



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **HM Revenue & Customs**

# Administration of Welsh Income Tax 2017-18

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HM Revenue & Customs

# Administration of Welsh Income Tax 2017-18

Report by the Comptroller and Auditor General

Ordered by the House of Commons  
to be printed on 23 January 2019

This report has been prepared under Section 6 of the  
National Audit Act 1983 for presentation to the House of  
Commons in accordance with Section 9 of the Act

Presented to the National Assembly for Wales pursuant  
to Section 116K of the Government of Wales Act 2006,  
as amended by the Wales Act 2014

Sir Amyas Morse KCB  
Comptroller and Auditor General  
National Audit Office

21 January 2019

The Wales Act 2014 amended the Government of Wales Act 2006 to give the National Assembly for Wales the power to set Welsh rates of income tax that will apply to the non-savings non-dividend income of Welsh taxpayers from the 2019-20 tax year onwards.

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# Summary

## Introduction

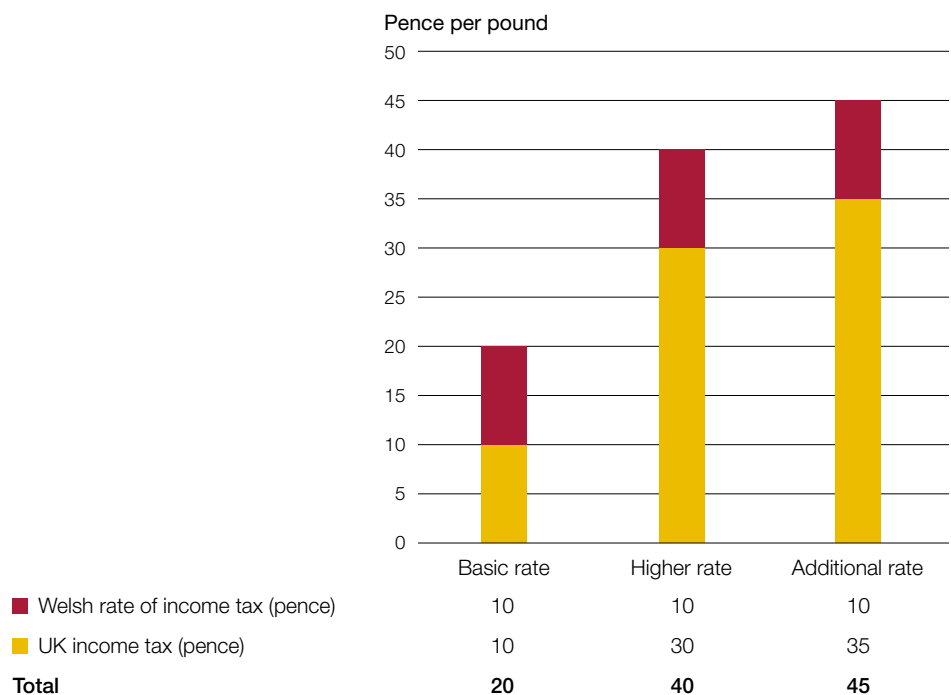
**1** The Wales Act 2014 amended the Government of Wales Act 2006 to give the National Assembly for Wales (the Assembly) the power to set Welsh rates of income tax that will apply to the non-savings non-dividend income of Welsh taxpayers from the 2019-20 tax year onwards.

**2** From April 2019, the United Kingdom (UK) basic, higher and additional income tax rates will be reduced by 10 percentage points and the Assembly will use its powers to determine the Welsh rates that will replace them. The sum of the reduced UK rates and the new Welsh rates will determine the overall rate of tax paid by Welsh taxpayers. For 2019-20, the Welsh Government has proposed rates equal to the reduction in the UK rates: 10 percentage points (**Figure 1**).

### Figure 1

The proposed Welsh rates of income tax for 2019-20

The UK rates of income tax are effectively reduced by 10p per £1 and replaced with the Welsh rates of income tax



Source: The Welsh Government

**3** HM Revenue & Customs (HMRC) is currently implementing the Welsh rates of income tax. This involves making changes to a range of IT systems that support tax assessment and collection, taxpayer communications and financial reporting functionality. It also needs to develop a Welsh taxpayer population from existing taxpayer records to ensure that the right amount of tax is collected from individuals and allocated to the appropriate government. HMRC planned to communicate with taxpayers before the beginning of the 2019-20 tax year to inform them of the changes.

**4** Once implemented, HMRC will administer and collect income tax from Welsh taxpayers as part of the UK tax system. It will pay over revenues arising from the Welsh rates of income tax to HM Treasury in the same way that it does for all other tax receipts. HM Treasury is responsible for the payment of the Welsh income tax to the Welsh Government.

**5** Each year, HMRC will report its estimate of revenue attributable to the Welsh rate provisions as part of its annual report and accounts, published following the end of the financial year. The first estimate of revenue for 2019-20 is expected to be published in July 2020, and the final outturn will be presented as part of the 2020-21 annual report and accounts expected to be published in July 2021.

**6** The revenue must initially be estimated because the total income tax liabilities are not known until all Pay As You Earn (PAYE) taxpayer accounts are reconciled and income tax liability data are collected from Self Assessment taxpayers, which can take up to 10 months after the end of the tax year.

### **Remit of the Comptroller and Auditor General**

**7** The Government of Wales Act 2006, as amended by the Wales Act 2014, requires the Comptroller and Auditor General (C&AG) to prepare a report for each financial year on:

- the adequacy of any of HMRC's rules and procedures put in place, in consequence of the Welsh rate provisions, for the purpose of ensuring the proper assessment and collection of income tax charged at rates determined under those provisions;
- whether these rules and procedures are being complied with;
- the correctness of the sums brought to account by HMRC which relate to income tax which is attributable to a Welsh rates resolution; and
- the accuracy and fairness of the amounts which are reimbursed to HMRC as administrative expenses.

**8** This is the first report prepared under these responsibilities and covers the activities of HMRC before the introduction of the Welsh rates of income tax in April 2019. It provides:

- an overview of HMRC's approach to the administration of devolved taxes in the context of the UK tax system (Part One);
- our findings from reviewing the Welsh rates of income tax implementation project, including key events and timings (Part Two); and
- details of the cost of administering Welsh income tax, including whether the amounts are accurate and fair (Part Three).

**9** This report does not consider the correctness of sums brought to account in relation to the Welsh rates of income tax, the adequacy of the rules and procedures put in place by HMRC or whether these rules and procedures have been complied with. These will be covered in later reports once the Welsh rates of income tax have been implemented. Appendix Three sets out our audit approach and methodology.

## **Key findings**

**10 HMRC has established a project governance structure within its wider devolution and change programme and it is engaging with Welsh Government representatives across the full range of project activities.** The Welsh Government is represented throughout the project structure, including boards below the project board (paragraphs 2.5 and 2.6).

**11 The project team has responded positively to the findings from project assessments.** An internal health check review, completed in March 2018, rated the project 'amber' and raised a number of recommendations – all of which have since been actioned. The joint project assessment review, completed by independent Welsh Government and HMRC reviewers in October, has improved the project rating to 'amber-green', reporting that good progress has been made since the end of 2017-18 and successful delivery is likely if project risks are managed effectively (paragraphs 2.7 to 2.10).

**12 HMRC completed a 'lessons learned' exercise from the implementation of Scottish income tax but it has not produced the proposed action plan to implement these lessons.** HMRC has instead relied on both the inclusion of staff in the Welsh project team who have experience of Scottish implementation, and the continuity of wider stakeholder contacts inside and outside the department, to deliver improvements. We will examine whether HMRC has effectively implemented these lessons as part of our 2018-19 report (paragraphs 2.11 to 2.14).



**13 HMRC has designed the IT systems changes and it is now developing and testing these changes before they go live in March 2019.** The IT solution relies heavily on functionality introduced as part of the Scottish income tax project. This functionality was deliberately designed to be flexible to incorporate future devolution arrangements. As a result of using existing IT functionality, HMRC has reduced the risk of implementing the Welsh rates of income tax (paragraphs 1.10, 1.11, 2.15 and 2.16).

**14 HMRC developed an appropriate approach to identifying Welsh taxpayers, which it planned to implement before the notification letter was issued in November.** It is not possible to provide full assurance over the completeness of a tax base and there is no definitive list of Welsh taxpayers that HMRC can use to assure the Welsh taxpayer population. However, HMRC's approach, which includes the cleansing of existing taxpayer records and the use of third-party data to corroborate these records – rather than just relying on the data it already holds – will provide greater assurance over the completeness and accuracy of the Welsh taxpayer population if it has been implemented as planned (paragraphs 2.21 to 2.24).

**15 A communications strategy is in place that recognises the need for bilingual support.** Following the approval of this strategy in March 2018, HMRC developed plans to communicate with a diverse range of external audiences including employers, pension providers and other businesses that deliver payroll-related services. The bilingual notification letter for individual taxpayers was developed with the Welsh Government. It explains the changes to Welsh income tax and provides links to further information. It was issued in November 2018 (paragraphs 2.26 to 2.28).

**16 In 2017-18, HMRC incurred and recharged £0.34 million of costs for implementing the Welsh rates of income tax.** Based on our procedures, we have concluded that the amount repaid by the Welsh government for the year ended 31 March 2018 is accurate and fair (paragraphs 3.2 to 3.3).

# Part One

## The administration of devolved taxes

**1.1** Part One of this report includes an overview of the mechanics of the UK tax system, explaining where and how devolved taxpayers are identified and how HM Revenue & Customs (HMRC) administers and controls these processes.

**1.2** This part of the report covers:

- the key features of the income tax system in the UK (paragraphs 1.3 to 1.9); and
- modifications that have been made to the income tax system to incorporate devolved taxes (paragraphs 1.10 and 1.11).

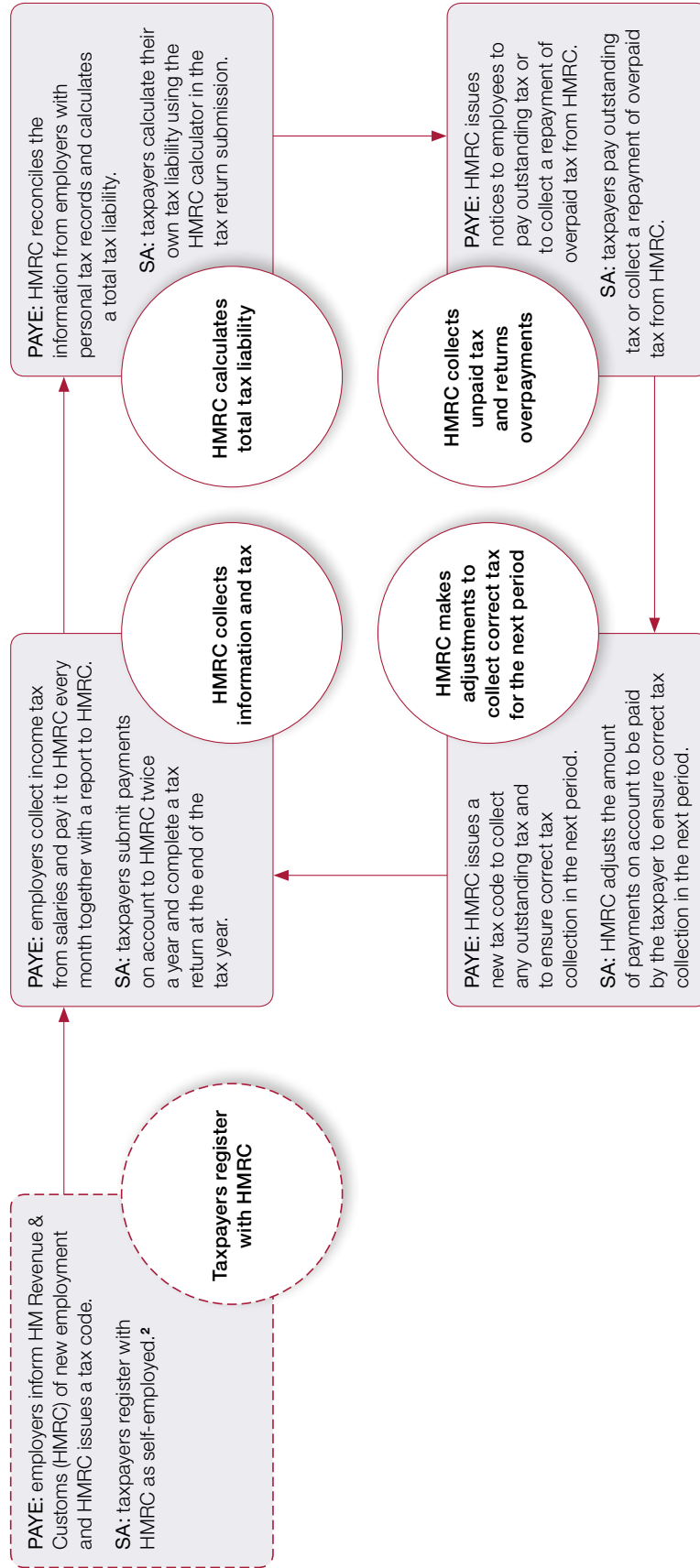
### **The income tax system**

**1.3** The income tax system is consistent across the UK. Depending on the type of income that an individual receives, income tax will be assessed and collected by employer's deductions from earnings through Pay As You Earn (PAYE), the taxpayer submitting a Self Assessment return, or both.

**1.4** The PAYE and Self Assessment processes have common principles, despite utilising different IT systems and data sources to assess and collect tax. **Figure 2** identifies these principles and describes the main processes for each income tax stream.

**Figure 2**  
The income tax system

The Pay As You Earn (PAYE) and Self Assessment (SA) processes share common principles in the assessment and collection of income tax



**Notes**

- 1 PAYE and Self Assessment processes do not occur simultaneously. PAYE is processed during the tax year and reconciled after the end of the tax year. Self Assessment returns are not submitted until the January following the end of the tax year. These processes are not mutually exclusive, an individual taxpayer may be subject to both PAYE and Self Assessment processes in a single tax year.
- 2 An individual taxpayer may also need to register for Self Assessment to report other sources of income.

**1.5** Taxpayer information is submitted to HMRC through several channels. For PAYE, employers and pension providers complete monthly data submissions containing information about individuals' earnings, pension payments and tax deductions. Self Assessment taxpayers complete an annual submission containing details of all the income they have received during the tax year.

**1.6** The submissions processing systems complete data validation checks and then route the information to the appropriate tax processing system. A matching function identifies the relevant taxpayer record and stores the new data or updates the existing information in the relevant database.

**1.7** The tax processing system consolidates all the available data to produce a total income figure for each taxpayer and calculates the associated income tax liability using the relevant business rules.<sup>1</sup> The output from the income tax liability calculation is then stored on the appropriate taxpayer record.

**1.8** The calculated tax liability is compared with the amounts deducted at source or collected from taxpayers directly through payments on account. The reconciliation determines whether the correct amount of tax has been collected. Where tax has been underpaid, this will be collected from the taxpayer and overpaid tax will be refunded.

**1.9** Tax codes are recalculated based on the latest tax liability data and, if necessary, HMRC will update the tax code for the forthcoming tax year by issuing a coding notice to the taxpayer and the employer.

## **Devolved income tax**

**1.10** The administration of devolved taxes diverges from the UK processes only in the business rules that the system applies when completing the tax liability and tax code calculations. These rules are as follows:

- The system checks the residency status of the individual and applies or removes a tax code prefix or flag if they are subject to devolved taxes.
- The tax code prefix or flag determines which set of tax rates and bands are applied to the reported income to calculate the liability for the current tax year.
- If an individual taxpayer is enrolled on a PAYE scheme, the system uses the tax code prefix to determine which income tax rates and thresholds are used to calculate a new tax code for the following year.

**Figure 3** shows where these divergences occur within the income tax system.

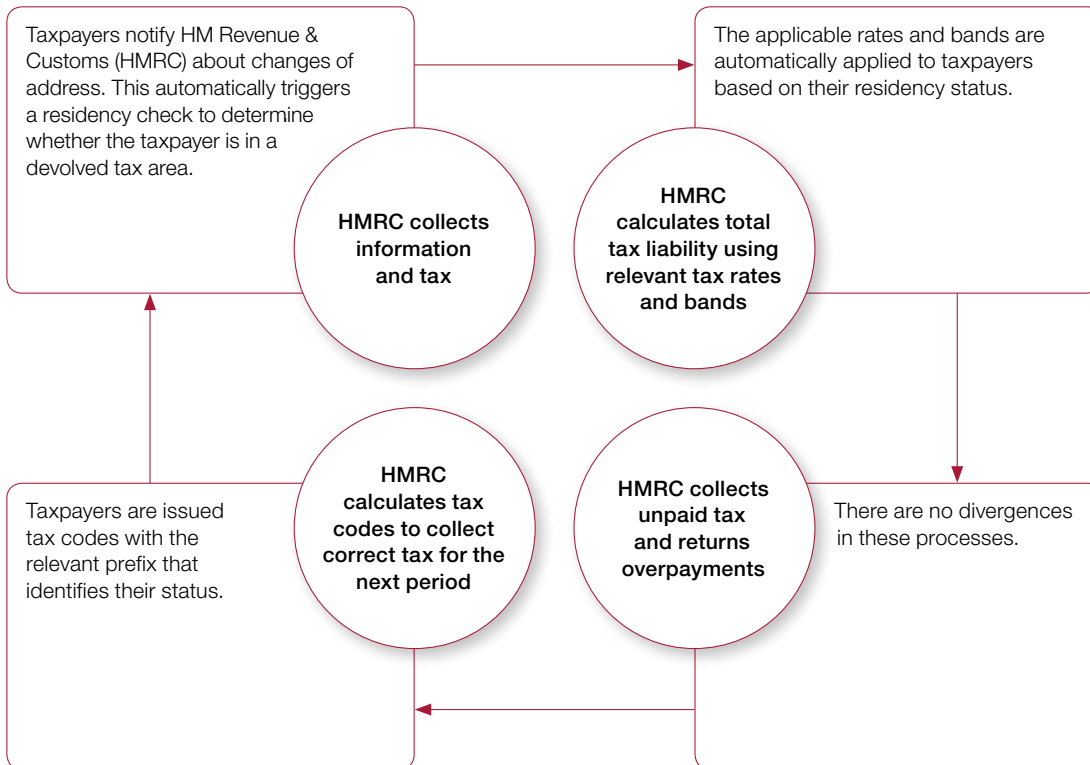
**1.11** The correct application of these business rules is dependent on the completeness and accuracy of address data that HMRC holds for each taxpayer, and the maintenance of a master list of UK addresses that confirms which country they are in.

<sup>1</sup> Business rules contain data relevant to the calculation of tax liabilities and they are used by each tax processing system to calculate income tax liabilities based on income data. The rules include, but are not limited to, the application of tax codes and the rates and thresholds that apply to each type of income based on residency. Business rules are updated annually to reflect changes in tax policy.

**Figure 3**

## Divergences in the income tax system

The business rules in the IT system are configured to process income tax using the rates and thresholds applicable to a taxpayer's residency status



Source: National Audit Office analysis of HM Revenue & Customs processes

# Part Two

## Implementing the Welsh rates of income tax

**2.1** At the time of this report (January 2019), the implementation of the Welsh rates of income tax is ongoing and key elements of the project are being, or have yet to be, delivered. Although we are unable to comment on the effectiveness of HM Revenue & Customs' (HMRC') preparations until after implementation, we can comment on HMRC's planned approach to the project and the progress it has made so far.

**2.2** This part of the report covers:

- an overview of the project timeline (paragraphs 2.3 and 2.4);
- the governance arrangements for the project, including HMRC's response to assurance reviews and its engagement with the Welsh Government (paragraphs 2.5 to 2.10);
- the lessons HMRC has learned from implementing Scottish income tax (paragraphs 2.11 to 2.14);
- an overview of the IT delivery needed to implement the Welsh rates of income tax (paragraphs 2.15 and 2.16);
- how a Welsh taxpayer is defined and HMRC's strategy for identifying Welsh taxpayers (paragraphs 2.17 to 2.24); and
- HMRC's communications strategy (paragraphs 2.25 to 2.28).

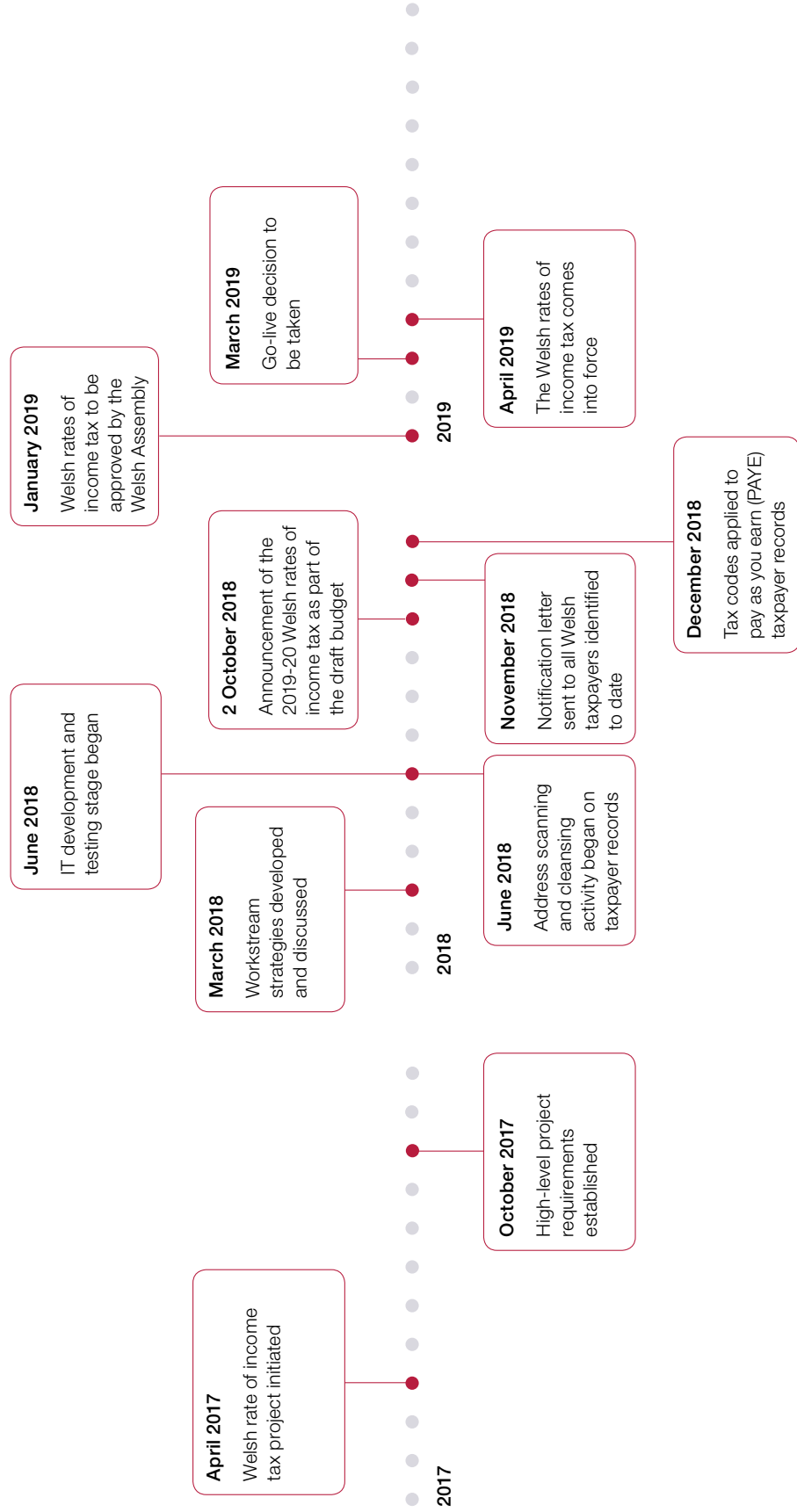
### Project timeline

**2.3** The project was initiated in April 2017 and activity in 2017-18 has focused on establishing the requirements of the project and developing workstream strategies for the successful implementation of the Welsh rates of income tax.

**2.4** In 2018-19, HMRC has been implementing these plans. Development of the IT solution commenced in June 2018. At the same time, work began on the cleansing of taxpayer address records in preparation for the notification letter being issued to identified Welsh taxpayers in November. **Figure 4** provides an overview of the project's key events.

**Figure 4**  
Welsh rates of income tax project – key events

The project was initiated and planned in 2017-18 and HM Revenue & Customs is implementing those plans in 2018-19



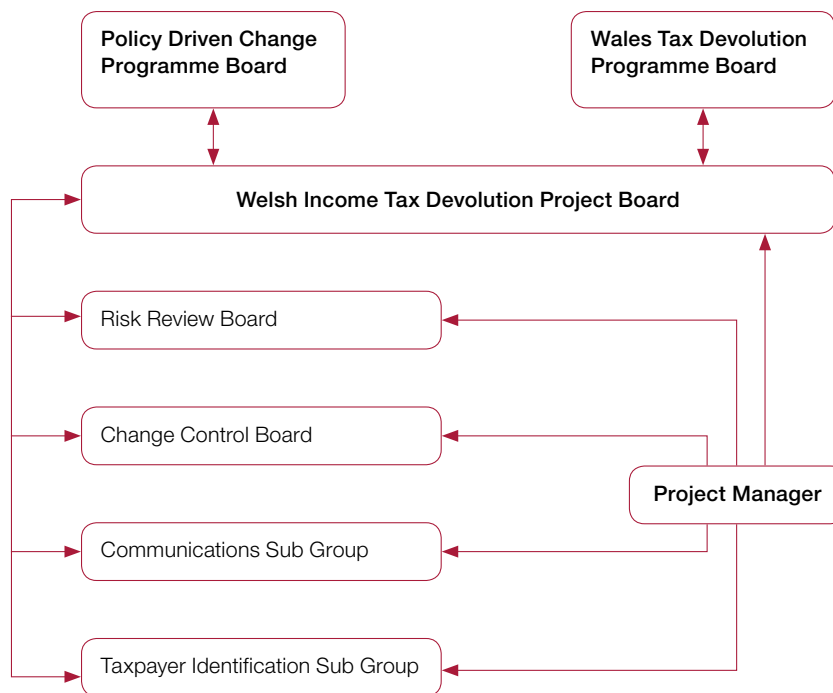
## Governance and Welsh Government engagement

2.5 Figure 5 outlines the governance arrangements for the project. The Welsh Government has representation on the project board and each sub-board or group. The project documentation we have reviewed reflects a high level of involvement from Welsh Government representatives in discussing and challenging the plans put forward by HMRC and a positive, active response from HMRC to the matters raised.

### Figure 5

Governance structure for implementing the Welsh rates of income tax

The Project Board is a decision-making body responsible for the delivery of the Welsh rates of income tax project, supported by the activities of the lower-level boards and sub-groups



#### Notes

- 1 The Wales Programme Board holds the ultimate decision-making powers for significant issues escalated from the Project Board for the implementation of the Welsh rate of income tax.
- 2 The Policy Driven Change Programme Board is primarily a governance and assurance function for change projects within HMRC. It holds an oversight role on the activities of the Project Board and also inputs on issues escalated to the Wales Programme Board.
- 3 The Risk Review board is chaired by the Project Manager and is responsible for identifying, assessing, managing and reviewing project risks. Issues that cannot be managed at this level are escalated to the Project Board.
- 4 The Change Control Board is chaired by the Project Director and holds delegated powers from the Project Board to approve cost proposals funded by the Welsh Government that exceed the Project Manager approval limit of £60,000. Proposals above £250,000 are assessed and escalated to the Project Board for approval.
- 5 The Communications and Taxpayer Identification Sub Groups are responsible for designing, developing and implementing detailed plans in their areas of competence. Strategy proposals and significant issues are escalated to the Project Board for approval.

Source: National Audit Office analysis of project governance processes



**2.6** It is also evident that discussions have occurred frequently outside formal meetings to provide background briefings and updates, reflecting a good ongoing relationship. This has been supported by HMRC establishing part of the project team in Cardiff to increase in-person communication.

**2.7** To support the governance of the project, an independent HMRC team conducted a project health check in March 2018.<sup>2</sup> The review resulted in a report that was issued on 14 March 2018 and the team's responses to the recommendations were discussed at the May project board.

**2.8** The review provided a delivery confidence assessment (DCA) of 'amber'<sup>3</sup> and raised thirteen recommendations for action by the project team. Five of these recommendations were rated 'Critical',<sup>4</sup> covering compliance with expected best practice for project requirements and project planning. Since the end of 2017-18, all the recommendations have been acted on by the project team.

**2.9** A more detailed project assessment review (PAR)<sup>5</sup> was completed in 2018-19 by a joint HMRC and Welsh Government review team and provided an improved DCA of 'amber-green'<sup>6</sup> when it was issued in October. The report noted that "considerable progress has been made since the Health Check carried out in March 2018. The problems identified in that review have been largely addressed and the project is now in a much better place."

**2.10** We will return to the findings of the October PAR in our 2018-19 report because they largely relate to activities undertaken following 2017-18 – the year to which this report relates. Appendix One provides a summary of all the recommendations made as part of the health check and the PAR.

- 2 The health check was completed by three members of HMRC's change, assurance and investment team and covered the project's governance, capacity, capability, risks, issues, and plans and progress to date. It also explored engagement with the Welsh Government and lessons learned from Scottish income tax implementation.
- 3 The report defines an 'amber' rating as: 'Successful delivery appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage and if addressed promptly, should not present a cost or schedule overrun'.
- 4 Recommendations in the report are prioritised, from highest priority to lowest, as either 'Critical', 'Essential' or 'Recommended'. 'Critical' recommendations require immediate action.
- 5 The PAR was completed by two members of the change, assurance and investment team in HMRC and a reviewer from the Welsh Government's integrated assurance hub. The review has a wider and more detailed scope than the Health Check. The review team was led by an Infrastructure and Projects Authority-accredited reviewer to evaluate governance, project delivery, readiness for live service and value for money, and the scope included a wide range of project-specific questions, including a follow-up of health check recommendations.
- 6 The report defines an 'amber-green' rating as: 'Successful delivery appears probable. However, constant attention will be needed to ensure risks do not materialise into major issues threatening delivery'.

## **Learning from Scottish income tax**

**2.11** This is the second devolved income tax project that HMRC is implementing. In July 2017, the project team held a 'lessons learned' event with staff involved in the implementation of Scottish income tax.

**2.12** This event identified a number of lessons around four themes that would be implemented and monitored in an action plan. The themes were:

- project requirements;
- project management;
- communications; and
- finance.

Appendix Two sets out the specific lessons HMRC identified for each theme.

**2.13** The health check review performed in March 2018 identified that none of those lessons had been included in the required project documentation. Although the documentation has now been updated, HMRC has not been able to provide us with the action plan referred to in the project documentation to demonstrate active management and monitoring of those lessons by project management to support the delivery of the Welsh rates of income tax.

**2.14** HMRC has instead relied on both the inclusion of staff in the Welsh project team who have experience of Scottish implementation, and the continuity of wider stakeholder contacts inside and outside the department, to deliver improvements.

## **IT delivery**

**2.15** In 2017-18 HMRC moved through the early phases of IT delivery: scoping the project and designing the high-level solution – including mapping system dependencies and impacts across the wider IT estate and the minor changes required to Department for Work & Pensions systems. Since then, HMRC has progressed into detailed solution design, development and testing. **Figure 6** provides a summary of progress to date.

**2.16** As we have highlighted in Part One of this report, HMRC has already modified existing IT systems to support the delivery of devolved income taxes. This reduces the complexity, cost and risk of implementing the Welsh rates of income tax.

**Figure 6**

## Welsh rates of income tax IT delivery overview

HM Revenue & Customs has progressed through the planning phases of the IT delivery and is currently developing and testing development 'drops'<sup>1</sup>

Stage	Stage description	Progress
Pre-discovery	Business requirements are captured and a high-level solution design is developed. The wider system dependencies and interactions are mapped and understood.	This phase was completed early in 2018 and an initial solution design document was shared with the project team at the end of January and it was discussed in the February project board.
Inception	This stage brings together the key participants in the project to discuss the solution design and build a common understanding of the business objectives of the project.	An inception event for the Welsh rates of income tax was held on 13 March 2018. The results of the event were shared and discussed with the project board and the Welsh Government.
Discovery	During discovery, the detailed solution is refined and updated through a series of workshops and discussions with suppliers and stakeholders. Baseline costings are revised and then approval is sought to enter the development phase, supported by an updated solution design document.	Discovery was completed in June 2018 and an updated solution design document was provided to the project team. This was discussed as part of the June project board.
Development and testing	Once approved, suppliers begin work developing and testing prototype builds, eventually progressing to a build and test of a minimum viable product and eventually to a live deployment.	The Welsh rates of income tax project has several development 'drops' <sup>1</sup> making changes to a diverse number of systems and processes covering taxpayers' address records, and the PAYE and Self Assessment systems among others.  Development of the first of these 'drops' began in June 2018 and progress is being monitored regularly by the project board.

**Note**

- <sup>1</sup> Development 'drops' are discrete packages of work, affecting a particular system or group of systems, that deliver solutions to specific business needs identified during earlier stages of the project. The Welsh rates of income tax project is split into five development and testing 'drops' that should be completed between June 2018 and April 2020.

Source: National Audit Office review of IT delivery plans and project documentation

## Welsh taxpayers

**2.17** A Welsh taxpayer is someone with a tax liability whose main place of residence in a given tax year is Wales, or who spends most of that tax year living in Wales.<sup>7</sup> There are a number of specific cases whereby a taxpayer would always be deemed Welsh. HMRC is responsible for determining whether someone is a Welsh taxpayer. **Figure 7** provides an overview of the rules used to determine residency.

**2.18** Based on the latest *Survey of Personal Incomes*<sup>8</sup> published in May 2018, HMRC estimates that there are 1.35 million Welsh taxpayers in 2017-18.<sup>9</sup>

### Identifying Welsh taxpayers

**2.19** Identifying the Welsh taxpayer population is the main challenge to HMRC in implementing the Welsh rates of income tax. To ensure that taxpayers are correctly notified of their Welsh status and that the right amount of tax is collected from individuals and allocated to the appropriate government, it is essential that address information is correct.

**2.20** In 2017-18 the taxpayer identification sub-group developed a taxpayer identification strategy and this was discussed regularly by all parties during the first half of 2018, receiving agreement from the project board at their June meeting.

**2.21** The strategy sets out three main steps to the initial identification of the Welsh taxpayer population:

- Identify all Welsh addresses and compile a master record of the relevant postcodes of these addresses using Office for National Statistics (ONS) data and mapping information.
- Cleanse the addresses contained in existing taxpayer records to ensure that they are in a consistent format to facilitate automated processing of residency.
- Compare both the above data sets and update taxpayer records with the appropriate flag when a Welsh address is identified.

**2.22** HMRC has also proposed a series of third-party data exercises that should provide greater assurance that the addresses HMRC holds for individual taxpayers are up to date. When third-party data suggest that an individual may be resident in Wales but HMRC holds an address outside Wales, HMRC will contact the individual to prompt confirmation of address.

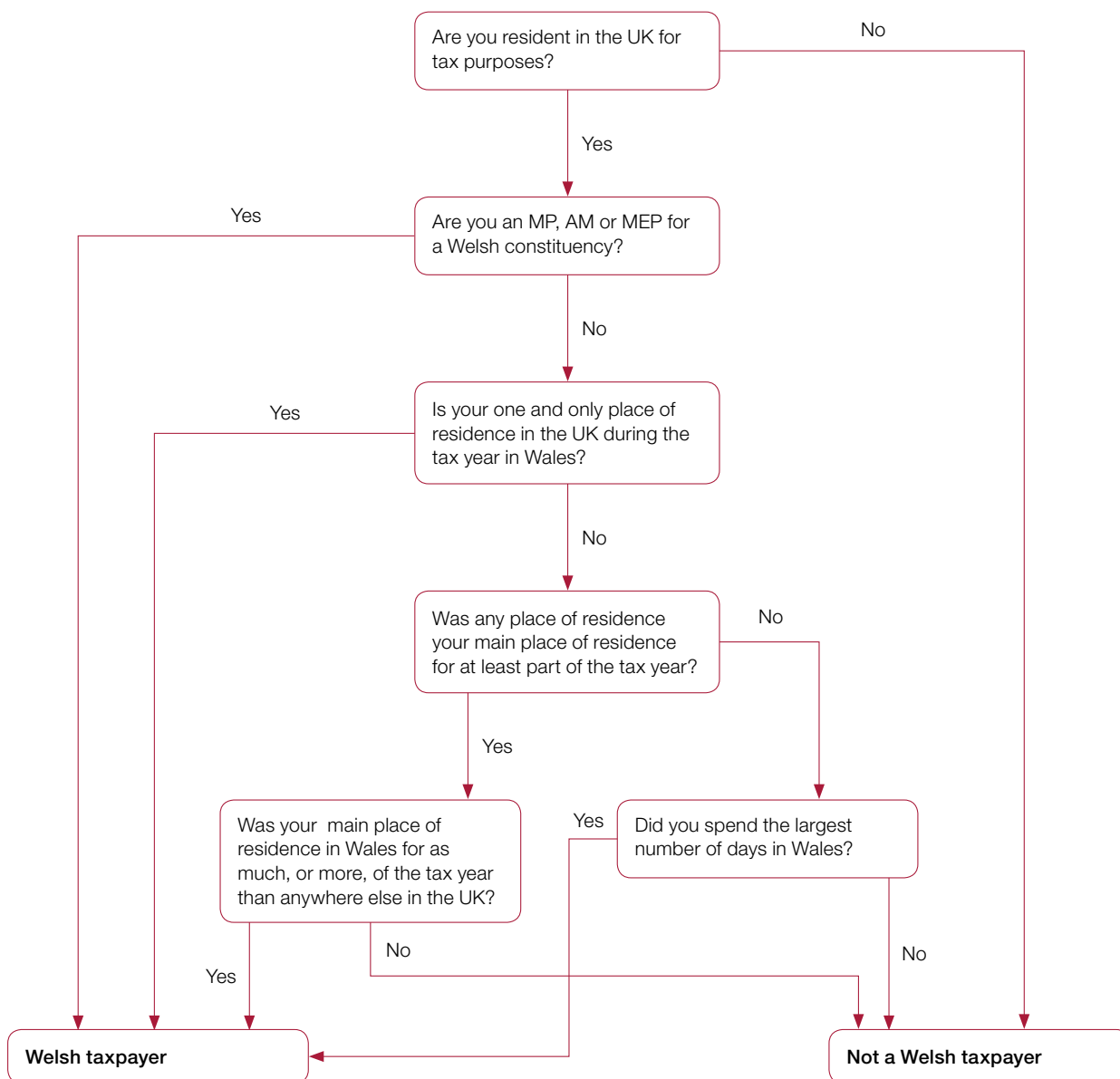
7 This definition therefore excludes individuals who earn less than the personal allowance or those, for other reasons, who have income but no tax liability – for instance, because they have claimed a relief that reduces their potential liability to nil or had no taxable income during the year.

8 *The Survey of Personal Incomes* is based on a sample of information held by HMRC on individuals who could be liable to UK income tax. It is carried out annually by HMRC and covers income assessable to tax for each tax year. The data it gathers are used to construct an evidence base to inform policy analysis, national statistics, tax modelling and forecasting. Although it is reasonably accurate at a UK level, it is less robust for regional analysis because of the sampling methodology it employs.

9 Table 2.2, Number of income taxpayers by country, *Income tax liabilities statistics: tax year 2015 to 2016 to tax year 2018 to 2019*, HMRC, May 2018.

**Figure 7**  
Rules for determining Welsh taxpayers

Residency rules determine whether or not you are Welsh taxpayer based on where you spend the majority of your time



**Note**

1 Members of Parliament, Assembly Members and Members of the European Parliament for Welsh constituencies are always determined to be Welsh taxpayers.

Source: National Audit Office analysis of the Government of Wales Act 2006

**2.23** It is not possible to provide full assurance over the completeness of a tax base and there is no definitive list of Welsh taxpayers that HMRC can use to check their Welsh taxpayer population. In this context, we are content that the strategy for taxpayer identification proposed by HMRC responds to the risk of not properly identifying Welsh taxpayers from the records it holds, either through:

- incomplete or poorly formatted address data in HMRC systems; or
- from holding incorrect addresses for individual taxpayers.

**2.24** Taxpayer identification was due to be completed in advance of the notification letter being issued in November 2018. Our 2018-19 report will consider how HMRC has implemented this approach to taxpayer identification and any findings from our review of those processes. However, HMRC has confirmed that around 10,000 taxpayer records were not cleansed before the notification letter was issued. When these records have been cleansed, any Welsh taxpayers that are identified will receive a tax code letter as part of HMRC's normal processes informing them of their status.

## **Communications**

**2.25** In 2017-18 the project team, led by the communications sub-group, developed a communications strategy to support successful completion of the project. The strategy incorporates high-level plans for audiences internal and external to HMRC and it was approved by the project board in March 2018.

**2.26** Following the approval of the strategy, HMRC began developing their stakeholder mapping and external communications plans to engage with a wide range of audiences through a number of channels. **Figure 8** provides a summary of some of the activities being undertaken for key external stakeholders.

**2.27** The Welsh taxpayer notification letter has been developed in conjunction with the Welsh Government. It is bilingual and explains the changes being introduced. It also provides links to further information. Each letter also includes a flyer from the Welsh Government. The letter was posted to identified Welsh taxpayers in November 2018.

**2.28** The PAR in October 2018 has resulted in two 'Critical' recommendations relating to external stakeholder engagement plans and the accountability and resourcing of those plans. The details are included in Appendix One.

**Figure 8**

## Summary of communications with key stakeholders

Since the end of 2017-18, HM Revenue & Customs (HMRC) has begun communicating with key stakeholders through a number of established channels

Audience	Content	Channels
All external audiences	Basic information on the changes to income tax in Wales taking place from 6 April 2019.	Social media GOV.UK  Factsheets to be circulated in October 2018 to voluntary organisations and more widely to libraries, pension providers and professional bodies.
Employers	To inform employers of the changes in Welsh income tax and provide information tailored to their compliance needs.	Employer bulletins Employer forums
Agents	To inform agents of the changes in Welsh income tax and provide information that will help them support their clients.	Agents forums Agent updates Agent blogs
Individual taxpayers	Notification from HMRC that they are Welsh taxpayers.	Bilingual notification letter to be issued to identified Welsh taxpayers in November 2018.  Automated call messages for Welsh taxpayers contacting HMRC.

Source: National Audit Office analysis and summary of HM Revenue & Customs' communications strategy and activity plan

## Part Three

### Costs

**3.1** This part considers the administrative costs of Welsh income tax, and whether these costs are reasonable.

#### **Costs incurred in 2017-18**

**3.2** In 2017-18, HMRC incurred and recharged £0.34 million of costs on the implementation of Welsh income tax. HMRC recharges costs that can be validated as specifically related to the administration of devolved Welsh income tax and not the costs of administering the overall income tax system in Wales.

**3.3** We examined HMRC's method for estimating the costs of collecting and administering the Welsh rates of income tax for the year to ensure that this was reasonable in the context of the agreement with the Welsh government. Based on our procedures, we have concluded that the amount repaid by the Welsh government for the year ended 31 March 2018 is accurate and fair.



# Appendix One

## Summary of recommendations raised by project assurance reviews to date

Recommendation	Report	Rating	Status	Action taken by HM Revenue & Customs
To assure the project board that plans are in place to ensure that external as well as internal stakeholders are effectively engaged and informed about the forthcoming devolution of income tax to Wales through a comprehensive stakeholder map and a single overall communications plan.	Project Assessment Review (PAR) – October 2018	Critical	Open	Work ongoing
To identify one overall lead with accountability for communications and engagement, and to ensure that stakeholder management is appropriately resourced in the Welsh rate of income tax project team.	PAR – October 2018	Critical	Open	Work ongoing
To complete and agree the business case.	PAR – October 2018	Critical	Open	Work ongoing
To review the project support function to ensure that the resource is sufficient and effectively utilised so that project documentation is complete and actions are effectively tracked and recorded.	PAR – October 2018	Essential	Open	Work ongoing
Secretariat to ensure that appropriate board meeting documents are shared in draft form with the senior business sponsor at least three days prior to members receiving them to make sure that they are content with both papers being submitted and the agenda.	Health check (HC) – March 2018	Essential	Closed	Implemented
Secretariat to ensure that appropriate board meeting documents are made visible to all board members at least five days prior to the meeting.	HC – March 2018	Essential	Closed	Implemented
Only the top five risks to be discussed at project board.	HC – March 2018	Essential	Closed	Implemented
The risk potential assessment must be baselined and signed off by the senior responsible officer for approval by the change, assurance and investment delivery assurance co-ordinator.	HC – March 2018	Critical	Closed	Implemented

Recommendation	Report	Rating	Status	Action taken by HM Revenue & Customs
The project needs to establish the exact requirements from the Welsh Government to preserve costs and timeline.	HC – March 2018	Critical	Closed	Implemented
All lessons learned should be recorded on the Management and Recording Tool (MART).	HC – March 2018	Essential	Closed	Implemented
All risks should be recorded on the MART.	HC – March 2018	Critical	Closed	Implemented
The project manager should ensure that all tabs within the stakeholder register are fully completed.	HC – March 2018	Essential	Closed	Implemented
The project manager must ensure early engagement and collaborative working with all key stakeholders to understand and take account of their concerns and priorities through a regular checkpoint/communications meeting.	HC – March 2018	Essential	Closed	Implemented
It is essential that close working with the Welsh Government is maintained in order to preserve the visibility of costs and funding.	HC – March 2018	Essential	Closed	Implemented
The project must create and agree a single end-to-end plan to encompass all aspects of delivery from inception to implementation.	HC – March 2018	Critical	Closed	Implemented
Engagement with the business should be instigated immediately.	HC – March 2018	Critical	Closed	Implemented
Clear roles and responsibilities need to be established and adhered to in order to avoid overloading critical roles.	HC – March 2018	Essential	Closed	Implemented

Source: HM Revenue & Customs

# Appendix Two

## Lessons identified from the implementation of Scottish income tax

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Project requirements	<ul style="list-style-type: none"> <li data-bbox="743 797 1477 853"><b>a</b> Plan for requirement creep and new requirements – manage the scope tightly and have a robust change control process.</li> <li data-bbox="743 875 1477 954"><b>b</b> Ensure that roles are clearly defined – there are many IT stakeholders in HM Revenue &amp; Customs projects, which can cause confusion over who is responsible for what.</li> <li data-bbox="743 976 1477 1032"><b>c</b> Plan implementation of requirements around key business events such as annual coding.</li> <li data-bbox="743 1055 1477 1104"><b>d</b> Have the Scottish income tax team conduct an ‘independent’ review of user stories once drafted.</li> </ul>
Project management	<ul style="list-style-type: none"> <li data-bbox="743 1126 1461 1182"><b>a</b> Ensure that the project board is primarily a decision-oriented board and not used for updates.</li> <li data-bbox="743 1205 1461 1283"><b>b</b> The change control board has proved to be a useful way of managing scope and approvals, and of keeping the Scottish Government informed of IT costs.</li> <li data-bbox="743 1305 1461 1361"><b>c</b> The risk review board ensures that risks are managed and given the attention that they require.</li> <li data-bbox="743 1384 1461 1440"><b>d</b> Ensure that suppliers and stakeholders are aware of the additional complexity that devolution projects introduce.</li> <li data-bbox="743 1462 1461 1507"><b>e</b> Separate out the relief at source requirements so that they are a stand-alone project.</li> </ul>

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<b>Communications</b>	<p><b>a</b> Successful communications channels:</p> <ul style="list-style-type: none"><li>● Face-to-face customer engagement events.</li><li>● Using libraries and Citizens Advice.</li><li>● A public sector event to explain to local authorities and other public employers in Scotland.</li><li>● Estate agents to disseminate message to home movers.</li><li>● HMRC's existing channels, for example, employer bulletins, agent updates and employer forums.</li><li>● Scottish Government forums.</li></ul> <p><b>b</b> Take the opportunity to push key Welsh income tax messages to estate agents as part of the stamp duty and land transaction tax project, which is starting earlier.</p> <p><b>c</b> Use actual customer contact data from the Scottish project to help inform estimates of Welsh customer contact.</p> <p><b>d</b> Some communications will have to be UK-wide, because Welsh devolution impacts the UK, not just Welsh residents.</p>
<b>Finance</b>	<p><b>a</b> Establish a forecasting process that has robust monthly reviews, is clear and provides a narrative to explain changes.</p> <p><b>b</b> Explain HMRC processes, including cost estimating, to ensure context of costs is understood.</p> <p><b>c</b> Ensure that the process for the receipt and approval of proposals is understood in advance.</p> <p><b>d</b> Recognise that devolved administrations have different requirements for costs from those catered for under normal HMRC cost reporting. A bespoke workbook was created for the Scottish Government which can be replicated for the Welsh Government as a starting point.</p>

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Source: HM Revenue & Customs project documentation

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# Appendix Three

## Our audit approach

**1** Section 116K of the Government of Wales Act 2006, as amended by the Wales Act 2014, requires the Comptroller and Auditor General (C&AG) to prepare a report for each financial year on:

- the adequacy of any of HMRC's rules and procedures put in place, in consequence of the Welsh rate provisions, for the purpose of ensuring the proper assessment and collection of income tax charged at rates determined under those provisions;
- whether these rules and procedures are being complied with;
- the correctness of the sums brought to account by HMRC which relate to income tax which is attributable to a Welsh rates resolution; and
- the accuracy and fairness of the amounts which are reimbursed to HMRC as administrative expenses.

**2** Due to the timing of this report, prior to the implementation of the Welsh rates of income tax, we have not reported or concluded on the first three of the statutory responsibilities because they are not yet applicable. This report only provides assurance over the accuracy and fairness of amounts reimbursed to HMRC.

**3** In relation to administration costs, our conclusion on the accuracy and fairness of the costs charged to the Welsh Government is based on an evaluation of the costs against the details of the Memorandum of Understanding between the Welsh Government and HMRC. During the audit, we also obtained evidence that both parties regularly discuss and review the cost budgets and forecasts as well as agreeing the amounts to be invoiced and paid. These audit procedures have been planned, performed and reviewed in accordance with the National Audit Office's internal quality control procedures for financial audit.

**4** To inform the other findings of this report, we have reviewed published and unpublished HMRC documents about the Welsh rates of income tax, including project documentation, risk documentation and the results of key assurance work performed by the department.

**5** This document review has been supplemented by discussions with HMRC staff. We also spoke to the Wales Audit Office to inform our risk assessment and planning work for this report.

**6** We reached our findings following our analysis of evidence collected between June and November 2018.

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National Audit Office

Design and Production by NAO External Relations  
DP Ref: 006698-001

£10.00

ISBN 978-1-78604-239-2



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