devolved tax system to help deter and tackle tax evasion and tax avoidance;
  - 3) Public service delivery – leading improvements to the administration of devolved taxation across Wales.
10. The WRA's charter was launched for consultation in November 2017, attracting more than 120 responses and resulting in *Our Charter*, which was published on 29 March 2018<sup>9</sup>. *Our Charter* sets out how the WRA will work in partnership to deliver a fair tax system for Wales, with shared responsibilities, values and behaviours, which are responsive, bilingual, accurate, efficient, engaging, fair, supportive and secure.
  11. The WRA's first corporate plan<sup>10</sup>, which was published on 27 April 2018, covers one year and focuses on the three priorities in the remit letter from the Cabinet Secretary for Finance.
  12. The WRA's corporate plan introduces *Our Approach*, a set of principles, which establish a Welsh way of doing tax and defines tax administration as a collective endeavour for the benefit of all, prioritising working together to ensure the right amount of tax is paid at the right time. It recognises different approaches will be necessary, depending on the circumstances.
  13. The emphasis of *Our Approach* is about supporting taxpayers to get it right first time, focusing efforts and resource to ensure more of the tax due is collected when it should be, rather than resourcing queries and investigations after the fact. The WRA put *Our Approach* into practice early. Extensive engagement with conveyancers in Wales and England and Welsh landfill site operators was key to ensuring a smooth transition to the new taxes.
  14. The WRA's corporate technology is cloud based, ensuring staff can work and collaborate in real-time in any location while maintaining high levels of security. The WRA's tax management system, which went live on 1 April 2018, is also a cloud venture, allowing more than 1,500 organisations to submit tax returns online.

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<sup>9</sup> WRA *Our charter*:

<https://beta.gov.wales/welsh-revenue-authority/our-charter>

<sup>10</sup> WRA corporate plan 2018-19:

<https://beta.gov.wales/sites/default/files/publications/2018-04/180430-wra-corporate-plan-a.pdf>

## Welsh rates of income tax

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

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

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

15. As set out in the fiscal framework, agreed by the Welsh and UK governments in 2016, Welsh rates of income tax will be introduced on 6 April 2019. For non-savings non-dividend income, the UK Government will reduce each of the three rates of income tax – basic, higher and additional rates – paid by Welsh taxpayers<sup>12</sup> by 10p. The National Assembly will then decide the Welsh rates, which will be added to the reduced UK rates.
16. HMRC will be responsible for the collection and management of Welsh rates of income tax. In competence and legal terms this remains a UK tax, as will the associated arrangements for all allowances and reliefs (including the personal allowance), the tax thresholds and bands. The UK Government will continue to retain the revenues from income tax on savings and dividend income from taxpayers in Wales.
17. In the outline draft Budget, the Welsh Government proposed setting the Welsh rates of income tax for 2019-20 at 10p. This will mean the rates of income tax paid by Welsh taxpayers will be the same as those paid by English and Northern Irish taxpayers. The National Assembly will vote on the rates as part of the final Budget process in early 2019.
18. The preparations for Welsh rates of income tax are being overseen by a cross-government Welsh rates of income tax project board, comprising officials from the Welsh Government, HMRC, HM Treasury, the Wales Office and the Department for Work and Pensions. Its main objectives are to:
  - Accurately identify Welsh income taxpayers;
  - Notify taxpayers and employers of changes resulting from Welsh rates of income tax;
  - Assign new tax codes for Welsh income taxpayers about all relevant HMRC systems (including ensuring effective data exchange between relevant HMRC and Department for Work and Pensions systems).

<sup>11</sup> The Wales Act 2017 received Royal Assent 31 January 2017:  
<http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

<sup>12</sup> Welsh taxpayers are defined in the Wales Act 2014 s.8 'Welsh rates of income tax', however in most cases they will be people who are resident in Wales:  
<http://www.legislation.gov.uk/ukpga/2014/29/section/8/enacted>



19. HMRC has undertaken extensive work to identify all income tax payers (around 1.35m people) living in Wales who will be subject to Welsh rates of income tax from 6 April 2019. This has resulted in the development of a database of Welsh taxpayers, which will be maintained and continually updated to ensure taxpayers are paying the relevant rates of income tax depending on where they live.
20. HMRC issued a notification letter to all income taxpayers and relevant HMRC customers living in Wales (just over 2m people in total) in November 2018 to inform them of the new arrangements. The letter included a flyer from the Welsh Government with further information about the changes.
21. HMRC and Welsh Government are working jointly on communications and engagement about Welsh rates of income tax to ensure maximum impact across operational and customer channels and increased levels of awareness and understanding amongst citizens in Wales.
22. Research has been commissioned to provide a baseline level of awareness, which will be measured again in March 2019. User testing has also been carried out to ensure clarity of messaging and to test a wider narrative, which has been developed to provide context and strategic direction for communications and engagement beyond April 2019.
23. In December 2018, the UK Government is due to lay regulations to enable Welsh rates of income tax to be implemented: The Devolved Income Tax Rates (Consequential Amendments) Order 2018 and The Income Tax (Pay As You Earn) (Amendment No.2) Regulations 2018.
24. HMRC has refined its high-level estimate for the total costs of implementing the necessary changes to its systems for the introduction of Welsh rates of income tax to between £7.5m and £9.5m over the period 2017-18 to 2019-20. The Department for Work and Pensions has estimated the cost of making system changes to cover Jobseekers' Allowance, Universal Credit and pensions will be less than £200k, to be incurred in 2018-19.

## Ability to create a new Welsh tax

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

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

25. In February 2018, the Cabinet Secretary for Finance announced how he would progress the four shortlisted new tax ideas, which he announced in October 2017 – a vacant land tax; a levy to fund social care; a disposable plastic tax and a tourism tax<sup>13</sup>. The vacant land tax will be used to test the mechanism for introducing new taxes but work is continuing on the other three ideas<sup>14</sup>.

### Vacant land tax and the intergovernmental process for new taxes

26. The Welsh Government has worked with the UK Government and the National Assembly to agree how the process to devolve competence for a new tax will be managed. The Welsh Government and HM Treasury have agreed a process by which the Welsh Government will make, and the UK Government will consider, a proposal prior to consideration of a draft Order by the Houses of Parliament.

27. The process agreed by the Welsh Government and HM Treasury for giving the National Assembly new tax powers is governed by a Joint Exchequer Committee (JEC), led by the Cabinet Secretary for Finance and the Chief Secretary to the Treasury and supported by Welsh Government and UK Government officials (JEC(O)). There are nine stages, described below<sup>15</sup>.

- 1) The Welsh Government notifies HMT Ministers of its intention to seek a new National Assembly tax power:
  - Official level soundings, leading to
  - Ministerial discussion at JEC
- 2) The Welsh Government produces proposal:
  - Officials identify what is required to support the proposal and agree programme of work (including timetable) to produce it.

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<sup>13</sup> Cabinet statement about new tax ideas (13 February 2018):  
<https://gov.wales/newsroom/finance1/2018/180213-vacant-land-tax-idea-to-be-used-to-test-wales-act-powers/?lang=en>

<sup>14</sup> Further details about a vacant land tax and the other new tax ideas are provided in the Welsh Government's Welsh tax policy report 2018 (October 2018), page 17:

<https://gov.wales/docs/caecd/publications/181003-welsh-tax-policy-report-en.pdf>

<sup>15</sup> A summary of key stages of the intergovernmental process is available here:  
<https://gov.wales/docs/caecd/publications/180213-developing-infographic-en.pdf>

- This will include a draft Order and evidence to allow the proposals to be assessed (see step six)
  - Discussion at JEC(O)/JEC
- 3) Agreed work is carried out.
  - 4) The Welsh Government makes a formal request for the new tax powers to the UK Government (including the draft Order and supporting evidence/data).
  - 5) The UK Government consults publicly on the proposal to give the National Assembly the proposed new tax power, in line with UK tax policy-making policy:
    - Although there would be no need to follow the UK tax cycle, it could be convenient to announce consultation on devolution of powers at the Budget and confirm a decision about whether to do so at the next Budget;
    - The consultation could also seek views to help inform the Welsh Government's case to the National Assembly that the National Assembly has the right competence (under step eight).
  - 6) The UK Government assesses proposal and evidence:
    - Some further detail is set out in the Wales Bill 2014 Command paper.
  - 7) Proposal finalised:
    - Proposal revised/amended, additional evidence produced, as necessary
    - Discussion at JEC(O)/JEC
    - Ministerial agreement
  - 8) Legislation:
    - Draft Order laid before and approved, by affirmative resolution, by each House of Parliament and by the National Assembly
    - Order in Council made by HMRC
  - 9) The Welsh Government exercises new powers according to its normal processes of policy-making, legislation and implementation.
28. The National Assembly has agreed an amended Standing Order by which an Order in Council under section 116C of the Government of Wales Act 2006, as amended by the Wales Act 2014, will be considered.
  29. In preparation for the devolution of competence, the Welsh Government has begun working with stakeholders to further understand the issues with vacant land in Wales and to begin to formulate policy options. A reference group of key stakeholders, drawn from the private, public and third sectors, is supporting this work.

### **Social care levy**

30. An inter-Ministerial group on paying for social care has been established, chaired by the Minister for Children, Older People and Social Care, and including the Cabinet Secretary for Finance, Cabinet Secretary for Health and Social Services, Cabinet

Secretary for Local Government and Public Services and the Minister for Housing and Regeneration<sup>16</sup>.

31. As part of its remit, the inter-Ministerial group will consider the independent report *Paying for Social Care*, by Professor Gerald Holtham, which provides an indicative economic analysis of a system of enhanced social insurance which could help fund social care for older people in Wales<sup>17</sup>. Under Professor Holtham's proposal, proceeds from the levy would be placed in a ring-fenced fund, which could provide additional help for the immediate care needs of the population as well as cover for the expected increases in the demand for care from future generations.

### **Disposable plastics tax**

32. Following the Welsh Government's announcement about work to explore a disposable plastics tax, the UK Government announced a call for evidence – *Tackling the Plastic Problem*. The Welsh Government worked with the UK Government to encourage organisations in Wales to contribute evidence and to consider the 162,000 responses. The Welsh Government is working with Welsh businesses, experts and the wider stakeholder community to ensure Welsh interests and needs are reflected in the development of the UK Government's proposals<sup>18</sup>.
33. In the UK Autumn Budget 2018, the Chancellor confirmed UK Government plans to introduce a tax on the production and import of plastic packaging from April 2022, alongside already-planned reforms to the packaging producer responsibility system. Both will be subject to consultation soon. The UK Government also concluded a levy on all cups at this time would not be effective in encouraging widespread reuse, as businesses are already taking steps to limit their environmental impact. However, the UK Government also committed to return to the issue if insufficient progress is made.
34. The Welsh Government is assessing the detail of the UK Government's approach to consider the best way forward and to ensure the Welsh Government continues to be a part of the process, while garnering the views of Welsh stakeholders to inform responses to future consultations on the UK Government's proposals.

### **Tourism tax**

35. The Welsh Government is exploring ways in which local authorities could be given permissive powers to develop and implement a local tourism tax, working with the tourism sector and with local government to begin examine the possible impact of a local tourism tax and the merits and concerns the tourism sector has expressed about this idea<sup>19</sup>.

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<sup>16</sup> Further information about a social care levy is provided in the Welsh Government's Welsh tax policy report 2018 (October 2018), page 19:

<https://gov.wales/docs/caecd/publications/181003-welsh-tax-policy-report-en.pdf>

<sup>17</sup> Professor Gerald Holtham's independent report to the Welsh Government *Paying for Social Care* (June 2018):

<https://beta.gov.wales/written-statement-paying-social-care-independent-report-professor-gerald-holtham>

<sup>18</sup> Further information about a disposable plastics levy is provided in the Welsh Government's Welsh tax policy report 2018 (October 2018), page 22:

<https://gov.wales/docs/caecd/publications/181003-welsh-tax-policy-report-en.pdf>

<sup>19</sup> Further information about a tourism tax is provided in the Welsh Government's Welsh tax policy report 2018 (October 2018), page 24:

<https://gov.wales/docs/caecd/publications/181003-welsh-tax-policy-report-en.pdf>

36. This work has identified how the needs and effects of tourism vary significantly across Wales and some key policy considerations, including the relationship between a tourism tax and VAT on tourist accommodation; how local tourism taxes would interact with other key policy areas, such as local taxes and existing regulatory pressures. The intention is to continue working through these issues in partnership with the industry and local authorities.

## Borrowing

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

### Capital Borrowing:

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

### Revenue Borrowing:

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

In February 2015, following intergovernmental and cross-party talks, the UK Government agreed to extend the Welsh Government's borrowing powers to include the issue of bonds<sup>20</sup>.

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

## Capital borrowing

37. Under the fiscal framework, agreed between the Welsh and UK governments in December 2016, the annual capital borrowing limit will increase from £125m to £150m when Welsh rates of income tax are introduced in April 2019.

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<sup>20</sup> Command Paper *Powers for a purpose: towards a lasting devolution settlement for Wales* (Cm 9020), 27 February 2015, chapter 4, p51:  
<https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales>

38. The Welsh Government plans to make use of up to £250m of capital borrowing over the next two years (£125m per annum in 2019-20 and 2020-21). The remaining £50m (£25m per annum in 2019-20 and 2020-21) will be held in reserve.
39. The take-up of planned borrowing will be carefully considered during each budget period and will only be used when all available conventional, cheaper sources of capital financing have been exhausted.
40. In response to a request from the Welsh Government<sup>21</sup>, the UK Government has introduced the Government of Wales Act 2006 (Variation of Borrowing Power) Order 2018, which came into force on 1 December 2018.

### **Revenue borrowing and the Wales Reserve**

41. Given the block grant offset methodology agreed for income tax as part of the fiscal framework, the Welsh Government expects the £500m revenue borrowing limit provided by the Wales Act 2014 to be sufficient to cover fluctuations in the revenue stream from devolved tax powers.
42. The Wales Reserve was introduced from April 2018, enabling unspent resources from tax receipts and the block grant to be stored for future years. The Wales Reserve is capped at £350m and annual drawdowns limited to £125m for revenue spending and £50m for capital spending. There are no annual limits for payments into the reserve.
43. £98.5m was added to the Wales Reserve as part of the adjustment made to enable the full devolution to Wales of non-domestic rates from April 2015. A further £227.1m has been added to the Wales Reserve as a result of underspends in 2017-18.

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<sup>21</sup> Cabinet statement about Welsh Government bonds (October 2018):  
<https://beta.gov.wales/written-statement-welsh-government-bonds>

## Block grant adjustment and forecasting

### Block grant adjustment

44. The methodologies for adjusting the Welsh block grant following the devolution of tax powers were agreed as part of the fiscal framework<sup>22</sup>. The adjustment for 2018-19, relating to the introduction of land transaction tax and landfill disposals tax and the end of stamp duty land tax and landfill tax in Wales, has been revised on the basis of the forecasts in the *Economic and Fiscal Outlook* (October 2018) by the Office for Budget Responsibility (OBR)<sup>23</sup>. The adjustments for 2019-20 will be based on that forecast, including that to accompany the introduction of the Welsh rates of income tax. The income tax adjustment will be set equal to the revenues from the Welsh rates in this first, transitional year. The UK Government is planning to publish details of the revised adjustments later in the year.
45. The Welsh Government is carrying out analytical work to establish how forestalling behaviour affected stamp duty land tax and land transaction tax revenues over the transition period. The Welsh and UK governments are in discussions about the extent to which the block grant adjustment should allow for this behavioural effect. As a one-off behavioural spill-over effect of the devolution of taxes to Wales, the Welsh Government expects the block grant adjustment to be recalculated to take into consideration the impact of forestalling.
46. As specified in the fiscal framework, as the Welsh Government is setting the Welsh rates of income tax for 2019-20 at 10p (equivalent to the reduction being made by HM Treasury), the block grant adjustment for the Welsh Government for 2019-20 will be equal to the receipts.

### Forecasting

47. As part of the fiscal framework agreement, the Welsh Government committed to introducing arrangements for the independent production of revenue forecasts for devolved taxes. In the short-term, it was agreed the Welsh Government would produce its own independently assured forecasts, while putting in place longer-term arrangements.
48. Bangor Business School provided independent assurance of the Welsh Government's forecasts for land transaction tax and landfill disposals tax revenues as part of the 2018-19 Budget process<sup>24</sup>. The same arrangements are in place for the 2019-20 Budget, but the scope has been extended to include assurance of the Welsh Government's forecast methodology for Welsh rates of income tax. An independent scrutiny and assurance report was published alongside the draft outline Budget on 2 October<sup>25</sup>. A further report will accompany the final Budget on 18 December.

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<sup>22</sup> Information about the Welsh Government's fiscal framework, including the agreement, is published here: <https://gov.wales/funding/fiscal-reform/framework/?lang=en>

<sup>23</sup> [https://cdn.obr.uk/EFO\\_October-2018.pdf](https://cdn.obr.uk/EFO_October-2018.pdf)

<sup>24</sup> Bangor University *Independent scrutiny and assurance of devolved tax forecasts for Wales* (December 2017 update):

<https://beta.gov.wales/sites/default/files/bangor-final-report.pdf>

<sup>25</sup> Bangor University *Independent scrutiny and assurance of devolved tax forecasts for Wales* (October 2018) is available as a supporting document here:

<https://beta.gov.wales/sites/default/files/publications/2018-10/bangor-report-2018.pdf>



49. The Cabinet Secretary for Finance announced in July that the Welsh Government will enter into an arrangement with the OBR for the provision of Welsh tax revenue forecasts for the 2020-21 Budget and beyond<sup>26</sup>. The new arrangement with the OBR will formally start on 1 April 2019.
50. In support of the delivery of the Welsh Government's Budget, the OBR will produce two reports. These will include forecasts for Welsh taxes – land transaction tax and landfill tax – and Welsh rates of income tax, which will be based on the OBR's most recent macro-economic forecasts and any relevant specific data for Wales. The OBR's forecast will also take account of any Welsh Government tax policy changes. These reports will be published alongside the Welsh Government's outline draft Budget and the final Budget.
51. In addition, as part of the new arrangements, the OBR will increase its presence in Wales by engaging more substantially with interested organisations and individuals, including the National Assembly's Finance Committee. This will provide a link between the publication of the OBR's *Economic and Fiscal Outlook* in the Spring and the Welsh Government's draft Budget.
52. An updated Memorandum of Understanding and accompanying terms of reference will be published by the end of the 2018-19 financial year. The arrangements will be reviewed by the Welsh Government and the OBR after the first year.

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<sup>26</sup> Cabinet statement about the arrangement with Office for Budget Responsibility:  
<https://beta.gov.wales/written-statement-provision-welsh-tax-forecasts-office-budget-responsibility>

## Appendix 1: Regulations

Statutory instruments made since 16 December 2017.

### Made under powers in the Tax Collection and Management (Wales) Act 2016

- i. The Tax Collection and Management (Landfill Disposals Tax Records) (Wales) Regulations 2018
- ii. The Tax Collection and Management (Reimbursement Arrangements) (Wales) Regulations 2018
- iii. The Tax Collection and Management (Wales) Act 2016 (Consequential and Supplemental Provisions) Regulations 2018
- iv. The Tax Collection and Management (Wales) Act 2016 (Supplemental Provision) Regulations 2018

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

- i. The Land Transaction Tax (Administration) (Wales) Regulations 2018
- ii. The Land Transaction Tax (Specified Amount of Relevant Rent) (Wales) Regulations 2018
- iii. The Land Transaction Tax (Tax Bands and Tax Rates) (Wales) Regulations 2018
- iv. The Land Transaction Tax (Transitional Provisions) (Wales) Regulations 2018
- v. The Land Transaction Tax (Transitional Provisions) (Wales) (Amendment) Regulations 2018
- vi. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 (Amendment to Schedule 5) Regulations 2018

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

- i. The Landfill Disposals Tax (Tax Rates) (Wales) Regulations 2018
- ii. The Landfill Disposals Tax (Wales) Act 2017 (Site Restoration Relief) (Amendment) Regulations 2018
- iii. The Landfill Disposals Tax (Administration) (Wales) Regulations 2018

### Made under other powers

- i. The Welsh Revenue Authority (Powers to Investigate Criminal Offences) Regulations 2018
- ii. The Proceeds of Crime Act 2002 (References to Welsh Revenue Authority Financial Investigators) Order 2018
- iii. The Proceeds of Crime Act 2002 (References to Welsh Revenue Authority Financial Investigators) (Amendment) Order 2018
- iv. The Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) (Amendment) (Wales) Order 2018

## Appendix 2: Engagement

### Tax Advisory Group (TAG)

The Tax Advisory Group (TAG) provides strategic advice to Welsh Ministers about tax policy and administration and considers the impact new policies may have on people in Wales. Its membership represents a broad range of perspectives and expertise to ensure the needs of people are represented at the highest level.

The group is chaired by the Cabinet Secretary for Finance and meets three times a year.

#### *Remit*

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

#### *Members<sup>27</sup>*

Andrew Evans, Geldards LLP

Frank Haskew, Institute of Chartered Accountants in England and Wales

Councillor Anthony Hunt, Welsh Local Government Association

Ben Francis, Federation of Small Business

Robert Lloyd Griffiths, Institute of Directors

Martin Mansfield, Wales TUC

Ruth Marks, Wales Council for Voluntary Action

David Phillips, Institute for Fiscal Studies

Kay Powell, the Law Society

Ian Price, CBI Wales

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

Dr Victoria Winckler, the Bevan Foundation

Further information about the TAG is available on the Welsh Government's website<sup>28</sup>.

### Welsh Revenue Authority Tax Forum

The Welsh Revenue Authority (WRA) tax forum, chaired by the WRA's chief executive, is held at least twice a year in locations across Wales. It provides an opportunity for the WRA to engage with tax professionals using the two devolved Welsh taxes (land transaction tax and landfill disposals tax), sharing information and providing training to solicitors, conveyancers and landfill site operators and helping the WRA to identify areas for improvement. Discussion topics have included digital tax systems, guidance, technical matters and customer services.

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<sup>27</sup> Membership as at 1 December 2018.

<sup>28</sup> <https://beta.gov.wales/tax-advisory-group-wales>

The tax forum is integral to the WRA's *Our Approach*, which explains how it works collaboratively with representatives, partner organisations, taxpayers and the public to ensure taxes are collected efficiently and effectively.

The WRA also disseminates information to stakeholders, encouraging them to contribute to a survey on the WRA website or by emailing: [haveyoursay@wra.gov.wales](mailto:haveyoursay@wra.gov.wales). Other communication channels and forums have been established by the WRA, including bilingual Twitter feeds: @WRAtweet. A range of information is available on the WRA website, including guidance and corporate reports: [gov.wales/wra](http://gov.wales/wra). WRA news updates are provided in the WRA's corporate e-newsletter, which can be accessed via the WRA website.

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

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

The social media campaign #mytaxmywales introduces wider messaging illustrating the link between taxes in Wales and spend on public services in Wales. Tax devolution in Wales is promoted on social media through a Welsh Treasury twitter account @WelshTreasury: <https://twitter.com/WelshTreasury> and with the hashtag: #welshtaxes

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

A range of communications tools, including infographics, Twitter cards, Survey Monkey and Doopoll are used to communicate and engage with stakeholders. A video illustrating tax and spend in Wales is available on the Welsh Government You Tube channel<sup>29</sup>.

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<sup>29</sup> <https://www.youtube.com/watch?v=MrwinIA4KoY&feature=youtu.be>

## **Appendix 3: Further information**

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

### **Background**

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

The commission was established by the Welsh Government to consider the funding mechanism for Wales and how it could be improved, including the case for devolution of tax and borrowing powers. It issued two reports with recommendations (2009 and 2010). These and other materials published by the commission are available at:  
<http://gov.wales/funding/fiscal-reform/framework/reports/?lang=en>

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

The UK Government's commission was tasked with considering the financial and constitutional arrangements for Wales. Its first report (2012) looked at the case for devolving tax and borrowing powers and related institutional changes:  
<http://webarchive.nationalarchives.gov.uk/20140605075122/http://commissionondevolutioninwales.independent.gov.uk/>

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

#### *Closed consultations, undertaken prior to development of tax legislation*

The collection and management of devolved taxes, including a summary of responses:  
<http://gov.wales/betaconsultations/finance/devolved-taxes/?lang=en>

Land transaction tax, including a summary of responses:  
<http://gov.wales/betaconsultations/finance/land-transaction-tax/?lang=en>

Landfill disposals tax, including a summary of responses:  
<http://gov.wales/betaconsultations/finance/landfill-disposals-tax/?lang=en>

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

This Act puts in place the legal framework for the collection and management of devolved taxes in Wales, including establishing the Welsh Revenue Authority (WRA):  
<http://www.legislation.gov.uk/anaw/2016/6/contents/enacted>

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

This Act provides for the introduction of a land transaction tax from April 2018 and includes measures to tackle the avoidance of devolved taxes:  
<http://www.legislation.gov.uk/anaw/2017/1/contents>

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

This Act provides for the introduction of a landfill disposals tax from April 2018:  
<http://www.legislation.gov.uk/anaw/2017/3/contents/enacted>

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

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

## **UK Government and Parliament**

### Wales Act 2014

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

### Wales Bill 2014 Command Paper

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

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

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

### Welsh Government's fiscal framework

Published 19 December 2016, this describes the funding arrangements to support the implementation of the fiscal provisions in the Wales Act 2014 and Wales Act 2017.  
<http://gov.wales/docs/caecd/publications/161219-fiscal-agreement-en.pdf>

### Wales Act 2017

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

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

GOWA 2006	Government of Wales Act 2006
HMRC	Her Majesty's Revenue and Customs
JEC	Joint Exchequer Committee
JEC (O)	Joint Exchequer Committee (Officials)
OBR	Office for Budget Responsibility
TAG	Tax Advisory Group
WRA	Welsh Revenue Authority