



Llywodraeth Cymru  
Welsh Government

Welsh Government

# Welsh Tax Policy Report 2018

October 2018

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## Foreword

Welsh rates of income tax will be introduced on 6 April 2019. For the first time, a proportion of the income tax paid by 1.34 million taxpayers living in Wales will be influenced by decisions made by the National Assembly, strengthening further its level of accountability to the people of Wales. I confirm in this tax policy report that the Welsh Government will not raise income tax rates in Wales in 2019-20, consistent with the commitment in the Welsh Labour manifesto. This also demonstrates my commitment to an orderly transition to the new fiscal landscape.

The implementation of Welsh rates of income tax is the latest stage of fiscal devolution in Wales, following the introduction of land transaction tax and landfill disposals tax in April 2018, and the creation of the Welsh Revenue Authority in October 2017. These developments are the culmination of a decade of work, which has also seen the financial devolution of non-domestic rates in 2015 and the agreement of a fair adjustment to the Barnett formula as part of the fiscal framework in 2016. I am grateful to the many people and organisations which have supported the Welsh Government on this journey by contributing their skills, knowledge, experience and ideas.

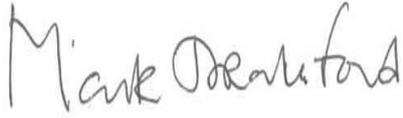
However, there is more to do. Now we have tax powers, we want to use them in a way which will benefit people and businesses in Wales fairly, including a more strategic approach to Welsh national and local taxes and ensuring tax policy and our wider policy ambitions for Wales work together, supporting each other.

As this agenda evolves, I hope we will continue to benefit from the active participation of citizens, businesses and other organisations. I place significant emphasis on engagement and collaboration and, as we look at how Welsh taxes might evolve in the future, there will be many opportunities for people to become involved. I am particularly grateful to my Tax Advisory Group members who have continued to actively support the Welsh Treasury and Welsh tax strategy, policy and implementation.

The response to my invitation last year to propose new ideas for new taxes, shows that the people of Wales have an appetite to participate in a debate about tax and have a constructive contribution to make. In July, I was pleased to hold a day of discussions about aspects of tax policy with a range of stakeholders and tax experts, which has helped to test and develop our thinking.

This report is one of the ways we are using to communicate our current priorities and the progress to date. It forms part of an annual tax policy cycle, which sees publication of a work plan early in the calendar year; research, analyses and engagement in the ensuing months; and reporting on the emerging conclusions alongside the draft Budget in the autumn - with conclusions feeding into the next work plan, the following year. This approach is designed to promote a transparent and inclusive approach to tax policy in Wales.

Some of the findings in this report have immediate implications – such as that relating to Welsh rates of income tax – while other aspects will reach fruition over the next few years, and some is for the longer term. I hope the information provided here will be useful and encourage further interest in Welsh tax policy.

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

October 2018

## Welsh tax policy background

1. Tax powers have been devolved to the Welsh Government and the National Assembly for Wales by the Wales Act 2014<sup>1</sup>. These enable:
  - The introduction in April 2018 of the first Welsh taxes in almost 800 years – land transaction tax (LTT) and landfill disposals tax (LDT), which have replaced stamp duty land tax (SDLT) and landfill tax (Lft) in Wales;
  - The creation in October 2017 of the Welsh Revenue Authority (WRA) to collect and manage Welsh taxes;
  - The introduction in April 2019 of Welsh rates of income tax, allowing the National Assembly to vary the rates set by the UK Government<sup>2</sup>;
  - The creation of new Welsh taxes, subject to the agreement of the National Assembly and Parliament.
2. Together with council tax and non-domestic rates, from April 2019 around £5bn of devolved and local tax revenue will be raised each year in Wales to spend on Welsh public services.
3. The suite of tax powers provides the Welsh Government with the opportunity to develop a more strategic approach to central and local taxation in Wales encompassing the five taxes (LTT and LDT, Welsh rates of income tax, council tax and non-domestic rates), to better address the needs and priorities of citizens and businesses in Wales.
4. The Welsh Government's approach has been set out in the Tax Policy Framework<sup>3</sup>, including the Welsh Government's tax principles:

Welsh taxes should:

- Raise revenue to fund public services as fairly as possible;
  - Deliver Welsh Government policy objectives, in particular supporting jobs and growth;
  - Be clear, stable and simple;
  - Be developed through collaboration and involvement;
  - Contribute directly to the Well-Being of Future Generations Act goal of creating a more equal Wales.
5. The Welsh Government continues to prioritise learning from best practice and working with others to develop the best possible approach to tax strategy and policy. The Cabinet Secretary for Finance's Tax Advisory Group meets to discuss key issues and new challenges, and the Welsh Government has held and attended a range of

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<sup>1</sup> Wales Act 2014:

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

The Wales Act 2017 removed the requirement for a referendum about income tax devolution:

<http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

<sup>2</sup> All income tax revenue, including that incurred by Welsh rates of income tax, will continue to be collected by HMRC.

<sup>3</sup> *Welsh Government Tax Policy Framework*, June 2017:

<https://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

events over the last year to promote discussion, learn from others, and reflect on progress. A recent example is the Tax Talks event: a day of discussions about current tax developments with key stakeholders, including businesses, tax professionals and academics. The views and experiences shared about the emerging work have identified areas for further consideration.

6. The Welsh Treasury has also continued to work closely with other national governments, international organisations, devolved administrations and partner countries to develop communities of good practice on tax policy, including HM Treasury and HMRC, Scottish Government, Northern Ireland Executive; the Basque region in Spain, New Zealand, Republic of Ireland, and ongoing learning from OECD fiscal devolution experts.
7. The level of engagement about new tax ideas, last year, reached far beyond the stakeholders who had previously contributed their thinking about tax issues. With the introduction of Welsh rates of income tax, on 6 April 2019, some 1.34 million taxpayers living in Wales will be paying tax rates set in Wales. The Welsh Government is working to ensure Welsh taxpayers receive the necessary information about Welsh rates of income tax, and also to raise awareness across Wales of the positive link between the taxes raised in Wales and delivery of public services. This communications and awareness campaign will be a key priority for the year to come. As part of the longer term approach to raising awareness, we will be making best use of social media tools to engage taxpayers as well as developing tailored strategies to for hard to reach communities.

## Tax policy work plan 2018

8. The Cabinet Secretary for Finance published the tax policy work plan for 2018 in February.<sup>4</sup> The work plan is intended to stimulate engagement and debate about Welsh tax policy, part of the Welsh Government's proactive approach to engagement and communications.
9. The work plan for 2018 includes a range of priorities, some to be tackled early; others for longer-term consideration, which can be grouped under five headings:
  - A) Raise revenue to contribute to the Welsh Government budget:  
This is about how tax rates are set in Wales, including the analysis and forecasts which inform decisions about rates and bands, and the public engagement supporting the introduction of Welsh rates of income tax in 2019-20;
  - B) Welsh tax strategy and policy development:  
This considers how taxation policy might further help achieve the Welsh Government's wider objectives, including the scope for new taxes in Wales and the impacts of UK tax policy developments;
  - C) Develop local taxation policy, including as part of wider local government finance reform:  
In particular, this section looks at whether local taxes could be made fairer;
  - D) Effective tax administration of local and national taxes managed in Wales:  
This section examines tax administration processes in Wales, and assesses the scope for improvements;
  - E) Research and evidence:  
This section considers more fundamental questions about the future direction of taxation policy in Wales, including its interaction over the longer term with other devolved policy areas.
10. The progress made towards the 2018 work plan is summarised in the following sections. Annex one provides information about the importance of behavioural effects when considering tax policy changes.

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<sup>4</sup> Cabinet written statement about the tax policy work plan 2018, February 2018:  
<https://gov.wales/about/cabinet/cabinetstatements/2018/taxpolicyworkplan2018/?lang=en>

## **A) Raise revenue to contribute to the Welsh Government budget**

### **A1. Progression of the HMRC-led Welsh rates of income tax implementation project towards 2018, including taxpayer engagement**

### **A2. Set the first Welsh rates of income tax, for spring 2019**

#### **Background**

11. The Wales Act 2014 conferred on the National Assembly for Wales the power to set Welsh rates of income tax<sup>5</sup>. The Welsh Government's fiscal framework, agreed with the UK Government in December 2016, confirmed the Welsh Government would introduce Welsh rates of income tax from 6 April 2019.
12. HMRC will retain responsibility for the collection and management of Welsh rates of income tax – in competence and legal terms it remains a UK tax, as will the associated arrangements for personal allowance, National Insurance, benefits and Gift Aid. The UK Government will continue to retain full responsibility for taxing income from savings and dividends.

#### Welsh rates of income tax 2019-20

13. From 6 April 2019, the UK Government will reduce each of the three rates of income tax – basic, higher and additional rates – paid by Welsh taxpayers by 10p<sup>6</sup>. The Welsh Government proposes to set the first Welsh rates of income tax at 10p: this means the rates of income tax paid by Welsh taxpayers will continue to be the same as those paid by English and Northern Irish taxpayers. This upholds the commitment set out in the Labour manifesto, and reflects the priority attached to an orderly transition to the Welsh rates of income tax. The first Welsh rates of income tax are shown in figure one, together with the reduced UK Government rates (based on current UK Government policy).
14. The National Assembly will need to confirm this proposal through a motion prior to the final Budget. The motion will be laid prior to the final Budget debate, enabling the vote on the Welsh rates to be taken before the final Budget debate, as required by Standing Orders 20.24A-20.24D.

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<sup>5</sup> A requirement in the Wales Act 2014 to hold a referendum about income tax powers was removed by the Wales Act 2017. The Wales Act 2014 and Wales Act 2017 are available at:

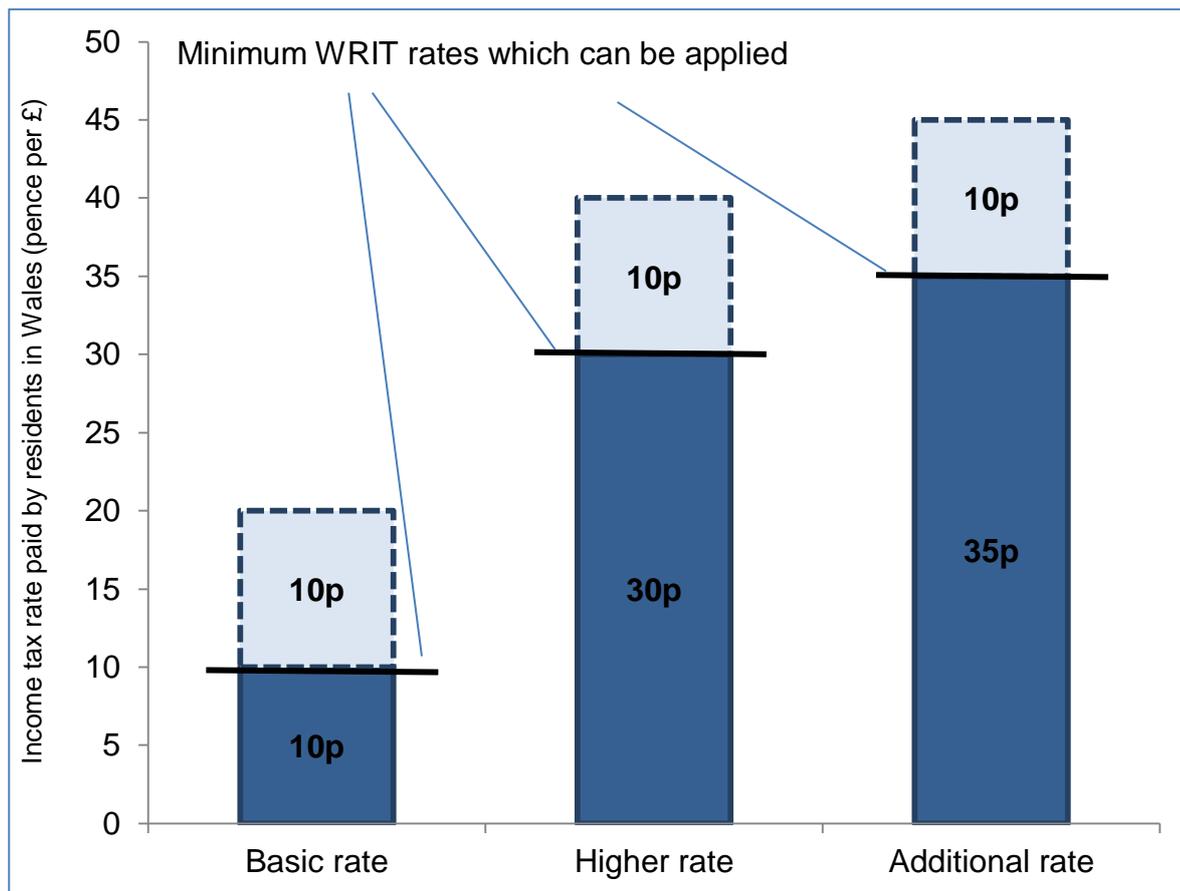
<http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

<http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

<sup>6</sup> In most circumstances, Welsh taxpayers are people who are resident in Wales. For a full definition see the Wales Act 2014 (8. Welsh rates of income tax):

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

**Figure one: Welsh rates of income tax<sup>1</sup>**



<sup>1</sup> based on 2018-19 rates for England and Northern Ireland (the Scottish Parliament decides the income tax rates for Scottish taxpayers)

15. The income tax model which has been adopted has been subject to an internal quality assurance process and additional scrutiny and assurance work is being taken forward by Bangor University. The Welsh Government will continue to undertake data analysis and modelling to improve its forecasting and general understanding, working with HMRC.

Progress against HMRC-led project to implement the Welsh rates of income tax

16. The Welsh Government is seeking an orderly and smooth transition to Welsh rates of income tax. The Cabinet Secretary for Finance has set out five priorities:
- a) Commitment from UK Ministers for the National Assembly to be kept informed and fully engaged in the process (with HMRC officials making themselves available to the National Assembly's Finance Committee);
  - b) Agreement from HMRC to share full, accurate and timely data, to enable analysis to support advice about the setting of income tax rates, as set out in the fiscal framework; access for Welsh Treasury analysts to full, accurate and timely data to inform the rate setting process;
  - c) Ensure the Welsh Government has a good understanding of the tax compliance issues arising from devolution and HMRC's compliance activity plans;

- d) Clear definition and agreement of costs to Welsh Government;
  - e) Excellent communication with taxpayers about the changes, particularly in relation to the Welsh language.
17. A cross-governmental project board has been established to take forward implementation of Welsh rates of income tax, comprising officials from Welsh Treasury, HMRC and the Department for Work and Pensions (DWP). The project's three 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 DWP systems).

### Taxpayer Identification

18. The identification of Welsh residents and the subsequent creation of the Welsh tax-paying population within HMRC systems are central to the success of this project. There are multiple facets to ensuring Welsh income taxpayers are correctly identified:
- Ensuring the quality of HMRC address data so records are accurately mapped to the correct country;
  - Analysing cross-border postcodes, identifying individual properties where necessary;
  - Accurately associating individual taxpayers' with HMRC address records; and
  - Maintaining, and updating where necessary, the taxpayer and address association records (working with the Office for National Statistics, Land Registry and drawing on electoral register information).
19. Significant progress has been made in relation to accurate taxpayer identification and this continues to be closely monitored by the Welsh rates of income tax project board.

### **Outcome and next steps**

#### Communications and engagement

20. The Welsh rates of income tax communications plan has been prepared alongside a developing strategic approach to communications and engagement, which will seek to develop the audience base for further engagement on taxation and fiscal issues.
21. The key objectives of the campaign are to inform key audiences, from April 2018 to May/June 2019, that the Welsh Government will be able to vary the Welsh rates of income tax from 6 April 2019, with a series of targeted communication campaigns to explain the change and to highlight the link between raising tax and supporting public services. The Welsh Government and HMRC are dovetailing communications activity for maximum effect, using existing channels where possible.
22. HMRC will issue a bilingual notification letter directly to the estimated 1.34m income taxpayers in Wales to:

- Inform them they will be liable for Welsh rates of income tax from April 2019;
  - Signpost the Welsh Government's webpages for the latest information about rates;
  - Request updates from taxpayers if HMRC's records are out of date or inaccurate;
  - Highlight HMRC's Welsh language scheme.
23. Contact details for HMRC's Welsh language unit will be provided in the letter to encourage greater take up of the service.
24. HMRC will enclose a Welsh Government leaflet with the letter, to provide further information about the partial devolution of income tax to Wales.

### Assurance

25. Memoranda of understanding, incorporating governance arrangements and priorities have been agreed with HMRC and DWP. An internal HMRC health check undertaken in March 2018 concluded the project is on track. An action plan to address the health check recommendations has been completed. Further assurance reviews will take place before and after implementation. A full formal and independent review of preparations will be undertaken in early October.
26. Preparations are underway with the National Audit Office (NAO) and Wales Audit Office (WAO). The NAO will review HMRC's delivery of the project and WAO will examine the Welsh Government's preparedness for Welsh rates of income tax. This work will conclude before Budget scrutiny commences in the autumn.

### **A3. Continued development of analytical tools to support devolved tax policy-making and revenue forecasting, including peer review and independent assurance of income tax model and assessment of fully-devolved tax models in the light of outturn information**

#### **Background**

27. Following the introduction of Welsh taxes in April 2018, the Welsh Government's budget is partially dependent on revenues from the two taxes – land transaction tax (LTT) and landfill disposals tax (LDT). The 2018-19 Budget was the first to integrate tax revenue forecasts in the overall Welsh budgetary calculations.
28. Revenue forecasts for LTT and LDT underwent a thorough development and quality assurance process for the 2018-19 Budget. This included peer review by the Welsh Government's analytical professions and independent external scrutiny by Bangor Business School. Bangor Business School published reports about its scrutiny of the Welsh Government's tax revenue forecasts alongside both the draft and final Budgets and made recommendations about the future development of the forecasting methodologies.
29. With the introduction of Welsh rates of income tax in 2019-20, tax revenues will play an even greater role in the Welsh Government's Budget. There are transitional arrangements for the first year of income tax devolution, which mean that, with the Welsh rates each being set at 10p, the block grant adjustment will be set at the level of revenues collected in 2019-20. As a result, Welsh rates of income tax will have a fiscally neutral impact on the Welsh Government Budget in the first year.

#### **Evidence and analysis**

##### Fully-devolved taxes

30. The Welsh Government has further developed its analytical tools for LTT and LDT, building on the recommendations made by Bangor Business School during the 2018-19 budget process. Bangor Business School's latest report provides a detailed update about how the Welsh Government has further developed the forecasting methods and addressed the recommendations from the first year of forecasting<sup>7</sup>. Some key developments include:
  1. Making appropriate use of the early outturn data from the Welsh Revenue Authority (WRA);
  2. Refining the model used to forecast additional residential property LTT revenues to include more detailed data about tax transactions in Wales.
31. Good relationships have been established with other organisations across the UK which are involved with fiscal forecasting. This includes the Office for Budget Responsibility (OBR) and the Scottish Fiscal Commission, together with UK Government departments, the Scottish Government and a number of academic bodies. This has enabled the sharing of good practice and lessons learned as well as improvements in consistency, where appropriate.

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<sup>7</sup> <https://beta.gov.wales/draft-budget-2019-2020>

32. The revenue forecasts for the devolved taxes have again gone through a three-stage quality assurance process, including:
- Internal technical quality assurance;
  - Peer review by senior Welsh Government analysts;
  - Independent external scrutiny by Bangor Business School.

### Welsh rates of income tax

33. The Welsh Government has developed a forecasting and policy costing tool for income tax using the income distribution of taxpayers in Wales from HMRC's survey of personal incomes (SPI). The SPI is generated from a sample of pay-as-you-earn, self assessment and claims system tax records, providing a rich source of anonymised information about income tax payers in the UK.
34. The most recent SPI data cover the 2015-16 tax year. Because of the time lag in the availability of the SPI, the income distribution is updated for subsequent years using data about employment and earnings growth. OBR forecasts of employment and earnings are used to produce projected income distributions for future years. The appropriate income tax parameters for each year are applied to this distribution to estimate revenues from both the Welsh and UK income tax rates.
35. The Welsh Government's forecast for Welsh rates of income tax has been through the same three-stage quality assurance process as the devolved taxes. Further detail about the Welsh rates of income tax forecast and methodology is provided in Bangor Business School's report<sup>8</sup>.
36. As noted above, the Cabinet Secretary for Finance has chosen to set each of the Welsh rates of income tax at 10p in 2019-20, so Welsh taxpayers will pay the same overall rate of income tax as taxpayers in England and Northern Ireland. As a result, there is no requirement to make an adjustment in the model for behavioural effects which can occur when tax rates are changed. However, the model includes the functionality to incorporate this if needed in future, as these are recognised as an important part of forecasting and costing potential tax policies.
37. Annex one, *Modelling income tax behavioural effects*, emphasises the importance of behavioural effects when considering tax policy changes for high-income taxpayers. However, estimates of these effects are considered to be relatively uncertain. The Welsh Government will use relevant work in the UK to model behavioural effects in its income tax forecasts and policy costings. Following the devolution of income tax, a new behavioural element can now occur through tax-induced sub-UK migration. As this is a relatively new element to the UK tax system, there is very limited data and UK evidence on which to base sub-UK migration response estimates.
38. A review of the existing international literature about this type of behaviour finds the estimates tend to be relatively small and apply mostly to higher-income taxpayers, although there is a large range for the potential size of intra-national migration. Consistent with behavioural effects in general, the migration effects are still considered to be highly uncertain, especially as there is currently very limited information about the potential size of these effects in the UK. More detail about the possible behavioural impacts of tax rate changes can be found at annex one.

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<sup>8</sup> <https://beta.gov.wales/draft-budget-2019-2020>

## Outcome and next steps

39. The outline draft Budget includes the latest forecasts for LTT and LDT revenues for 2019-20 and the distributable amount for non-domestic rates for the same year. It also includes a figure for revenue from the Welsh rates of income tax for 2019-20, which has been set equal to the forecast from the OBR's March 2018 *Economic and Fiscal Outlook*.
40. Bangor Business School has published its assessment of the forecasts for Welsh taxes alongside the draft Budget. Its report includes the Welsh Government's revenue forecasts for the three taxes for the years to 2022-23 and the distributable amount for non-domestic rates for the same period. The report concludes the forecasts are central and based on sound methodologies. It also notes the recommendations from last year have been acted on, where possible, and further improvements to methodologies have been made. These forecasts will be updated for the final Budget to reflect the latest economic determinants, which will be published by the OBR at the time of the UK Autumn Budget.
41. In July, the Cabinet Secretary for Finance set out in a written statement that the OBR will produce independent forecasts of revenues from the devolved taxes for the Welsh Government's Budget process from next year. Further details about these long-term contractual arrangements are available in the next section (A4).
42. In addition to continued involvement in the forecasting process, the Welsh Government will continue to explore improvements which could be made to income tax data sources. Together with the OBR, Scottish Government and Scottish Fiscal Commission, it is engaging with HMRC to assess whether more detailed income tax information can be made available to meet devolved analytical needs. There are restrictions on the data which can be shared to protect individual taxpayers' information but these restrictions reduce the quality and detail of the data available. The work with HMRC will explore how better information could be made available without jeopardising taxpayer confidentiality.
43. An evaluation of the 2018-19 revenue forecasts will be included in next year's tax policy report.

## **A4. Next steps on independent forecasting provision to align with the budget process**

### **Background**

44. As part of the fiscal framework agreement between the Welsh and UK governments, which secured a permanent funding floor for Wales and paved the way for the introduction of Welsh rates of income tax<sup>9</sup>, the Welsh Government committed to introducing arrangements for the independent production of revenue forecasts for devolved taxes.
45. In the short-term, it was agreed the Welsh Government would produce its own independently-assured forecasts, while working to put in place longer-term arrangements. Bangor Business School provided independent assurance of the Welsh Government's forecasts for land transaction tax (LTT) and landfill disposals tax (LDT) revenues as part of the 2018-19 Budget process. 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.

### **Evidence and analysis**

46. The Welsh Government considered a number of options for longer-term forecasting arrangements, including using the expertise of an existing organisation; establishing a Welsh fiscal commission and long-term contractual arrangements.
47. When the draft Budget 2018-19 was published, in October 2017, the Cabinet Secretary for Finance confirmed two options were still being considered – establishing an independent commission or using the OBR. The preferred option was using the OBR, based on the criteria the Welsh Government set:
  - It is essential the function is exercised in a way which is sufficiently independent from government;
  - Discharge of the function should represent value for money;
  - The body appointed to fulfil this function should have demonstrable expertise to fulfil its mandate.

### **Outcome and next steps**

48. After further in-depth discussions and detailed work, it was concluded the OBR would provide the most proportionate and best value for money option for the independent production of Welsh tax forecasts. The Welsh Government has entered into an arrangement with the OBR for the 2020-21 Budget and beyond.
49. The expertise and independence of the OBR is well-established and good working relationships have been developed between its officials and the Welsh Treasury. It is expected this new arrangement will produce high-quality forecasts, which will provide a robust foundation for the financing element of the Welsh Government's Budget. The new arrangement with the OBR will formally start on 1 April 2019.

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<sup>9</sup> *The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework*, December 2016:  
<https://gov.wales/docs/caecd/publications/161219-fiscal-agreement-en.pdf>

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 – LTT and LDT – 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 appropriate 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 has agreed to 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 welcome link between the publication of the OBR's spring *Economic and Fiscal Outlook* and the Welsh Government's draft Budget.
52. Welsh Government officials will continue to play an important role in the formulation of the forecasts and will make improvements to forecasting methods, in line with good practice and as new data sources become available. This will include making further use of the data from the Welsh Revenue Authority (WRA) as it becomes available.
53. An updated Memorandum of Understanding and an accompanying Terms of Reference will be published by the end of this financial year. These arrangements will be reviewed by the Welsh Government and the OBR after the first year.

## **A5. Implementation of Welsh taxes**

### **Background**

54. Land transaction tax (LTT) and landfill disposals tax (LDT) were introduced on 1 April 2018. The Welsh Revenue Authority (WRA) collects and manages these two taxes.
55. Indicative tax rates for these taxes were published in the 2017 Welsh Tax Policy Report, 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. The revenue from the two taxes directly funds public services in Wales, replacing some of the funding the Welsh Government receives from the UK Government. In announcing these rates and bands, the Cabinet Secretary for Finance was clear that if there was a change in UK Government tax policy, which affected the Welsh Government's net resources, it would be appropriate to look again at the tax rates and bands.
56. In the Autumn Budget, the UK government made changes to stamp duty land tax (SDLT) and, following an assessment of how taxpayers will be affected by the transition from SDLT to LTT and the effect on the Welsh Government's resources, the Welsh Government announced revised LTT rates. The UK Government also announced landfill tax rates for 2019-20 in its Autumn Budget. The Welsh Government has committed to keep the lower and standard rate of tax consistent with UK Government during 2018-19 and 2019-20, to provide certainty for businesses and to help prevent waste tourism.
57. The regulations to bring the first rates and bands into effect were agreed by the National Assembly on 30 January and have applied since the taxes came into force on 1 April 2018.

### **Evidence and analysis**

58. As the devolved taxes have only applied since April, there are limited data to be able to assess the potential impact of these taxes at this stage.
59. The WRA has published statistics about LTT and LDT returns<sup>10</sup>. These include details of land transactions and waste disposals and revenue collected.
60. An assessment of the devolved tax revenue data published by the WRA in terms of what they mean for the taxes and updated forecasts are available in Bangor Business Schools' latest report<sup>11</sup>.
61. The 2019-20 revenue forecast for LTT is £258m and for LDT it is £40m.

### **Outcome and next steps**

62. For the 2019-20 Budget, LTT rates will be maintained at the current rates, which have applied since April 2018, recognising the need for stability, clarity and certainty for those buying and selling property. However, should the UK Government change stamp duty land tax at the forthcoming Autumn Budget, the Welsh Government will

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<sup>10</sup> WRA statistics and statistics publication timetable:

<https://beta.gov.wales/welsh-revenue-authority-statistics-publication-timetable>

<sup>11</sup> <https://beta.gov.wales/draft-budget-2019-2020>

need to consider the impact of those changes with respect to any potential implications for Welsh Government resources and potential differences for taxpayers in Wales and England.

63. LDT rates increased in line with inflation in 2018-19. The Welsh Government has committed to maintain consistency with the UK Government's approach to landfill tax rates for the lower and standard rate of tax in 2018-19 and 2019-20. This reflects the policy objective of LDT to reduce waste going to landfill in Wales and protects against the risk of waste tourism across England and Wales. The regulations which set the new rates will be laid this autumn for agreement in early 2019.
64. The Welsh Government will continue to review all available evidence about the impacts of the devolved taxes.

**Table one: LTT residential main rates**

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

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

**Table two: LTT non-residential main rates**

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

**Table three: LTT non-residential lease rent rates**

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

**Table four: LDT rates, £ per tonne**

	2018-19	2019-20
Standard rate	£88.95	£91.35
Lower rate	£2.80	£2.90
Unauthorised disposals rate	£133.45	£137.00

## **B) Welsh tax strategy and policy development**

### **B1. Take forward work on new Welsh tax ideas, including testing the Wales Act 2014 mechanism**

65. Taxes are a vital source of revenue for supporting public services but taxation can also be a powerful lever for influencing behaviour change. The Welsh Government has a responsibility to think innovatively about tax and how it can support the achievement of policy objectives, not only through existing taxes but also considering new tax ideas.
66. Following the 2017 work plan commitment to consider the case for new taxes and the subsequent wide-ranging public debate initiated by the Cabinet Secretary for Finance, a shortlist of four new tax ideas was announced alongside the outline draft Budget 2018-19 – a vacant land tax, a social care levy, a disposable plastics tax and a tourism tax. Between October 2017 and February 2018, the Welsh Government worked with stakeholders to examine the case for each of these four tax ideas more fully. An informal online opinion poll to raise awareness of the tax ideas and to seek people's views was also carried out. In February 2018, the Cabinet Secretary for Finance announced a vacant land tax would be taken forward to test the Wales Act 2014 mechanism. The Cabinet Secretary also announced further work would continue on the other three shortlisted tax ideas.
67. In addition to the work on each of the specific taxes detailed below, the Welsh Government has been working with the UK Government and the National Assembly to agree how the process to devolve competence for a new tax will be managed. The Government of Wales Act requires the approval of both the National Assembly and each House of Parliament to draft Orders in Council for the transfer of powers. The Cabinet Secretary for Finance and UK Government Ministers 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 UK Houses of Parliament. The Welsh Government has discussed the process for National Assembly consideration of a draft Order with the Business Committee and has committed to engage the Constitutional and Legislative Affairs Committee and keep the Assembly informed as the process progresses.

#### **a) Vacant land tax**

##### **Background**

68. In February 2018, the Cabinet for Secretary for Finance announced plans to test the mechanism for transferring powers laid out in Part 4A of the Government of Wales Act 2006 (as amended by the Wales Act 2014) by devolving the necessary powers for a tax on vacant land in Wales.
69. Increasing housing supply is a key priority for the Welsh Government, as well as delivering the benefits of economic development and regeneration. The Welsh Government has identified an issue where land, which has been identified as suitable for development, is not being developed. There are many reasons why land which has been identified as being suitable for development, does not come forward or is not developed as quickly as it is reasonable to expect. The Welsh Government is

acting to address these issues through interventions such as the £40m Stalled Sites Fund, however, in some circumstances, targeted taxation could act as an effective tool to encourage development. A vacant land tax could help meet housing and development needs in Wales by bringing land into productive use. The idea behind the tax is not to raise revenue but to change the balance of incentives for landholders to encourage development.

## **Evidence and analysis**

70. Research commissioned by the Welsh Government has found just over 400 sites were stalled across Wales in 2015. These stalled sites primarily relate to residential development, with at least 7,600 homes being tied up within these sites across Wales.
71. There are a number of reasons why land identified for development becomes stalled in Wales, including:
  - Landowner intent: including the owner holding onto the land in the expectation or hope of achieving a greater value in future.
  - Access to finance: including where smaller developers are unable to raise funds to bring the development forward, or where larger developers are prioritising capital for other developments.
  - Economic factors: including where viability prevents development or the cost of developing the site is sufficiently high that the short to medium-term costs outweigh the benefits.
  - Site-specific issues: including the need for significant remediation, or where the ecology or drainage of the site posing particular challenges, or where there are issues with access to the site.
  - Planning factors: including disputes between a developer and the local planning authority, for example around Section 106 agreements.
72. While this broad categorisation helps to identify some of the issues, these can often be interrelated and for many sites there is more than one issue which delays development. The Welsh Government has a range of policy interventions to help bring forward development however, as the reasons for development becoming stalled can be so varied, a range of solutions are required. While a vacant land tax alone will not bring forward development in all circumstances, it could help to supplement other activity.
73. In developing a tax, careful consideration needs to be given to its design to ensure the objective of bringing forward development is achieved, without introducing any unintended consequences. The aim is not to impose a penalty on landholders who are developing sites within reasonable timescales or who are prevented from developing land through no fault of their own. Nor is it to apply a tax to land which is not suitable for development.
74. To determine how a tax on vacant land can be structured in a way which encourages positive behaviours while minimising unintended consequences, the Welsh Government has been engaging with stakeholders to benefit from their experience.
75. A reference group of key stakeholders, drawn from the private, public and third sectors, is working with Welsh Government to formulate policy options. The Tax Advisory Group and other interested stakeholders and subject matter experts have

been engaged to consider how a vacant land tax could support other interventions. Assembly Members have also discussed the challenges of vacant land and the possible role of taxation in bringing forward necessary development.

### **Outcome and next steps**

76. The work undertaken to date, suggests there is a case for considering a vacant land tax to support housing and regeneration in Wales. However, before a vacant land tax could be introduced, the necessary powers must be transferred to the National Assembly. The Welsh Government has begun discussions with the UK Government on the process for devolving these powers. A primary principle is that the process will focus on the scope of the devolution of competence, and the Welsh government intends to put a proposal to the UK Government in the coming months. The Welsh Government has committed to keep the National Assembly for Wales informed of the progress of these discussions. Following UK Government consideration of the proposal both Houses of Parliament and the National Assembly will need to agree to the transfer of powers.
77. The Welsh Government will continue detailed evidence gathering and analysis to shape and develop the policy proposal. This work will continue alongside the efforts to transfer the powers from Westminster to Wales and will become the primary focus once the process is complete.
78. This area of work will be a key priority for the coming year.

### **b) Social care levy (including work plan commitment B5. Consider the potential role Welsh taxes can play in supporting the Welsh Government's public health and wellbeing objectives)**

#### **Background**

79. The challenge of paying for care has been characterised by numerous attempts to create a fairer and more sustainable system, which despite strong commitment and ambition, have stalled. This can be seen from the 1999 Royal Commission on Long-term Care to the 2010 Dilnot Commission proposals, which the current UK Government is still grappling with, resulting in its intention to bring forward a Green Paper in autumn 2018<sup>12</sup>.
80. Over successive Assembly terms, the Welsh Government has considered the issue of paying for care – initially within the constraints imposed by UK Government legislation on health and social care. As powers have been devolved to Wales, action remains constrained due to implications for Barnett funding consequential and non-devolved matters, such as welfare benefits and pensions.
81. The Welsh Government has prioritised social care and committed to develop innovative funding models to ensure resources are available to meet future social

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<sup>12</sup> A summary of previous proposals for reforming social care funding is provided in the *First Joint Report of the Health and Social Care and Housing, Communities and Local Government Committees of Session 2017-19 on Long-term funding of adult social care* (pages 25-27):  
<https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/768/768.pdf>

care needs. Taxation could play a role and the Cabinet Secretary for Finance has committed to explore all options in supporting the future provision of social care.

82. Delivering a sustainable funding solution goes hand-in-hand with establishing effective models of care, which meet the expectations and health and care needs of the population. It will therefore be important to ensure work in this area is taken forward within the context of our long-term plan for health and care – *A Healthier Wales*. This recognises the importance of stronger integration of health and social care to deliver a seamless service and better wellbeing outcomes for people in Wales.

## Evidence and analysis

83. Social services spending per person in Wales (see table five) is substantially higher than in England. However, a range of evidence suggests pressures on social care budgets for older people are likely to increase over the next 10 to 15 years and beyond.

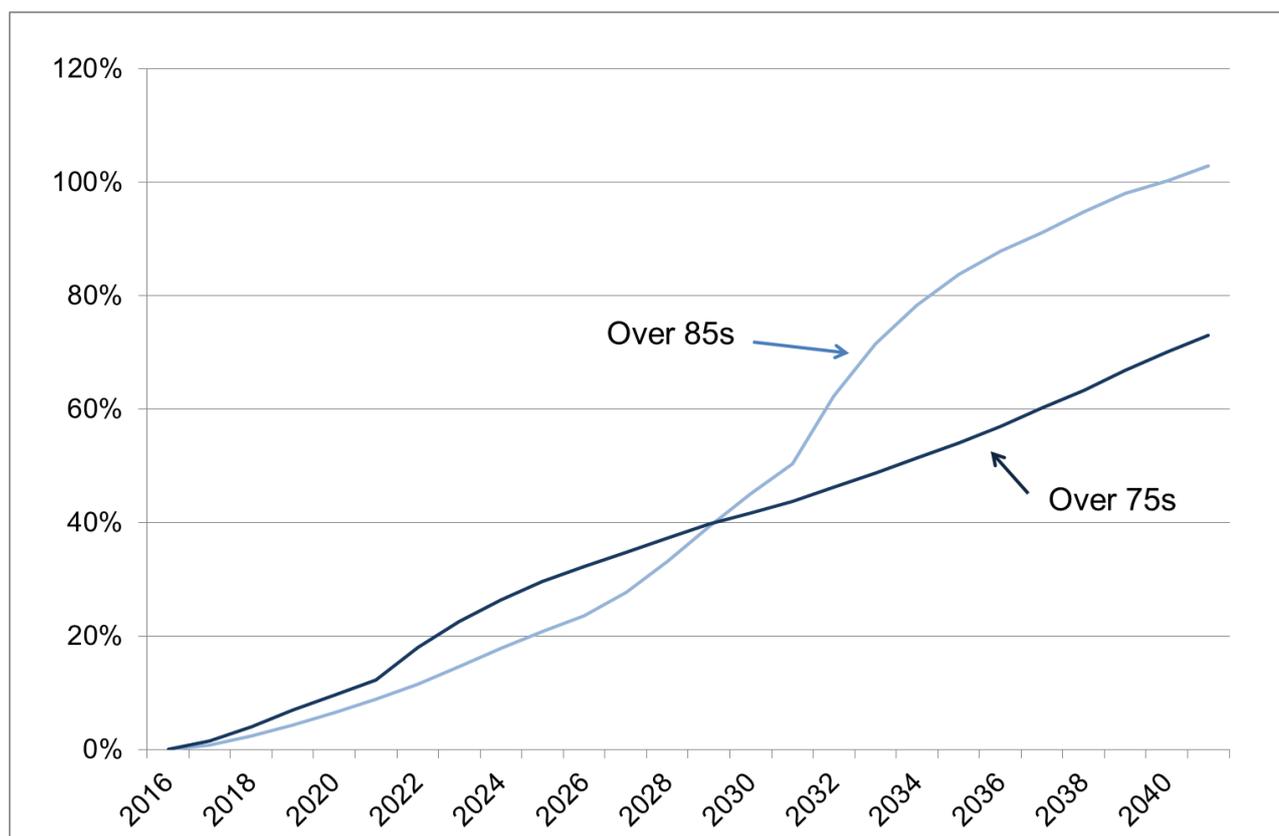
**Table five: Public spending on social services for older people (£ per person)**

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	<i>Change from 10-11 to 16-17</i>
Wales	190	191	197	204	208	199	200	5%
England	156	148	144	145	148	138	140	-10%
Difference	33	44	53	59	60	61	60	

Source: HM Treasury, Country and Regional Analyses

84. The over-75 population is projected to increase by nearly 120,000 – more than 40% – between 2016 and 2030. This rapid increase is expected to continue throughout the following decade, reaching an overall increase of more than 70% by 2040 (see figure two). The over-85 population is projected to see the same percentage increase by 2030 but experience more rapid growth in the 2030s and more than double by 2040.
85. To put this in context, the overall Welsh population is projected to increase by 4% between 2016 and 2030 and 5% by 2040.
86. The Health Foundation has used work by the London School of Economics to project the cost of publicly-funded adult social care in Wales. This shows costs could increase by 80% in real terms between 2015 and 2030. These estimates complement shorter-term analysis by Wales Public Services 2025.

**Figure two: projected population growth in Wales (compared to 2016)**



Source: ONS principal 2016 based population projections

### **Outcome and next steps**

87. Focusing on the demographic challenge posed by an ageing population Professor Gerald Holtham has proposed a levy on income to help pay for social care for older people. Proceeds from the levy could be placed in a ring-fenced fund, which could provide additional help for the immediate care needs of the population and cover expected increases in the demand for care from future generations. The Cabinet Secretary for Finance commissioned Professor Holtham to provide an indicative economic analysis of his proposal, which was published on 28 June. Addressing this challenge through the creation of a new tax, including the model presented by Professor Holtham, is just one of several options being considered by the inter-Ministerial group on paying for social care.
88. The First Minister established the inter-Ministerial group to take forward work about the future funding for social care. Chaired by the Minister for Children, Older People and Social Care, it has developed five distinct work streams to progress over the next two to three years – using finance (the social care 'offer'); raising the finance (funding options); distributing the finance (delivery models); UK Government interface (manage non-devolved matters) and strategic communications.
89. The group has identified the communications work stream as a core tenet to address the wider confusion which exists around health which is free at the point of delivery and social care services which are means-tested. Successful communications will also be central to building a wider consensus around any potential solution.

90. This area of work will be a key priority for the coming year.

### **c) Disposable plastics tax**

#### **Background**

91. In October 2017, Sir David Attenborough's *Blue Planet 2* television programme marked a significant increase in public awareness of the damage to global ecosystems by waste plastic and pollution, in particular to the marine environment.
92. The increase in plastic waste is linked to the amount and types of plastics available and consumer behaviour in retail, manufacturing and industrial processes. There are several factors which have led to the environmental problems we now face, including the increasing availability of different plastics, convenience for consumers and a lack of sufficient incentives to ensure proper collection and treatment of plastic waste.
93. Following a National Assembly debate about new taxes in July 2017, the Cabinet Secretary for Finance announced his intention to explore the potential for a disposable plastics tax in Wales.
94. HM Treasury announced a call for evidence in March 2018 to examine how charges, or changes to the tax system, could tackle the problems associated with single-use plastic waste. The call for evidence highlighted the need to consider carefully the potential for introducing an effective UK-wide tax.
95. The Welsh Government has been considering a Welsh tax, levy or charge on single-use drinks containers, as recommended in a report commissioned by the Welsh Government about extended producer responsibility (EPR) in Wales<sup>13</sup>.
96. At a European level, the European Commission published a proposal for an EU Directive on the reduction of the impact of certain plastic products on the environment in May. The main objective is the prevention and reduction of plastic marine litter from single-use plastic items and fishing gear containing plastic<sup>14</sup>.

#### **Evidence and analysis**

97. The Welsh Government promoted the HM Treasury call for evidence in Wales to help ensure the views of Welsh businesses and organisations were taken into account. The Welsh Government has assessed the evidence submitted by stakeholders in Wales to help identify the potential benefits, issues and impacts of introducing new measures in this area.
98. This is a complex and fast-moving policy area where there are already legislative controls and initiatives in place. Developing approaches on a UK-wide basis can often be less complicated for consumers and better for business. Work is ongoing to assess how this work intersects with the various solutions, which are being

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<sup>13</sup> Report by Eunomia, *Options for extended producer responsibility in Wales*, April 2018:  
[https://gov.wales/topics/environmentcountryside/epq/waste\\_recycling/publication/final-report-options-for-extended-producer-responsibility-in-wales-final-report-executive-summary/?lang=en](https://gov.wales/topics/environmentcountryside/epq/waste_recycling/publication/final-report-options-for-extended-producer-responsibility-in-wales-final-report-executive-summary/?lang=en)

<sup>14</sup> *Directive of the European Parliament and of the Council on the reduction of the impact of certain plastic products on the environment*, 2018:  
[http://ec.europa.eu/environment/circular-economy/pdf/single-use\\_plastics\\_proposal.pdf](http://ec.europa.eu/environment/circular-economy/pdf/single-use_plastics_proposal.pdf)

considered to reduce the impact of single-use plastics on our environment in Wales, including work to reform existing legislation in packaging waste and UK-wide consultations about EPR systems and deposit return schemes (DRS).

99. There has been ongoing engagement with key stakeholders in Wales through a number of events. Workshops led by Welsh Government, WRAP and HM Treasury in Wales were held in April about reforming the current packaging waste regulations and the application of taxes on single-use plastics.
100. The Cabinet Secretary for Finance also invited key sectors from retail, manufacturing and non-government organisations to a large scale event in July to hear views about each of the new tax areas. Views were received from key industry stakeholders in Wales, including from major UK paper cup manufacturers based in Wales.
101. The Eunomia study on EPR in Wales evaluated a range of methods to increase waste prevention and recycling and reducing litter. The focus was on six types of food and drink packaging, including drinks bottles and cans and single-use coffee cups.
102. The study has helped clarify what is best for Wales. It provides information about a range of options, including DRS, taxes or charges on single-use cups and changes to current EPR regulations. One of its recommendations was to consider a Welsh tax, levy or charge on single-use beverage cups.

### **Outcome and next steps**

103. With evidence being gathered at a UK level, the Welsh Government will continue to work with the UK Government to discuss progress on potential taxation measures and to contribute Welsh views about the development of options, which reflect Wales' needs and priorities in a way which builds on our world-leading waste management and recycling performance.
104. In August, HM Treasury published a document setting out the initial findings from the call for evidence. The Welsh Government will continue to engage with key stakeholders in Wales to discuss the overall messages from the call for evidence.
105. It is anticipated further details will be announced in the UK Autumn Budget.
106. It is clear stakeholders in Wales are keen to take action to tackle plastic waste in Wales, therefore, policy work will continue to consider the benefits and drawbacks to introducing a tax, levy or charge on single-use drinks containers in Wales. This remains an option for Wales and will depend on the outcome of the HM Treasury call for evidence.
107. Consideration of a tax, levy or charge on single-use drinks containers enables the focus to be on a single item. Limiting the scope of a disposable plastics tax in this way may make it more manageable to implement, on a Wales-only basis, if this emerges as an appropriate option.

108. It also helps to address a significant and identifiable issue – with an estimated 275,000 tonnes of plastic waste in Wales per year – and around 2,600<sup>15</sup> tonnes of this plastic waste attributable to coffee cups and a further 3,500 tonnes of other cups (for smoothies, milkshakes, juices, etc).
109. The primary purpose of such a tax would be to incentivise behaviour change, to encourage progress already being made in this area, as opposed to raising revenue.
110. This work is being considered alongside other potential options. Collaborative working with UK Government, the Scottish Government and Northern Ireland will also continue on respective policy areas and initiatives, in particular, the current review of existing legislation for packaging waste and forthcoming UK-wide EPR and DRS consultations.
111. It will be important any potential tax measure is carefully co-ordinated to ensure there are no unintended consequences, in addition to both being both fair and proportionate, in line with the tax principles set out in the tax policy framework.

## **d) Tourism tax**

### **Background**

112. In February, the Cabinet Secretary for Finance announced his intention to explore and consider ways in which local authorities could be given permissive powers to develop and implement a local tourism tax.
113. A tax on tourist accommodation is being considered in many cities around the UK and has been introduced in cities and countries internationally. Most recently, in Edinburgh, the city council has been campaigning for the legal powers to introduce a 'bed tax' on hotel rooms and short-stay lets, such as AirBnB, to raise revenue to improve the city's infrastructure as a result of the pressures and impacts from tourism. In New Zealand, the government is proposing a new tourism tax with the primary aim of covering the cost of improved infrastructure and conservation.
114. It is possible a tourism tax of some form will be introduced by an administration in the UK in the coming years. In considering a tourism tax at this time, we have started to consider how a potential tourism tax could be tailored to meet Welsh needs.

### **Evidence and analysis**

115. Since October, the Welsh Government has worked with the tourism sector and with local government to begin to explore the possible impact of a local tourism tax and the merits and concerns the tourism sector has expressed about this idea. This work has shown the needs and effects of tourism vary significantly across Wales.
116. Tourists and visitors spend more than £17m a day in Wales, amounting to £6.3bn a year. In 2017, there were 10.1 million overnight visits to Wales and a further 100

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<sup>15</sup> Report by Eunomia, *Options for extended producer responsibility in Wales*, April 2018 (page 46): [https://gov.wales/topics/environmentcountryside/epq/waste\\_recycling/publication/final-report-options-for-extended-producer-responsibility-in-wales-final-report-executive-summary/?lang=en](https://gov.wales/topics/environmentcountryside/epq/waste_recycling/publication/final-report-options-for-extended-producer-responsibility-in-wales-final-report-executive-summary/?lang=en)

million day visits – relative to population size, more people from the UK visit Wales than England or Scotland but it is a very competitive international sector.

117. This is a complex area, which needs to be considered in its entirety. Various forms of tourism taxes exist in many different countries, municipalities and cities around the world. Some specifically target tourists (via bed levies applied to hotels, guest houses and other forms of commercial accommodation), while others are paid by tourists and residents alike (such as a charge on restaurant bills).
118. International examples suggest the tax is often used to support local infrastructure or public services in tourist areas to improve the tourism offer, for example in Barcelona and Venice.
119. There are also alternative options to tackle tourism funding through voluntary schemes, such as those which currently operate in the Lake District<sup>16</sup> – where tourists are invited to pay either via optional supplements added to bills or through collections located at visitor attractions or through the Tourism Business Improvement Districts (T-BIDs), which have been trialled in the Scottish Highlands and Cornwall. There are eight Business Improvement Districts in Wales<sup>17</sup>.
120. The Welsh Government's consideration of tourism taxes has identified a number of significant policy issues which require further exploration and consideration, including the relationship between a tourism tax and VAT on tourist accommodation; how local tourism taxes would intersect with other key policy areas such as local taxes and existing regulatory pressures. Importantly, any model adopted would need to take account of other key considerations, such as the principals of its application to AirBnB.
121. The Welsh Government will also assess the outcome of the UK Government's consultation seeking evidence about the impact of VAT and air passenger duty on tourism in Northern Ireland<sup>18</sup>, which concluded in June.

## Outcome and next steps

122. A tourism tax could provide an opportunity to support one of the foundation sectors in the *Economic Action Plan*<sup>19</sup>. Depending on the model, a small contribution from visitors could generate funding to improve local services and encourage return visitors, in addition to helping drive sector growth.
123. There are a number of policy issues, not least the overall tax burden on the tourism sector, which require further exploration and consideration before any local permissive powers could be introduced.

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<sup>16</sup> Lake District Foundation:

<https://www.lakedistrictfoundation.org/>

[https://www.visitengland.com/sites/default/files/downloads/visitor\\_giving\\_helpsheets.pdf](https://www.visitengland.com/sites/default/files/downloads/visitor_giving_helpsheets.pdf)

<sup>17</sup> Business Improvement Districts in Wales:

<https://gov.wales/topics/housing-and-regeneration/grants-and-funding/business-improvement-districts/?lang=en>

<sup>18</sup> *VAT, Air Passenger Duty and tourism in Northern Ireland: call for evidence* (closed June 2018):

<https://www.gov.uk/government/consultations/vat-air-passenger-duty-and-tourism-in-northern-ireland>

<sup>19</sup> *Prosperity for all: economic action plan*, December 2017:

<https://gov.wales/topics/businessandconomy/economic-action-plan/?lang=en>

124. The intention is to continue examining these issues in partnership with the tourism industry and local authorities. This will be a longer-term, deliberative piece of work.

## **B2. Continue to press the case with UK Government for the devolution of air passenger duty (APD) to Wales**

### **Background**

125. Air passenger duty (APD) is an excise duty levied on the carriage, from a UK airport, of chargeable passengers on chargeable aircraft. It has been devolved in full to Scotland, and direct long-haul APD has been devolved to Northern Ireland.
126. As described in the Tax Policy Report 2017<sup>20</sup>, the Welsh Government has put forward a strong case to the UK Government for devolution to Wales of APD – as a minimum for direct long-haul flights, in line with the other devolved administrations, and as recommended for Wales by the Silk Commission in 2012. In response, the UK Government has suggested this is prevented because there is a single aviation market covering South Wales and South West England.

### **Evidence and analysis**

127. In November 2017, the Welsh Government published the findings of further research by the independent Northpoint Consultants into the potential market, competition and economic implications of devolving APD to Wales<sup>21</sup>. The independent analysis has revealed that, contrary to evidence considered by the UK Government, Cardiff and Bristol airports operate in largely distinct catchment areas for short-haul flights. The research also provides further evidence of the economic benefits for both South Wales and South West England from developing new routes from Cardiff.

### **Outcome and next steps**

128. During 2018, the Welsh Government has strengthened links with HM Treasury and reinforced the case for devolution of APD to Wales – at the very least for direct long-haul flights, as in Northern Ireland. There is unanimous support from aviation, tourism and business sectors in Wales for devolving APD to Wales, which would enable more efficient usage of the UK's existing airport capacity, increasing transport choices for businesses and citizens, and help stimulate business and trade.
129. The Welsh Government will be submitting robust evidence to the Welsh Affairs Committee's new inquiry into the devolution of APD to Wales, which was announced in September<sup>22</sup>. We will also be assessing the outcome of the UK Government's consultation seeking evidence about the impact of VAT and APD on tourism in Northern Ireland<sup>23</sup>, which concluded in June.
130. The lack of devolution to Wales, particularly of long-haul APD, continues to place constraints on the Welsh Government's ability to promote Wales to overseas markets

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<sup>20</sup> *Welsh Tax Policy Report 2017*:

<https://gov.wales/docs/caecd/publications/180905-welsh-tax-policy-report-en.pdf>

<sup>21</sup> Report by Northpoint, *Devolution of air passenger duty to Wales*:

<https://beta.gov.wales/devolution-air-passenger-duty-wales>

<sup>22</sup> Devolution of Air Passenger Duty to Wales inquiry, announced 11 September 2018:

<https://www.parliament.uk/business/committees/committees-a-z/commons-select/welsh-affairs-committee/inquiries/parliament-2017/air-passenger-duty-wales-17-19/>

<sup>23</sup> VAT, Air Passenger Duty and tourism in Northern Ireland: call for evidence (closed June 2018):

<https://www.gov.uk/government/consultations/vat-air-passenger-duty-and-tourism-in-northern-ireland>

and support growth of the aviation sector and the wider economy. There is no case for treating Wales differently to the other devolved nations.

### **B3. Consider wider UK tax policy and its impact on the Welsh fiscal position, including the soft drinks industry levy; the apprenticeship levy and the changing structure of UK tax policy as the UK prepares to leave the EU**

#### **Background**

131. Welsh tax policy sits within a UK tax context and a wider international context. The Welsh Government will continue to keep the implications of the apprenticeship levy (introduced 6 April 2017) and the soft drinks industry levy (introduced 6 April 2018) under review, as taxes which intersect with key areas of Welsh policy and devolved responsibilities. We will continue to consider new tax developments in the UK and how they may impact on Welsh Government policy.

132. The Welsh Treasury is considering potential impacts of the UK leaving the EU on Welsh tax policy, both on the existing devolved taxes and the need to change and progress the fiscal relationship with the UK to meet these challenges. Wales is a net beneficiary of our membership of the EU. It is essential that withdrawal from the EU does not take money away from our communities and does not limit the Welsh Government's ability to continue to invest in the economy and the people of Wales.

#### **Evidence and analysis**

##### Brexit

133. In July, the Welsh Government published its latest Brexit policy paper, *Reforming UK funding and fiscal arrangements after Brexit*<sup>24</sup>. As we continue to work with other governments in the UK during the transition period, we are seeking agreement on the following key priorities:

1. Wales must not lose out. Funding that Wales would have otherwise reasonably expected from EU sources must be replaced by the UK Government without any top slicing or conditions attached;
2. Wales must have continued access to important European partnerships and networks which bring sources of finance but also much wider benefits from participation. We need to build on the legacy of programmes such as the European Cooperation Programmes; Horizon 2020; ERASMUS+; the Creative Europe Programme; the Interterritorial cooperation programmes; and the Connecting Europe Facility. We also need continued access to the finance and expertise available from the European Investment Bank;
3. We have operated our fiscal powers within an EU framework which provides a set of objectives and rules for fiscal equalisation. As the UK leaves the EU and work on UK frameworks intensifies, there is now a compelling case to develop a new Fiscal Agreement for the UK, its devolved countries and regions.

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<sup>24</sup> Cabinet written statement about *Reforming UK funding and fiscal arrangements after Brexit*, including link to the policy paper:  
<https://gov.wales/about/cabinet/cabinetstatements/2018/reformingukfiscalandfundingafterbrexit/?lang=en>

134. The policy paper repeats our calls for replacing the Barnett formula with a new, rules-based system which ensures the allocation of resources within the UK is based on relative need. It calls for the development of a principles based approach to UK funding and fiscal arrangements, which promotes fairness across the UK, encourages balanced economic growth across all parts of the UK and upholds and enhances devolution. This new Fiscal Agreement must be clear about objectives and approach, and be based on consent.
135. The Welsh Government proposes reforms to the intergovernmental machinery overseeing funding and fiscal arrangements to ensure they are based on the principles of partnership, agreement and consent. This includes evolving the existing Finance Ministers Quadrilateral into a four-way decision-making body, and an explicit role for bodies independent of government to oversee the operation of the new arrangements, including dispute resolution.
136. Wales makes an important contribution as part of the UK, and will continue to do so after the UK's withdrawal from the EU. However, there is a fundamental and urgent need to review, clarify and, in some cases, reform our existing funding and fiscal machinery to ensure the UK approach is sustainable and benefits all parts of the UK outside the EU. This can only be achieved through working collaboratively and with a shared set of objectives and ways of working over the longer term.

### **Outcome and next steps**

137. The Welsh Government will continue to review the implications of UK fiscal and tax arrangements and changes where these impact on devolved funding arrangements and tax policy, contributing proposals which can deliver a fairer future, especially with regard to Brexit.

## **B4. Consider the impact and implications of changes to tax administration across the UK tax landscape, including making tax digital**

### **Background**

138. The Welsh taxes come with different types of accountability – to national or local government – and funding mechanisms and will have different bodies collecting them:

- The fully devolved taxes (land transaction tax and landfill disposals tax) are collected and managed by the Welsh Revenue Authority (WRA);
- As a partially-devolved tax, Welsh rates of income tax will continue to be collected by HMRC, with the appropriate revenues being directed to the Welsh Government;
- The legislative framework in which council tax operates is managed by the Welsh Government but the tax is set and collected by local authorities;
- The framework for non-domestic rates is managed by the Welsh Government but the revenue is pooled and allocated to local authorities.

139. Taxpayers in Wales will be paying different Welsh taxes to more than one Welsh organisation (the WRA, HMRC and local authorities). There is a worldwide trend towards the use of new technologies, tools and data to improve the effectiveness and delivery of contemporary services<sup>25</sup>. This includes:

- Shifts in the use of data – tax authorities responding to demands for services which support interactions with government as a whole;
- Better informed compliance as a result of a single view of the customer;
- Taking on new responsibilities and cultural change;
- More open business structures and processes to support wider engagement.

### **Evidence and analysis**

140. On 9 July, the Cabinet Secretary for Finance held a day of discussions about aspects of tax policy with a range of stakeholders and tax experts, including consideration of tax administration.

141. The tax administration session was attended by representatives from the WRA, HMRC, academia, local authorities, stakeholder bodies and the Welsh Government. It considered what is happening in the field of tax administration; the challenges and opportunities faced by tax authorities in Wales and what tax administration could look like in the future.

142. The main points made by attendees at the 9 July tax event were:

- Collection rates for Welsh taxes are high but the Welsh Government should acknowledge the impact of financial vulnerability on people's ability to pay, (see later chapter);
- Complexity of legislation is an issue but it can be difficult to respond when changes are made. Early engagement is therefore vital;

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<sup>25</sup> OECD report *Tax administration 2017 comparative information on OECD and other advanced and emerging economies*, September 2017:  
[https://www.oecd-ilibrary.org/taxation/tax-administration-2017\\_tax\\_admin-2017-en](https://www.oecd-ilibrary.org/taxation/tax-administration-2017_tax_admin-2017-en)

- The importance of co-operative relationships between authorities and data sharing;
- Tax administrations around the world have common issues – digitalisation, emerging technology and changing demographics.

143. The Welsh Government continues to monitor HMRC's *Making Tax Digital* initiative for non-devolved taxes and has kept Welsh businesses informed of the changes through Business Wales<sup>26</sup>. From April 2019 businesses above the VAT threshold will be mandated to keep their records digitally and provide quarterly updates to HMRC for VAT.

### **Outcome and next steps**

144. Having a good overall tax system means having good tax policies and good administrative systems. The ease with which taxpayers can comply and interact with the system has an effect on overall compliance and the perception of fairness. As a result it is a crucial factor in assessing the overall effectiveness of the Welsh tax system.

145. Efficient tax administration can help the economy, enabling businesses to focus on running their core work, registering for and paying Welsh taxes as easily as possible. The Welsh Government wants it to be easier for businesses to understand their obligations and manage their tax payments and make it more difficult for them to fall behind on payments. In this way, better administration can help to grow the tax-base and increase tax revenues.

146. The Welsh Government's aim is to develop the tax administration community in Wales. This includes facilitating a conversation among Welsh tax authorities, helping practitioners to consider current challenges and raising awareness about initiatives to improve the customer experience and enable taxpayers to pay the right amount of tax at the right time. Making use of digital technology is likely to be a key enabler to achieve these objectives, alongside better use of data and information sharing and ensuring Welsh tax legislation is modern and fit for purpose.

147. We recognise the important opportunity to take a more consistent approach across the five Welsh taxes to support modern tax administration: an approach which acknowledges the need for high levels of overall compliance and also supports our goal to grow the Welsh economy inclusively, and improves people's experience of the tax system in Wales. This is a key priority for the coming year.

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<sup>26</sup> Business Wales:

<https://businesswales.gov.wales/news-and-blogs/blogs/making-tax-digital-vat-update>

## **C) Develop local taxation policy, including as part of wider local government finance reform**

148. Council tax and non-domestic rates are local taxes, which help to fund the delivery of public services in communities throughout Wales. Evolving local tax policy forms part of the Welsh Government's broader considerations about how local services are sustained. A more detailed paper *An Update on the Reform of Local Government Finance* is being published separately.

### **C1. Work to review council tax to make it fairer, including ensuring local authorities take a more proactive, citizen-focused approach to the management of arrears**

#### **Background**

149. In *Taking Wales Forward*, the Welsh Government committed to work with local government to review council tax to identify how it could be made fairer. In addition, the rollout of the UK Government's welfare reforms is having an impact on households and their ability to navigate the full range of support available to them.

#### **Evidence and analysis**

150. Over the course of autumn 2017 and early 2018, the Welsh Government examined the fairness and progressiveness of council tax. A number of options were considered, including changes to the tax relativities charged between the nine council tax bands; the property valuation basis; ways to improve the Council Tax Reduction Scheme and ways to improve the treatment of households struggling with debt.

151. Evidence showed many households are not aware of the various forms of support to which they are entitled or they do not take up support for a variety of complex reasons. Take-up rates of core welfare benefits vary considerably, between 56% and 84%<sup>27</sup> for the UK overall. Our assessment of eligibility suggests take-up of the Council Tax Reduction Scheme could be between 55% and 65%<sup>28</sup>, although this will vary between authority areas. The Welsh Government also undertook research in autumn 2017 to consider what could be done to improve collection and arrears management<sup>29</sup>.

#### **Outcome and next steps**

##### Awareness campaign

152. In March 2018, the Welsh Government launched an awareness campaign to promote the Council Tax Reduction Scheme and provide advice to thousands of households about the support available and where to find debt advice. The campaign activity includes:

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<sup>27</sup>DWP estimates of take-up (2015-16): Job Seekers Allowance 56%, Pension Credit 61%, Housing Benefit 77%, Income Support / Employment and Support Allowance 84%:  
<https://www.gov.uk/government/statistics/income-related-benefits-estimates-of-take-up-financial-year-201516>

<sup>28</sup> Analysis of the Office for National Statistics' Family Resources Survey.

<sup>29</sup> Research into local authorities' approach to council tax collection in Wales, September 2017:  
<https://gov.wales/statistics-and-research/local-authorities-approaches-council-tax-debt-recovery/?lang=en>

- New and easier-to-understand advice on the Welsh Government's website, which received more than 20,000 unique hits between March and May 2018 and targeted social media advertisement;
- 150,000 slips containing advice about support and debt management were included with reminder notices for households who have missed a payment between May and October 2018;
- 10,000 posters and flyers have been sent to local authorities, community hubs, advice centres, housing associations, third sector and elected members;
- Welsh Government has worked with advice services such as Money Saving Expert and Citizens Advice to improve guidance and help promote support;
- A Data Group, established with local authorities, to make better use of information to identify eligible households not receiving support.

#### Households struggling with council tax debt

153. The Welsh Government is working with local authorities to develop a proportionate and citizen-centred approach to debt management; ensuring authorities have a clear policy for how they will treat vulnerable households and reduce the use of bailiffs. A consultation has recently taken place about the removal of the sanction of imprisonment for non-payment of council tax<sup>30</sup>. A decision will be taken over the autumn about the way forward.

#### Care leavers

154. The Welsh Government has continually encouraged local authorities to exempt care leavers from paying council tax until they reach the age of 25. By September 2018, nine authorities in Wales had agreed to deliver exceptions for those leaving care. The Welsh Local Government Association has undertaken to work with the Welsh Government to ensure the practice is adopted across Wales.

#### **Outcome and next steps**

155. During the latter part of 2018, the Welsh Government will evaluate whether the package of measures described above is reducing the number of households struggling to meet their council tax liabilities. This will inform further considerations about what future action is needed to make council tax fairer during the remainder of the Assembly term.

156. The Welsh Government will shortly commission research into the potential effects of a council tax revaluation exercise.

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<sup>30</sup> *Removal of the sanction of imprisonment for the non payment of council tax*, June 2018 (closed September 2018).  
<https://beta.gov.wales/sites/default/files/consultations/2018-06/180611-removal-of-sanction-of-imprisonment-non-payment-council-tax.pdf>

## **C2. Implement a better-targeted Small Business Rates Relief (SBRR) scheme in April 2018. Continue to develop the scheme beyond 2018 to ensure it meets Wales' needs**

### **Background**

157. In April 2017, the Welsh Government met its commitment in *Taking Wales Forward* to deliver a tax cut to more than 70,000 small businesses and set out our intention to make the Small Business Rates Relief scheme (SBRR) permanent from April 2018 and better targeted towards Welsh priorities.

### **Evidence and analysis**

158. The Welsh Government consulted on a wide range of ideas to improve the SBRR scheme for April 2018<sup>31</sup>. In developing the proposals, a guiding principle was to support the delivery of Welsh Government priorities while protecting the tax-base and the revenue raised, which is used to fund local services. The details of the 2018 scheme were announced in December 2017<sup>32,33</sup>. The scheme was introduced on 1 April 2018.

### **Outcome and next steps**

159. In April 2018, the Welsh Government introduced further support for businesses, including:

- Enhanced relief for childcare premises in support of our commitment to offer 30 hours free childcare for working-age parents of three and four year-olds;
- Targeted support for community energy projects;
- An extension to the high street rates relief scheme for 2018-19;
- An extra £1.3m for local authorities in 2018-19 to provide discretionary relief to local businesses and other ratepayers which would benefit from locally-determined assistance.

160. These enhancements were funded by limiting the number of properties eligible for SBRR to two per business in each local authority. This policy prevents larger businesses and national chains from benefiting from the SBRR scheme which is designed to help small businesses. The change released an estimated £7m a year which is being reinvested to support small businesses.

161. As the Welsh Government evaluates the changes made this year, it continues to consider and examine changes and improvements to non-domestic rates and relief schemes. These include time-limited relief and doing more to help businesses which support social, economic or environmental priorities. On 27 September, the Welsh Government announced it will provide 100% rates relief to all childcare providers from April 2019<sup>34</sup>.

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<sup>31</sup> Delivering a tax cut for small businesses: A new SBRR scheme for Wales, 21 July 2017 (closed October 2017):

[https://beta.gov.wales/sites/default/files/consultations/2018-02/consultation\\_doc-en.pdf](https://beta.gov.wales/sites/default/files/consultations/2018-02/consultation_doc-en.pdf)

<sup>32</sup> Cabinet written statement, December 2017:

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

<sup>33</sup> Summary of responses, December 2017:

<https://beta.gov.wales/sites/default/files/consultations/2018-02/171213-tax-cut-responses-en.pdf>

<sup>34</sup> <https://gov.wales/about/cabinet/cabinetstatements/2018/100ratesreliefregchildprovwales/?lang=en>

### **C3. Explore whether different approaches to local taxes in Wales may bring benefits, such as land value tax, local income tax and other tax designs**

#### **Background**

162. There have been a number of wide-ranging reviews about how local government should be funded. The Welsh Government is exploring whether different approaches to the taxation of non-domestic property, such as a form of tax based on land value or other features, may benefit Wales.

#### **Evidence and analysis**

163. Over the course of 2018, the Welsh Government has undertaken literature reviews and held discussions with stakeholders to help formulate the phases of the programme; design principles and criteria for assessing alternative approaches to taxation. An expert panel of economists, valuation experts, data and statistics, local government officers, experts in public service and those with the perspective of taxpayers, fairness and equality, will examine the evidence further.

164. The practical implementation of alternative tax designs presents challenges. To design a new local tax requires a capability to register and value what is to be taxed (initially and periodically). In 2019, the focus will be on empirical and technical work to assess the magnitude of these practical challenges. The Welsh Government will undertake distinct but linked pieces of research relating to the progressiveness of council tax and the impact of welfare reform; a hypothetical revaluation exercise; alternative ways to value domestic and non-domestic property and explore the feasibility of a land value tax.

#### **Outcome and next steps**

165. The findings from the technical work will be brought together in early 2020. The Welsh Government will outline the possibilities ahead of the National Assembly elections in 2021. Each tested scenario will take account of the ongoing work on devolved taxes and any new taxes introduced. The Welsh Government continues to be clear that any alternative method of raising local taxes must raise funds for local government in a stable and predictable way, as this is the legislative and constitutional basis upon which these taxes exist within the current devolved settlement.

## **D) Effective tax administration of local and national taxes managed in Wales**

### **D1. Successful establishment of the Welsh Revenue Authority (WRA) on 1 April 2018 to collect and manage the two newly-devolved taxes – land transaction tax and landfill disposals tax**

#### **Background**

166. The Tax Collection and Management (Wales) Act 2016 (TCMA) provides for the establishment of the WRA as a non-Ministerial department, legally responsible for the collection and management of devolved taxes.

#### **Progress**

##### WRA board

167. The WRA board was formally established and met for the first time on 18 October 2017 in the WRA headquarters in Treforest. The board consists of a non executive chair and deputy chair, four non-executive members, the chief executive, chief strategy officer and chief legal and policy officer. As of this autumn, the board will have a staff elected member.

##### Remit letter

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

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.

##### WRA charter

169. 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>35</sup>. *Our Charter* sets out how the WRA will work in partnership with everyone 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.

##### Year one corporate plan

170. The WRA's first corporate plan, which was published on 27 April 2018, covers one year<sup>36</sup>. It focuses on the three priorities in the remit letter from the Cabinet Secretary

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<sup>35</sup> WRA *Our charter*.

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

<sup>36</sup> WRA corporate plan 2018-19:

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

for Finance. It also 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 also recognises different approaches will be necessary, depending on the circumstances.

171. The WRA has described *Our Approach* using three Welsh terms:

- *Cydweithio* – "to work together" conveying a sense of working towards a common goal;
- *Cadarnhau* – suggesting a solid, robust quality which can be relied on, providing certainty, being accurate and reinforcing trust;
- *Cywiro* – "returning to the truth", about the way the WRA works with taxpayers and their representatives to resolve errors or concerns.

172. 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.

173. The WRA put *Our Approach* into practice early. Extensive engagement with conveyancers in Wales and England and Welsh landfill site operators (LSOs) was key to ensuring a smooth transition to the new taxes:

1. Between January and March 2018, events were held across Wales and England demonstrating the new land transaction tax (LTT) digital tax system to 1,000 stakeholders. The work with conveyancers ensured there was no disruption to business in Wales and the first WRA statistical release reported that, to 10 May 2018, 475 organisations had registered for online LTT submissions (with a total of 3,554 registered online users).
2. Dedicated customer relationship managers worked closely with each LSO in Wales to prepare them for the change to landfill disposals tax, ensuring all LSOs in Wales were registered with the WRA before 1 April 2018.

#### WRA implementation programme

174. The WRA implementation programme, based in the Welsh Treasury, worked closely with incoming WRA staff to ensure the products, processes, systems and people were fit for future WRA operations. A gradual transitional period, guided by a WRA committee, allowed for a smooth handover. The WRA implementation programme formally closed on 25 April 2018.

#### Partnership working

175. The WRA has worked with public sector bodies in developing its systems and arrangements, such as building its IT platform, sharing experience and expertise, to help recruit people.

176. The WRA and Welsh Government have sought opportunities to maximise the benefits of partnership working to provide high-quality and expert advice to Ministers in support of the future development of tax policy. A framework agreement has been agreed by the Cabinet Secretary for Finance, WRA board and the Permanent

Secretary, which guides the partnership relationship between Welsh Government and WRA.

### Digital organisation

177. 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.

### **Outcome and next Steps**

178. The WRA is developing a set of performance measures to ensure it is achieving the desired outcomes from its new approach. These will feature in its first three-year corporate plan, to be published in spring 2019.

## **D2. Consider new approaches to deterring tax evasion, artificial avoidance and improving compliance across all the Welsh taxes**

### **a) Measures to tackle evasion and avoidance of non-domestic rates**

#### **Background**

179. Supporting compliance by taking a robust approach to avoidance is a key strategic policy for the Welsh Government for the effective administration of the new Welsh taxes and the two local taxes. Tackling avoidance of non-domestic rates has also been considered in recent years by Scotland<sup>37</sup>, England<sup>38</sup> and Northern Ireland<sup>39</sup>.

#### **Evidence and analysis**

180. In early 2018, the Welsh Government asked local authorities to analyse billing systems to identify the scale of known or suspected rates avoidance. On the basis of that exercise, avoidance amounts to at least 1% to 2% of the total yield – between £10m and £20m annually, with some commentators suggesting it could be much higher. All the funding raised from non-domestic rates is pooled and allocated to local authorities to help fund local services. Any avoidance therefore represents a loss in the funding available to those services.

181. The evidence collated confirms the suspected methods of avoidance and supports various reviews undertaken by other administrations. These were primarily non-reporting of changes in circumstances; artificial occupation of empty properties to claim cycles of relief; bogus or dormant charities occupying unsuitable premises and phoenix trading.

#### **Outcome and next steps**

182. The Welsh Government consulted between April and June 2018 about a package of measures to tackle rates avoidance, including new duties on ratepayers to report a change in their circumstances; changes to empty property relief arrangements and additional powers for local authorities to request information and inspect properties<sup>40</sup>.

183. The Welsh Government is working collaboratively with local authorities, ratepayers, business representative organisations, the Valuation Office Agency (VOA) and relevant UK Government Departments to design new measures to target and deter rates avoidance. This includes consideration of the different types of legislation and the timeframes to implement changes. Further announcements will be made in the coming weeks, including provisions proposed for inclusion in the Local Government

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<sup>37</sup> Report of the Barclay Review of Non-Domestic Rates, August 2017:  
<https://www.gov.scot/Resource/0052/00523643.pdf>

<sup>38</sup> Ministry for Housing, Communities and Local Government and HM Treasury discussion paper, December 2014, and summary of responses, July 2015:  
<https://www.gov.uk/government/consultations/business-rates-avoidance-discussion-paper#history>

<sup>39</sup> Review of Northern Ireland's non-domestic rating system, October 2015:  
<https://www.finance-ni.gov.uk/sites/default/files/consultations/dfp/Review%20of%20Non-Domestic%20Rating%20System%20-%20Consultation%20Paper%20-%201%20December.pdf>

<sup>40</sup> Tackling Avoidance of Non-Domestic Rates in Wales, 4 April 2018:  
<https://beta.gov.wales/tackling-avoidance-non-domestic-rates-wales>

and Elections (Wales) Bill 2019 scheduled for introduction to the Assembly in February 2019.

## **b) Monitoring the implementation of new legislation to ensure it is operating as intended and does not create opportunities for avoidance**

### **Background**

184. The power to create new taxes is another step forward in devolution and it is important that Welsh taxpayers have complete confidence in the Welsh Government when it comes to the use of these powers. One factor in building confidence is that we closely monitor the effectiveness of how these powers are used and that we learn from and apply any lessons from the process.

185. We also apply the same monitoring and learning approach to the system of local taxation. Following the introduction of discretionary powers for local authorities to charge council tax premiums on long-term empty and second homes in Wales through the Housing (Wales) Act 2014, we strengthened the rules governing the definition of homes used to provide self-catering holiday accommodation as non-domestic. This ensures such properties are clearly defined for council tax and non-domestic rates purposes and removes the potential for homeowners to avoid paying council tax by listing second homes intended for private use as self-catering accommodation.

### **Evidence and analysis**

186. The Welsh Government is working with local authorities to assess the implementation of the council tax provisions in the 2014 Act and the effectiveness of the Non-Domestic Rating (Definition of Domestic Property) (Wales) Order 2016 during the early period of its operation.

### **Outcome and next steps**

187. Detailed evidence is being gathered and the findings will inform future plans for the further development of the local taxation system in Wales.

## **c) Conferring appropriate investigation and surveillance powers on the WRA**

### **Background**

188. The Tax Collection and Management (Wales) Act (TCMA) received Royal Assent in 2016. It sets out the governance framework for the effective and efficient collection of devolved taxes, establishing the Welsh Revenue Authority (WRA) and making provisions for the collection and management of devolved taxes. It also establishes a Welsh tax regime to support and enable taxpayer compliance.

189. TCMA provides the WRA with a comprehensive range of civil investigation and enforcement powers. These include the civil powers to:

- Require taxpayers and certain third parties to provide specified information and documents;

- Inspect premises to check a person's tax position;
- Impose penalties for non-cooperation with a tax investigation.

190. The civil powers provided by TCMA will probably be sufficient to deal with the majority of cases of non-compliance in Wales, however, based on HMRC's experience and that of other Welsh public bodies, there are likely to be some cases where the existing powers will not be sufficient.

## Evidence and analysis

191. On 10 July 2017, a consultation was launched seeking views about the Welsh Government's proposals for the WRA to access criminal powers<sup>41</sup>. The consultation, which closed on 2 October 2017, outlined the proposal for the WRA to have criminal powers in place to deter and investigate devolved tax crime.

192. Seventeen responses were received, including contributions from key partners, including the National Crime Agency (NCA) and Natural Resources Wales (NRW). Overall, there was support for the Welsh Government's position on the main issues identified in the consultation:

- The WRA should have access to some of the powers currently available to HMRC under the Police and Criminal Evidence Act 1984 and the Criminal Justice and Police Act 2001. In particular, the WRA will be able to apply to a justice of the peace for a warrant to enter, search and seize items from premises or search a person found on those premises when investigating devolved tax crime;
- The WRA should be able to exercise powers under the Proceeds of Crime Act 2002 (POCA), which would enable the WRA to appoint an accredited financial investigator to exercise POCA powers to:
  - Apply for a restraint order and exercise related search and seizure powers;
  - Recover cash through summary civil proceedings and exercise related search and seizure powers;
  - Make various applications (for example, making an application for an account monitoring order) under Part 8 POCA during a confiscation, money laundering or detained cash investigation.
- The WRA should be able to authorise directed and covert surveillance in accordance with the Regulation of Investigatory Powers Act 2000 (RIPA). The WRA has confirmed it would intend to authorise the use of covert human intelligence sources in this reactive way, as a means of responding to and regulating communication from individuals, rather than in a proactive or intrusive way. The WRA proposes to prepare an operational policy about how it would operate, drawing on the advice of the IPOC and other law enforcement agencies.

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<sup>41</sup> *Welsh Revenue Authority access to criminal powers to tackle devolved tax crime*, July 2017 (closed October 2017)  
<https://beta.gov.wales/sites/default/files/consultations/2018-01/170710-consultation-en.pdf>

## **Outcome and next steps**

193. The Welsh Revenue Authority (Powers to Investigate Criminal Offences) Regulations 2018, The Proceeds of Crime Act 2002 (References to Welsh Revenue Authority Financial Investigators) Order 2018 and The Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) (Amendment) (Wales) Order 2018 came into force on 1 April 2018.
194. After the Orders and Regulations were laid before the National Assembly, the Proceeds of Crime Act 2002 (References to Financial Investigators) (Amendment) (England and Wales) Order 2018, (the UK Order) were laid before Parliament on 12 March 2018.
195. The UK Order made further amendments to the Proceeds of Crime Act 2002 (References to Financial Investigators) (England and Wales) Order 2015 as a result of changes made by the Criminal Finances Act 2017. The UK Order came into force on 17 April 2018.
196. The Criminal Finances Act 2017 introduced powers into POCA to seize, detain and forfeit certain listed items of property, and to freeze and forfeit money in bank and building society accounts. These powers are supported by the creation of two new categories of investigation in Part 8 of POCA.
197. As a result of the additional powers introduced into POCA by the Criminal Finances Act 2017, the Proceeds of Crime Act 2002 (References to Welsh Revenue Authority Financial Investigators) (Amendment) Order 2018 was made so the additional powers may be exercised by an accredited financial investigator who is a member of staff of the WRA. These additional powers consist of:
- Seizure detention and forfeiture of listed items, (metals, stones, watches, artistic works, face-value vouchers and postage stamps which can be used to move value across international borders are designated as listed assets);
  - Freezing and forfeiture of monies in bank and building society accounts on application to a magistrates' court subject to a minimum balance of £1,000;
  - Two new types of investigation in Part 8 of POCA – detained property investigations and frozen funds investigations – to support the freezing and forfeiture activities above; and
  - Applying to the court for an extension of the 31 day moratorium period in section 335(6) of POCA, up to a maximum of 186 additional days.
198. The POCA amendment order was laid in June and came into force 20 July 2018.

## **d) WRA gathering and analysing of data to establish the scale of avoidance, evasion and non-compliance in the devolved taxes**

### **Background**

199. The WRA has collected and managed land transaction tax (LTT) and landfill disposals tax (LDT) in Wales since 1 April 2018. The WRA's charter explains how it will work with taxpayers, their representatives and the wider Welsh public to deliver a fair tax system for Wales. Together with the principles in *Our Approach*, these set out

the shared responsibility for ensuring the right amount of tax is paid at the right time (see D1).

## Evidence and analysis

200. Since the tax policy work plan was published, the WRA has started to implement *Our Approach*. During this period, there has been significant emphasis on supporting taxpayers and their representatives to get things right by providing them with the tools and advice they need – the *cydweithio* and *cadarnhau* principles from *Our Approach*.
201. The scale and make-up of the tax-base for each of the two taxes differs so the WRA has adopted an engagement style tailored to the profile of each group. For LDT, there are 17 landfill site operators (LSOs)<sup>42</sup> registered with the WRA, comprising businesses and local authorities filing tax returns on a quarterly basis. LTT presents a different picture, with (by 16 July) more than 4,100 taxpayer representatives registered to submit LTT returns online and more than 14,200 transactions relating to the first quarter – comprising individuals and organisations, who pay tax only when they purchase a property, therefore in many cases they will only file a return with WRA once every few years.
202. For LDT, each LSO has a dedicated customer relationship manager, who proactively manages the WRA's relationship with the LSO, providing advice and support to each operator so they meet their tax obligations, developing a close knowledge of their business to help prevent errors occurring and identifying risks of avoidance and evasion early; resolving these risks quickly and effectively where they do arise.
203. Given the much larger number of people and organisations who interact with LTT, albeit less frequently, the WRA has adopted a multi-channel approach to engagement. This includes publishing detailed technical guidance online; incorporating validation into its online tax return; establishing the WRA helpdesk to respond to queries; offering a tax opinions service for more complex issues; using data analysis tools to identify errors early and engage with taxpayers and agents to resolve these quickly and taking on board feedback from users to make WRA digital services more user-friendly.
204. The vast majority of taxpayers want to get things right and will, with appropriate support, voluntarily pay any taxes due on a timely basis. However, the WRA also recognises people will sometimes get things wrong – the *cywiro* principle from *Our Approach* is about helping those who have made mistakes to put their tax affairs in order. The WRA is working with taxpayers and their representatives to correct errors and, where necessary, to help prevent similar mistakes in future.
205. There will be a very small minority who try to bend or break the rules, whether through tax avoidance or evasion, and the WRA is equipped to tackle such behaviour using tools including the General Anti-Avoidance Rule (GAAR), targeted anti-avoidance rules (TAAR), civil penalties and criminal powers.
206. The WRA is gathering data to build a picture of taxpayer behaviour and areas where tax has potentially been lost. This will form the basis of a risk identification and

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<sup>42</sup> Welsh Revenue Authority list of landfill site operators:  
<https://beta.gov.wales/welsh-revenue-authority-list-landfill-site-operators>

management plan which will prioritise WRA's response to the various types of issues it could face.

207. The WRA is not working in isolation, recognising issues affecting devolved taxes in many cases also have ramifications in other areas, for example taxes administered by other organisations or wider environmental regulation. The WRA has legal gateways to share information with organisations such as HMRC, NRW, HM Land Registry, Revenue Scotland and local authorities and has begun exploring opportunities for coordinated action across taxes and related issues. The WRA is also investigating the gateways to a wider range of data sources (held in both the public and private sectors) to support the identification of cases of non-compliance.
208. In addition, the WRA has formally delegated some of its functions in relation to LDT compliance to NRW<sup>43</sup>. This facilitates closer working between the two organisations at an operational level and enables the WRA to benefit from NRW's wider expertise and experience in landfill matters. A specialist team has been set up within NRW, working closely with WRA staff to investigate potential instances of LDT non-compliance.
209. The WRA is actively engaging with tax professional groups to help identify issues and risks early. It is also exploring setting up technical and operational focus groups, drawing on the expertise of professionals to explore potential risk areas.

### **Outcome and next steps**

210. Over the coming months, the WRA will undertake further work to build its understanding of how the two taxes are operating in practice. The WRA will continue to develop *Our Approach*, refining the support offered to taxpayers to help them get things right, including making improvements to published guidance and responding to feedback on digital services. The WRA is developing its performance measures to give a clear indication of how effective *Our Approach* is in practice, including in preventing and tackling tax avoidance and evasion.
211. The WRA will continue to take the spirit of *Our Approach* into wider relationships, reinforcing links with key partners across Wales and beyond to share and analyse information, developing and refining approaches to tackling compliance risk.

## **e) Looking towards consistency in an effective and fair approach to debt management for Welsh taxes**

### **Background**

212. Taxes are the entry fee to a civilised society. To maintain these vital public services that we all value, it is right that everyone – individuals, households, businesses and organisations – contributes their fair share and does so in a timely way. There will be times when some taxpayers find this difficult and others may try to avoid or defer their responsibilities. Our aim, as government, is to take a fair and proportionate approach to the management of debt and arrears, taking account of, and responding appropriately, to the different circumstances which occur.

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<sup>43</sup> LDT powers delegated to NRW:

<https://beta.gov.wales/landfill-disposals-tax-powers-delegated-natural-resources-body-wales>

213. The Welsh Government is keen to explore a more strategic approach to debt enforcement in the wider context of Welsh taxes, to ensure a consistent, effective and fair approach to the recovery of Welsh tax debts. While businesses and organisations can be vulnerable, the focus of the work has been on protecting vulnerable individuals through increased levels of fairness and consistency in debt practices.

214. The drivers for change informing the detailed work are:

- The need for a proportionate and fair approach to debts;
- Focus on the debtor's ability to pay, tailoring recovery actions to the individual's household's or organisation's circumstances;
- The need to provide appropriate support and guidance to support people identified as vulnerable.

## **Evidence and analysis**

### Devolved taxes

215. In April 2018, land transaction tax (LTT) and landfill disposals tax (LDT) replaced stamp duty land tax and landfill tax, respectively in Wales. The taxes are collected and managed by the Welsh Revenue Authority (WRA). LTT is predominantly paid by organisations and individuals buying land and property – WRA taxpayers can be distinguished from other taxes such as council tax, which is paid by those owning assets and those without. Likewise, LDT is paid by organisations which collect tax from their customers on behalf of the WRA. Despite the profile of these taxes, however, it is possible for devolved taxpayers to fall into debt, and where they are vulnerable consistent principles should apply.

216. Some debts are starting to arise. However, it is too soon to have a clear picture of the volume and type of debt. The WRA is currently piloting an initial approach to collect debt when it first arises and working through a longer-term strategy, in line with the core values and ways of working set out respectively in its charter and *Our Approach*. In a debt context, *Our Approach* maintains the WRA's emphasis on co-operation, support and early dialogue to help taxpayers get things right and pay what they owe. However, for those who refuse to pay, the WRA is able to pursue enforcement action, including taking control of goods or through the courts.

### Council tax

217. In 2017, the Welsh Government published research, *Local Authorities' Approaches to Council Tax Debt Recovery*<sup>44</sup>. This was part of the work undertaken to support the development of the Welsh Government priorities for local government and to help inform the delivery of our commitment to make council tax fairer. The Welsh Government has also commissioned research from the Wales Centre for Public Policy into alternatives to prosecuting vulnerable debtors (this work is continuing)<sup>45</sup>.

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<sup>44</sup> Welsh Government research into *Local Authorities' Approaches to Council Tax Debt Recovery*, September 2017:

<http://gov.wales/statistics-and-research/local-authorities-approaches-council-tax-debt-recovery/?lang=en>

<sup>45</sup> Further information at:

<https://www.wcpp.org.uk/project/alternatives-to-prosecuting-vulnerable-debtors/>

218. A number of other research reports have also been published highlighting the problems associated with council tax debt, including the Citizen's Advice Cymru *Fairness for All* report<sup>46</sup> and the Money Advice Trust's *Stop the Knock* report<sup>47</sup>.
219. The Welsh Government undertook a consultation in summer of 2018<sup>48</sup> about the removal of the sanction of imprisonment for the non-payment of council tax. This closed on 3 September and the Welsh Government will issue its response later in the autumn. A decision will be taken about whether to remove the sanction of imprisonment for non-payment of council tax.
220. In conjunction with this and building on the evidence from the recent research, the Welsh Government is working with local government to explore opportunities to adopt more proactive and citizen-focused approaches to help prevent council tax debt occurring and escalating. Further details about this work are included in the latest update on the reform of local government finance.

## Outcome and next steps

### Legal consistency

221. Imprisonment in cases of civil debt is not an enforcement option available to the WRA. If the sanction of imprisonment for non-payment of council tax is removed as a result of the Welsh Government consultation, the changes will mean there is alignment in terms of the treatment of debt across Welsh taxes.

### Policy principles

222. The Welsh Government will continue to use its powers to strive for greater fairness and consistency to protect vulnerable taxpayers. The Welsh Government advocates that approaches to debt enforcement for Welsh taxes should share the following aims:
1. Maximising payment of tax through early engagement to resolve non-payment of tax, according to the needs of each taxpayer group and each tax;
  2. Maintaining a single view of the taxpayer, treating each case on its own merits and determining the response accordingly;
  3. Supporting vulnerable taxpayers, for example considering time to pay arrangements and signposting to financial advice;
  4. Using existing relationships between with taxpayers and their representatives where possible to support recovery of debt;

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<sup>46</sup> Fairness for all: improving council tax debt collection in Wales, September 2016:  
<https://www.citizensadvice.org.uk/Global/CitizensAdvice/Wales/Fairness%20for%20all%20-%20September%202016%20-%20Google%20Docs.pdf>

<sup>47</sup> *Stop the knock: mapping local authority debt collection in England and Wales*, November 2017:  
<https://www.stoptheknock.org/storage/app/media/downloads/money-advice-trust-stop-the-knock-2017-report.pdf>

<sup>48</sup> Removal of the sanction of imprisonment for the non payment of council tax, June 2018 (closed September 2018):  
<https://beta.gov.wales/sites/default/files/consultations/2018-06/180611-removal-of-sanction-of-imprisonment-non-payment-council-tax.pdf>

5. Making use of collection or enforcement options that maximise recovery of tax at the lowest cost, which are proportionate to the level of debt and taxpayers' circumstances and behaviour.

223. In 2019, the Welsh Government will explore further opportunities to collaborate across the public service about information sharing in relation to debt and developing further consistency for debt enforcement procedures and policies.

### **D3. Explore opportunities for data sharing and collaborative working across the range of Welsh taxes and with organisations in the tax management landscape to support compliance, enforcement and customer experience**

#### **Background**

224. Working together towards a common goal is embedded in the Welsh Revenue Authority's (WRA) approach to tax administration and it is working with stakeholders such as professional groups, landfill sites and conveyancers to ensure it develops services and processes, which meet the needs of the people who use them.
225. Sharing data and best practice with other UK tax authorities is vital, as the WRA develops and refines approaches to tackling compliance risk. The WRA is also a member of the British Isles Tax Authorities Forum, sharing best practice at a strategic level.
226. To fulfil its functions, the WRA will collect data itself and, for the first time in Wales, access additional data about land transactions from a cross-section of UK Government Departments, such as HMRC, the Valuation Office Agency (VOA) and HM Land Registry. Having these data provides a new opportunity for the WRA to work collaboratively with other public bodies, to help improve the wider tax landscape in Wales.

#### **Evidence and analysis**

227. Since October 2017, the WRA has established legal gateways to share information with HMRC, Natural Resources Wales (NRW), HM Land Registry, and the VOA. The Scottish Government is expected to consider legislation in autumn 2018 regarding information sharing between Revenue Scotland and the WRA. Since April, the WRA has been working closely with these bodies, building on the collaborative work undertaken during implementation, to understand what the priorities are for information sharing. This approach has built mutual trust and will ensure WRA information sharing frameworks support immediate requirements – for example, a weekly land transaction tax (LTT) data transfer from the WRA to HMRC has been in place since week one – while being flexible enough to allow the WRA to meet developing requirements as it continues to explore this in more detail:
- Initial conversations are underway with HMRC about data sharing for compliance, this will progress as the WRA and HMRC refine areas for joint working. The WRA LTT operational and compliance leads have joined practitioner and HMRC technical forums which consider the complexities of LTT and stamp duty land tax.
  - The WRA continues to work very closely with NRW to develop joint processes which meet the requirements of both organisations. The knowledge provided by NRW staff has been invaluable to the WRA in understanding the operations of landfill sites and enabling a smooth implementation of landfill disposals tax (LDT).

- The WRA has joined the Group Operation Team Forum, which comprises the UK's tax and environment bodies, and the Quarterly Landfill Trilateral, with UK policy and tax organisations, sharing best practice, policy thinking and operational issues.
- The WRA has had initial discussions with local authority revenues and benefits managers to explore areas where learning from the experiences of the different tax administrations can be shared.

228. The WRA is committed to being open and transparent, publishing monthly LTT data releases during May to August 2018, and quarterly releases thereafter, with some data continuing to be available monthly<sup>49</sup>. The first LDT data release was published in August 2018, with future releases due quarterly.

### **Outcome and next steps**

229. In the first three months of operations, the WRA has undertaken wide ranging and detailed feedback, using surveys, meetings, and focus groups. This work with solicitors and conveyancers has proved influential and has informed the first changes to the LTT digital tax system. The investment in building relationships and reputation has provided early benefits. HMRC has shared intelligence, which was used in the application of LDT reliefs. Technical expert groups are being created to look at specific areas of each tax, focusing on operational experience and professional groups. WRA tax forums are planned, in which the WRA will work with the Welsh Treasury to present cohesive updates about Welsh taxes.

230. The WRA will continue to work with local authorities and Welsh Government policy departments to develop a joint project which would demonstrate how data can be used to improve the collection of taxes in Wales. The WRA is continuing to work with its key delivery partners to refine how they will work together and best share information, best practice and skills.

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<sup>49</sup> WRA statistics and statistics publication timetable:  
<https://beta.gov.wales/welsh-revenue-authority-statistics-publication-timetable>

## **E) Research and evidence**

### **E1. Develop a longer-term strategic approach to Welsh tax priorities, evidence and analysis to provide a framework for policy and operations thinking going forward, based on the first stage of the Welsh Centre for Public Policy work from the 2017 work plan**

#### **Background**

231. The Wales Centre for Public Policy was commissioned to undertake an analysis of the Welsh tax-base, to support the development of a more evidence-based and strategic approach to Welsh tax policy.

#### **Evidence and analysis**

232. The Wales Centre for Public Policy report was published on 30 June and highlights some of the sensitivities of the current Welsh tax-base compared to England:

- Fewer high earners (for a range of reasons, including the level and quality of jobs, and qualification levels in the workforce);
- Fewer high-value properties (and dependency on more valuable properties for tax revenue);
- A larger proportion of the population who are outside the workforce (relatively more older people and higher levels of inactivity in the working age population);
- Lower property prices and rental values.

233. This analysis is familiar, but the report also draws attention to the role these areas may play in raising tax revenue in the future:

- Employment rate and wage growth;
- Productivity trends and determinants;
- Population and demographics;
- Migration and commuting flows across the Wales-England border;
- Property market trends.

234. The report discusses a number of different options to raise revenue, protect the devolved and local tax-bases, and pursue a variety of policy goals, including:

- Raise income tax revenues through changing income tax rates;
- Reform council tax, to help make it fairer and potentially shift the balance between taxation of income and taxation of property;
- Reform other property taxation (potentially including aspects of non-domestic rates and non-residential land transaction tax (LTT) rates), to align more closely with economic policy;
- Raise income tax revenues through reconsideration of the relationship between taxation and other policies: for example, by promoting employment, higher value work through skills and economic policy, encouraging net immigration (with the prospect of increased cross-border commuting) and encouraging graduates to stay in Wales.

235. The report also recognises the potential of a social care levy to raise additional revenue.

236. The report authors have presented at a range of events, including the Welsh Government tax policy event on 9 July, the Wales 2025 event on 12 July and have published blogs and other articles about its the findings. The analysis has been well-received.

### **Outcome and next steps**

237. The Welsh Government is keen to continue to support wider debate about tax powers and tax choices in Wales, and will publish its next step proposals in the 2019 tax policy work plan.

## **E2. Develop evaluation frameworks to enable the Welsh Government to meet its commitment to review the devolved taxes in three to five years from April 2018**

### **Background**

238. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 contains a statutory requirement for an independent review of the tax, to be conducted within six years of the day after the Act received Royal Assent (25 May 2017).
239. A commitment to a similar review of landfill disposals tax (LDT), although not necessarily independent, was made during the passage of the Landfill Disposals Tax (Wales) Act 2017.

### **Evidence and analysis**

240. Land transaction tax (LTT) and LDT have been collected by the Welsh Revenue Authority (WRA) since 1 April 2018. Early statistical information about the first few months of operations has been published by the WRA, although plans for more comprehensive data will be developed in order to inform the reviews.

### **Outcome and next steps**

241. Preparations are underway to agree the structure, content and timing of the reviews. The timeline for the reviews will be published.

## Conclusion

242. The Welsh Government will announce the next work plan in early 2019. In the meantime it will continue to assess the evidence emerging from the research in support of the 2018 work plan. Based on the current analysis, the main challenges in 2019 are likely to include:

- Continuing to work with HMRC to effectively implement Welsh rates of income tax in April 2019;
- Progressing work on Welsh taxes – building the evidence base on land transaction tax and landfill disposals tax; taking forward work on the new tax ideas (vacant land tax, social care levy, disposable plastics and a local tourism tax); continuing to deliver our various commitments to making council tax fairer and to supporting businesses; and exploring different approaches to local taxes and national taxes to ensure our tax policy is considered in a coordinated way.
- Enhancing and embedding a more taxpayer-focused and modernised approach to tax administration in Wales, including through work on data sharing;
- Further developing a more strategic approach to tax revenue-raising across Welsh Government policy, to ensure interacting policies support each other and link with our wider fiscal policy objectives;
- Improving awareness of and engagement in the Welsh rates of income tax and Welsh tax policy, to ensure people are aware of the Welsh Government's changing fiscal responsibilities and have an opportunity to engage in this.

243. The Welsh Government's approach will continue to be led by the principles and methodology set out in the *Tax Policy Framework*<sup>50</sup>.

244. The Welsh Government will continue its open and collaborative approach to tax policy-making, providing people and organisations with opportunities to learn more about what we are considering and doing and to contribute their ideas, evidence and understanding.

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<sup>50</sup> *Welsh Government Tax Policy Framework*, June 2017:  
<https://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

## Annex one

# Modelling income tax behavioural effects

## Modelling potential income tax changes

- A1. The model for Welsh rates of income tax has been designed to forecast the revenues from the devolved rates and to estimate the revenue impact of potential changes<sup>51</sup>.
- A2. There are two main elements for costing potential policy changes. These are commonly referred to as the static (or mechanical) effect and the behavioural effect.
- A3. The static effect involves applying the new and current tax rates to the relevant tax-base and then comparing the resulting revenues from the two different policies. The difference between these is the static cost of the policy.
- A4. The greater uncertainty comes from estimating the second, behavioural effect. This effect includes many potential factors which may alter the tax-base as a result of a change in tax policy.

## What are behavioural effects?

- A5. Behavioural effects can include:
- Changes to labour market participation. Income tax changes are likely to result in changes to people's decisions around whether to work or not.
  - Changes to the degree of labour market participation. Income tax changes are likely to result in changes to people's decisions around how much to work – for example, by working more or fewer hours (including taking an additional job).
  - Migration to an alternative tax regime. As income tax in the UK is primarily residency based, this is likely to involve a taxpayer moving to where a different income tax regime will apply.
  - Tax planning. This is a legal activity whereby people seek to minimise their tax liability by using elements of the tax system such as allowances, reliefs, deductions, rebates and exemptions. If these elements require some degree of self-assessment or are not automatic, then people make more intensive use of these if changes to tax make them more beneficial to do so.
  - Avoidance. Similar to tax planning and also legal but people are considered to be abusing the system. It often uses complex and convoluted schemes to reduce tax.

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<sup>51</sup> For more details, see the report by Bangor University providing independent scrutiny and assurance of devolved tax forecasts for Wales:

<https://beta.gov.wales/draft-budget-2019-2020>

For the 2020-21 budget and beyond, the OBR will provide independent production of Welsh tax forecasts (for more details see section A4 Next steps on independent forecasting provision to align with the budget process).

- Evasion. This is illegal activity which reduces tax liabilities. For example, the simplest form is not fully declaring income or deliberately using a relief incorrectly.

A6. Generally these effects are considered to permanently affect the tax-base, either negatively or positively, depending on the direction of the tax change.

A7. However, there are instances where behavioural effects could be temporary. For example, if a tax change is pre-announced, it is likely people may undertake tax planning by altering the timing of their income to be able to temporarily benefit from the differential tax rate. After time, the opportunity to undertake this income-shifting activity will disappear. This activity is sometimes referred to as forestalling. It needs to be considered when forecasting and costing potential tax changes, especially as Welsh rates of income tax will always be announced ahead of when they apply. However, as Welsh rates of income tax will only apply to non-savings and non-dividend income, the ability for a taxpayer to alter the timing of their income subject to Welsh rates of income tax will be considerably reduced compared to savings and dividend income.

### How are behavioural effects costed?

A8. The estimation of behavioural effects which result from changes to income tax is the subject of a fairly large area of empirical economics literature. The literature commonly refers to these behavioural effects as *taxable income elasticity* (TIE) estimates.

A9. Studies have been carried out estimating taxable income elasticities from income tax changes across the world, although many studies have focused on the US (see Cebula and Nair-Reichert (2012)<sup>52</sup>, Cohen, Lai and Steindel (2014)<sup>53</sup>, Coomes and Hoyt (2008)<sup>54</sup>, Gius (2011)<sup>55</sup>, Lai, Cohen and Steindel (2011)<sup>56</sup>, Moretti and Wilson (2015)<sup>57</sup>, Young and Varner (2011)<sup>58</sup>, and Young, Varner, Lurie and Prisinzano (2016)<sup>59</sup>). These have tended to show taxpayers with higher incomes have larger responses to income tax changes. The main explanation for this is that higher-income earners tend to be more active tax planners and are potentially more mobile than those on lower incomes.

<sup>52</sup> Cebula and Nair-Reichert (2012) Migration and Public Policies: A Further Empirical Analysis *Journal of Economics and Finance* Vol. 36, Iss. 1, (January 2012): 238-248.

<sup>53</sup> Cohen, Lai and Steindel (2014) Comment on Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment *Public Finance Review* 2014 1-20.

<sup>54</sup> Coomes and Hoyt (2008) Income Taxes and the Destination of Movers to Multistate MSAs *Journal of Urban Economics* Vol. 63, Iss. 3, (May 2008): 920-937.

<sup>55</sup> Gius (2011) The effect of income taxes on interstate migration: an analysis by age and race *Annals Of Regional Science*, Volume 46, Number 1, 2011, pp. 205-218(14).

<sup>56</sup> Lai, Cohen and Steindel (2011) The Effects of Marginal Tax Rates on Interstate Migration in the US New Jersey Department of Treasury, *October* (2011).

<sup>57</sup> Moretti and Wilson (2015) The effect of state taxes on the geographical location of top earners: evidence from star scientists No. w21120 *National Bureau of Economic Research*.

<sup>58</sup> Young and Varner (2011) Millionaire migration and state taxation of top incomes: Evidence from a natural experiment *National Tax Journal* 64, no. 2: 255.

<sup>59</sup> Young, Varner, Lurie and Prisinzano (2016) Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data *American Sociological Review* 2016 Vol. 81(3) 421– 446.

- A10. UK income tax forecasts and policy costings are undertaken by the Office for Budgetary Responsibility (OBR). In Scotland, with the advent of the Scottish rates of income tax, the Scottish Fiscal Commission (SFC) produces forecasts and policy costings. Both organisations include behavioural responses in their forecasts. The previously-mentioned income tax studies inform their judgments on the relative size of behavioural effects following an income tax change.
- A11. HMRC published a paper in 2012 about the impact of the 50p rate, which included estimates of the size of the resulting behavioural effects<sup>60</sup>. The Institute for Fiscal Studies (IFS) has published a series of studies estimating behavioural effects as a result of income tax changes<sup>61</sup>. These studies have helped to update and inform the OBR's and SFC's views about the potential size of behavioural effects.
- A12. Despite extensive research in this area, there is still considerable uncertainty around the size of behavioural effects following an income tax change. This is reflected in both the IFS's and OBR's work on the issue. As a result, behavioural estimates are not expected to be highly accurate, partly because they attempt to capture in a single figure a wide range of potential activities, as listed above.
- A13. The Welsh Government will look to follow best practice and use established methods for estimating behavioural effects. With the exception of migration effects (see below), there are no strong reasons to suggest the OBR and SFC estimates would not be applicable to Wales following a potential change to WRIT.
- A14. In time, through the advent of devolved income tax, further work could be undertaken to explore possible intra-UK differences in behavioural effects. However, ahead of this – and consistent with the SFC methodology for estimating income tax behavioural effects<sup>62</sup> – the Welsh Government will base its estimates on those used by the OBR for UK income tax changes. This helps to ensure consistency across the UK when estimating these effects<sup>63</sup>.

## Migration effects

- A15. The behavioural estimates applied to income tax changes used by OBR and HMRC include the effects of some taxpayers migrating to or from the UK – or moving their income between countries.
- A16. With devolved income tax rates, taxpayers may now choose to migrate or change their residence for income tax purposes within the UK. This is a very recent

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<sup>60</sup> See HMRC (2012) *The Exchequer effect of the 50 per cent additional rate of income tax* available at: <http://webarchive.nationalarchives.gov.uk/20130127161217/http://www.hmrc.gov.uk/budget2012/excheq-income-tax-2042.pdf>

<sup>61</sup> See:

<https://www.ifs.org.uk/publications/9676>

<https://www.ifs.org.uk/publications/9677>

<sup>62</sup> See Scottish Fiscal Commission (2018):

<http://www.fiscalcommission.scot/publications/occasional-papers/how-we-forecast-behavioural-responses-to-income-tax-policy-march-2018/>

<sup>63</sup> For similar reasons and given the range of potential behaviours these effects are trying to capture, UK estimates of behavioural effects from changes to stamp duty land tax were applied by the Welsh Government when costing and forecasting land transaction tax revenues, which replaced stamp duty land tax in Wales in April. For more details, see the report by Bangor University providing independent scrutiny and assurance of devolved tax forecasts for Wales:

<https://beta.gov.wales/draft-budget-2019-2020>

phenomenon in the UK, with a different income tax regime in Scotland first applying in 2017-18.

- A17. For the devolved administrations, this element could be significant. The SFC says: "The opportunities for migration from Scotland, particularly to the rest of the UK, are greater than opportunities for migration from the UK to other countries. This would tend to increase TIEs (*taxable income elasticity*) in Scotland." SFC (2018: p18)<sup>64</sup>.
- A18. Consistent with the other behavioural effects, the intra-UK migration effect for Scotland is judged by the SFC to be larger for the highest income taxpayers.
- A19. The Welsh Government considers the intra-UK migration effect could be more pronounced in Wales than in Scotland. This is because the long border between Wales and England has a number of significant population centres on either side and high levels of cross-border commuting. People could migrate between the two countries without needing to completely uproot from their existing social networks or alter their employment. Some will also have homes in both Wales and England and may be able to switch their primary residence quite easily. Given these reasons, it is possible even small variations in tax rates between Wales and England could have some impact on migration (or changes to people's tax residence) between the UK countries.

### How to measure migration effects

- A20. Income tax devolution is a recent phenomenon in the UK, and data is not yet available to enable the estimation of migration effects within the UK. Variations in the income tax regime within the UK first occurred in 2017-18 when the Scottish Government applied a lower threshold for the higher rate of income tax than elsewhere in the UK. In 2018-19, the Scottish Government introduced two new tax bands – one reduced tax for the lowest income taxpayers and other changes increased the tax rates for the top two tax bands<sup>65</sup>. These last two changes, particularly an increase to the highest rate of tax, may give rise to a migration response, especially as high income earners are more likely to exhibit behavioural responses to income tax changes (see for example Gruber and Saez (2002)<sup>66</sup> and Saez, Slemrod and Giertz (2012)<sup>67</sup>).
- A21. Although intra-UK migration effects may be measurable from 2017-18, they are likely to be more evident from 2018-19 following the recent changes in Scotland.
- A22. The main source for income tax data in the UK is the survey of personal incomes (SPI). This is a cross-sectional sample of UK income tax payers, including both self-assessment (SA) and pay-as-you-earn (PAYE) taxpayers. It is only available with long lags. For example, the SPI for 2018-19 will probably only be available for analysis in 2021.

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<sup>64</sup> Available from:

<http://www.fiscalcommission.scot/media/1223/how-we-forecast-behavioural-responses-to-income-tax-policy-march-2018.pdf>

<sup>65</sup> For full details see:

<https://www.gov.scot/Topics/Government/Finance/scottishapproach/Scottishincometax2018-2019>

<sup>66</sup> Gruber and Saez (2002) The Elasticity of Taxable Income: Evidence and Implications *Journal of Public Economics* 84 1-32.

<sup>67</sup> Saez, Slemrod and Giertz (2012) The elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review *Journal of Economic Literature* 50(1), 3-50.

- A23. The dataset is not currently produced in a way which is conducive to robust analysis of tax induced intra-UK migration as it is cross-sectional and does not allow the tracking of taxpayers' locations over time. Furthermore, the SPI is only available to those outside HMRC via its Datalab facility<sup>68</sup>. This is currently hosted at Canary Wharf and requires researchers to be approved by HMRC in order to access the data.
- A24. There is a public-use version of the SPI. However, for confidentiality reasons, this does not include distinct records for high income taxpayers by geographical location. Taxpayers based in Scotland or Wales can be combined with those in England, making it very difficult to analyse the impact of devolved tax rates.
- A25. The IFS has used a self-assessment dataset when looking at UK Government changes to the top rates of income tax in the UK<sup>69</sup>. Again, this is only available via the Datalab and there are considerable lags in its production.
- A26. There is currently no dataset available to enable analysis of intra-UK migration behaviour from devolved income tax changes. Even in future years, the current income tax data infrastructure is far from optimal for the analysis of migration effects. The Welsh Government will continue to work with HMRC, the OBR, the Scottish Government and the SFC to improve this situation.

### **The Welsh Government's approach to estimating migration effects**

- A27. In the absence of UK data to enable the analysis of intra-UK migration effects, the Welsh Government has reviewed the international academic literature about the issue. Sub-national variations to income tax rates have occurred in other countries for a number of years. For example, states in the US, autonomous communities of Spain, provinces in Canada and the cantons of Switzerland have had some recent experiences of varying income tax rates at a more local level. These experiences have provided opportunities for researchers to observe and estimate the resulting behavioural effects, including intra-country migration.
- A28. The Welsh Government has looked at these studies to obtain possible inferences for intra-UK migration responses. The following section summaries these findings.

#### Choosing appropriate studies

- A29. To find relevant international studies which look at sub-national income tax rate changes and intra-national migration, which could then be applied to the UK context, it is important to focus on studies which measure a causal relationship between tax and migration – and not the opposite. For this reason, studies which look at changes over time when tax rates have changed are considered more robust. Specifically, it is important to omit studies which include the effect of locations (which are attractive for other reasons) being able to levy lower tax rates because they have a stronger tax-base.

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<sup>68</sup> For more details see:

<https://www.gov.uk/government/organisations/hm-revenue-customs/about/research>

<sup>69</sup> For example see:

<https://www.ifs.org.uk/uploads/publications/wps/WP201713.pdf>

- A30. Even across the more robust studies, it is difficult to compare estimates because there is no standard way of measuring tax rates. They can be measured as a marginal or average rate or as a net of tax (retention) rate. Changes in tax rates can be measured in percentage points or percentages. Migration is also measured using different metrics, such as changes in the probability of moving, gross migration and net migration, with the latter two measured as either a rate or a flow.
- A31. The sample population of studies also varies. For example, some examine migration responses within countries and some between countries. There are therefore likely to be considerable differences in the costs of migration, both social and monetary, between study populations.
- A32. Studies also vary because some focus exclusively on high earners rather than all taxpayers or households. Given the expectation that any migration response will be greater amongst high income taxpayers in Wales<sup>70</sup>, these studies are likely to be more relevant when estimating the potential revenue effects from intra-UK migration.
- A33. There are also fundamental differences in tax systems between countries. Income tax can either be assessed on a workplace or residence basis. Generally in the US, tax is on a workplace basis. However, between some states tax agreements exist which enable taxpayers to offset their tax paid in neighbouring states, so effectively the tax operates on a residence basis. For places without these agreements, a workplace-based system means individuals do not need to move home in order to benefit from a lower tax system. As the costs and timescales associated with moving workplace are likely to differ from those relating to moving residence, care must be taken in applying results from most US studies to the UK context, where devolved income tax is on a residence basis.
- A34. Different-sized responses might also be expected where there are tax changes between areas with very different population levels. A tax increase in Wales will mainly affect the migration behaviour of its own relatively small tax-base. By contrast, a tax reduction in Wales could potentially interest a far higher number of taxpayers from elsewhere within the UK. The effects of tax increases and decreases in the smaller area are likely to be asymmetrical because of differences in the size of the potential tax-base which could be affected or incentivised to move.

### Summary of the migration effects

- A35. A review of the literature finds there is no study which can be easily applied to estimate intra-UK migration as a result of changes to the devolved rates of income tax. In addition, it is difficult to generalise across the studies to generate an average or consolidated estimate.
- A36. Inferences can be made from the literature about intra-country migration effects, despite the challenges in obtaining a common estimate. The literature generally confirms a statistically significant relationship between tax rate changes and this form of migration. This relationship shows that when tax rates increase, the probability or level of out-migration increases, and vice versa.

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<sup>70</sup> For example see WCPP (2018), available at:  
[http://sites.cardiff.ac.uk/wgc/files/2018/06/The-Welsh-Tax-Base-\\_WCPP-Final-180627.pdf](http://sites.cardiff.ac.uk/wgc/files/2018/06/The-Welsh-Tax-Base-_WCPP-Final-180627.pdf)

- A37. The sizes of the effects are generally found to be small, especially for the average taxpayer or household (for example see Liebig, Puhani, and Sousa-Poza (2007)<sup>71</sup>, and Cebula and Nair-Reichert (2012)<sup>72</sup>). However, a growing body of literature has focused on high income individuals (see for example Agrawal and Foremny (2018)<sup>73</sup>, Cohen, Lai and Steindel (2014)<sup>74</sup>, Kleven, Landais and Saez (2013)<sup>75</sup>, Kleven, Landais, Saez and Schultz (2014)<sup>76</sup>, Lai, Cohen and Steindel (2011)<sup>77</sup>, and Young and Varner (2011)<sup>78</sup>). Young, Varner, Lurie and Prisinzano (2016)<sup>79</sup> in particular found millionaires (in dollars) were generally found to migrate between states less frequently than lower income groups but were more sensitive to income tax rates than the general population. Given the relative importance of high income earners for tax revenues overall, relatively small changes in tax for some of the highest earners can have fairly large revenue effects. However, there are differences in the literature about just how large these effects might be.
- A38. Given the discussion above, the most important consideration for the revenue impact of migration in response to changes in the Welsh rates of income tax will be the size of the response to a change in the additional rate of tax. For changes to the basic and higher rates, it can be assumed from the literature that given modest changes to these tax rates, the tax liability will not change sufficiently to generate any meaningful migration to affect tax revenues, at least in the short to medium term.
- A39. The current size of the tax-base subject to the additional tax rate in Wales, although important for revenue, is relatively small. Yet close to Wales in England, there is a larger tax-base subject to the additional rate. These features may have an effect on the behavioural effect, and may mean studies which analyse areas already with relatively large high income tax-bases, such as those looking at millionaires in New Jersey (for example Cohen, Lai and Steindel (2014)<sup>80</sup>, Young and Varner (2011)<sup>81</sup> Lai, Cohen and Steindel (2011)<sup>82</sup>), are much less relevant to Wales. Therefore of more relevance could be studies which look at relatively small but integrated

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<sup>71</sup> Liebig, Puhani, and Sousa-Poza (2007) Taxation and internal migration - evidence from the Swiss census using community-level variation in income tax rates *Journal of Regional Science* 47, no. 4 (2007): 807-836.

<sup>72</sup> Cebula and Nair-Reichert (2012) Migration and Public Policies: A Further Empirical Analysis *Journal of Economics and Finance* Vol. 36, Iss. 1, (January 2012): 238-248.

<sup>73</sup> Agrawal and Foremny (2018) Relocation of the Rich: Migration in Response to Top Tax Rate Changes from Spanish Reforms (April 1, 2018). Available at SSRN: <https://ssrn.com/abstract=2796472>

<sup>74</sup> Cohen, Lai and Steindel (2014) Comment on Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment *Public Finance Review* 2014 1-20.

<sup>75</sup> Kleven, Landais and Saez (2013) Taxation and international migration of superstars: Evidence from the European football market *The American Economic Review* 103, no. 5 (2013): 1892-1924.

<sup>76</sup> Kleven, Landais, Saez and Schultz (2014) Migration and wage effects of taxing top earners: evidence from the foreigners' tax scheme in Denmark *The Quarterly Journal of Economics*, 333–378.

<sup>77</sup> Lai, Cohen and Steindel (2011) The Effects of Marginal Tax Rates on Interstate Migration in the US *New Jersey Department of Treasury*, October 2011.

<sup>78</sup> Young and Varner (2011) Millionaire migration and state taxation of top incomes: Evidence from a natural experiment *National Tax Journal* 64, no. 2: 255.

<sup>79</sup> Young, Varner, Lurie and Prisinzano (2016) Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data *American Sociological Review* 2016, Vol. 81(3) 421– 446.

<sup>80</sup> Cohen, Lai and Steindel (2014) Comment on Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment *Public Finance Review* 2014 1-20.

<sup>81</sup> Young and Varner (2011) Millionaire migration and state taxation of top incomes: Evidence from a natural experiment *National Tax Journal* 64, no. 2: 255.

<sup>82</sup> Lai, Cohen and Steindel (2011) The Effects of Marginal Tax Rates on Interstate Migration in the US *New Jersey Department of Treasury*, October 2011.

regions, such as the cantons in Switzerland (Liebig (2007)<sup>83</sup> and Martinez (2017)<sup>84</sup> or the autonomous regions of Spain (Agrawal and Foremny (2018)<sup>85</sup>.

### **What can we infer from existing studies and the Welsh tax-base with regard to the effects from potential changes to the additional rate?**

- A40. One way of assessing the relative impact of behavioural effects for high-income earners from the relevant literature is to compare them to the static revenue effect following a change to the additional rate in Wales. While it is not possible to produce a precise estimate of the migration behavioural effect, it is possible to look at whether the effects inferred from the relevant literature are larger than the static effect.
- A41. To analyse the possible migration effect in Wales, estimates from a report published by the Wales Centre for Public Policy (2018), *The Welsh Tax Base: Risks and Opportunities after Fiscal Devolution*<sup>86</sup> are used. The revenue implications which result from a range of policy scenarios for the Welsh rates of income (p67-70) are provided. The revenue effects include the non-migration behavioural effects. For the intra-country migration effect the report shows the number taxpayers which would need to migrate within the UK for the revenue effect to be reversed, thereby making the policy cost neutral overall.
- A42. Looking at a range of policies, which alter the addition tax rate by +/- 1p or 5p, a range of behavioural estimates can be derived from tables 4.1 and 4.2 in the report to estimate the size of migration response elasticities which would offset the static effect. The effects are estimated in different ways to ensure they are comparable with the range of different ways elasticities have been measured and reported in the literature.
- A43. The behavioural effects required to offset the static costing are estimated to be large compared to the estimates from the literature on high-income taxpayers (see Cohen, Lai and Steindel (2014)<sup>87</sup>, Young and Verner (2011)<sup>88</sup>, Young Varner, Lurie and Prisinzano (2016)<sup>89</sup>, Kleven, Landais and Saez (2013) (2013)<sup>90</sup>, Kleven, Landais, Saez and Schultz (2014)<sup>91</sup>, Martinez (2017)<sup>92</sup>, and Agrawal and Foremny

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<sup>83</sup> Liebig, Puhani, and Sousa-Poza (2007) Taxation and internal migration—evidence from the Swiss census using community-level variation in income tax rates *Journal of Regional Science* 47, no. 4 (2007): 807-836.

<sup>84</sup> Martinez (2017) Beggar-Thy-Neighbour Tax Cuts: Mobility after a Local Income and Wealth Tax Reform in Switzerland *Economics Working Paper Series from University of St. Gallen, School of Economics and Political Science* No 1608 2017.

<sup>85</sup> Agrawal and Foremny (2018) Relocation of the Rich: Migration in Response to Top Tax Rate Changes from Spanish Reforms (April 1, 2018). Available at SSRN:

<https://ssrn.com/abstract=2796472>

<sup>86</sup> See for more details:

[http://sites.cardiff.ac.uk/wgc/files/2018/06/The-Welsh-Tax-Base-\\_WCPP-Final-180627.pdf](http://sites.cardiff.ac.uk/wgc/files/2018/06/The-Welsh-Tax-Base-_WCPP-Final-180627.pdf)

<sup>87</sup> Cohen, Lai and Steindel (2014) Comment on Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment *Public Finance Review* 2014 1-20.

<sup>88</sup> Young and Varner (2011) Millionaire migration and state taxation of top incomes: Evidence from a natural experiment *National Tax Journal* 64, no. 2: 255.

<sup>89</sup> Young, Varner, Lurie and Prisinzano (2016) Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data *American Sociological Review* 2016, Vol. 81(3) 421– 446.

<sup>90</sup> Kleven, Landais and Saez (2013) Taxation and international migration of superstars: Evidence from the European football market *The American Economic Review* 103, no. 5 (2013): 1892-1924

<sup>91</sup> Kleven, Landais, Saez and Schultz (2014) Migration and wage effects of taxing top earners: evidence from the foreigners' tax scheme in Denmark *The Quarterly Journal of Economics* , 333–378.

(2018)<sup>93</sup>). This implies that, based on studies looking at the intra-national effect of tax-induced migration, the migration effects in Wales are unlikely to be larger than the static effect. However, as most of the literature about this issue focuses on the US, these quite small behavioural estimates may not be typical for Wales.

A44. One study, which does find a much larger behavioural effect, is based on a policy in a Swiss canton (Martinez 2017)<sup>94</sup>. This study may be more relevant to Wales than most others due to the geography and size of the tax-base analysed. Using the estimates found in this study would generate a sufficiently large behavioural effect to reverse the static effect of a change in the additional rate in Wales. This study looks at the effects of a tax decrease. It is uncertain whether such a large effect would apply to a tax increase.

## Conclusions and next steps

A45. Behavioural effects are an important part of forecasting and costing potential tax policies. These are especially important when considering tax policy changes for high-income taxpayers. Although the UK Government's inclusion of behavioural effects as part of its tax policy costings is a relatively-long established element, these effects are still considered to be relatively uncertain.

A46. The Welsh Government will use relevant work in the UK to model behavioural effects in its income tax forecasts and policy costings.

A47. Following income tax devolution, a new behavioural element can occur through tax-induced sub-UK migration. As this is a new phenomenon in the UK, there is currently very limited data and UK evidence from which to base sub-UK migration response estimates.

A48. A review of the existing international literature finds varied results and often limited applicability to UK and Wales policy scenarios. Generally, the estimates tend to be relatively small and apply mostly to higher-income taxpayers. However, there is a large range for the potential size of intra-national migration. In particular, a study suggests the migration response to a tax reduction in Wales for the highest income tax payers could be big enough to fully offset the static revenue effect of that policy.

A49. Consistent with behavioural effects in general, the migration effects are considered to be highly uncertain, especially as there is currently very limited information about the potential size of these effects in the UK.

A50. The Welsh Government will continue to review the international literature about tax-induced migration and examine the effects of differential income tax rates in Scotland. The Welsh Government will work with the OBR to ensure future forecasts

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<sup>92</sup> Martinez (2017) Beggar-Thy-Neighbour Tax Cuts: Mobility after a Local Income and Wealth Tax Reform in Switzerland *Economics Working Paper Series from University of St. Gallen, School of Economics and Political Science* No 1608 2017.

<sup>93</sup> Agrawal and Foremny (2018) Relocation of the Rich: Migration in Response to Top Tax Rate Changes from Spanish Reforms (April 1, 2018). Available at SSRN: <https://ssrn.com/abstract=2796472>

<sup>94</sup> Martinez (2017) Beggar-Thy-Neighbour Tax Cuts: Mobility after a Local Income and Wealth Tax Reform in Switzerland *Economics Working Paper Series from University of St. Gallen, School of Economics and Political Science* No 1608 2017.

about the Welsh rates of income tax make best use of the evidence relating to behavioural effects.

## **Annex two**

### **Acronyms used in this report**

APD	Air passenger duty
DRS	Deposit Return Schemes
DWP	Department for Work and Pensions
EPR	Extended Producer Responsibility
IPOC	Investigatory Powers Commissioner's Office
LDT	Landfill disposals tax
LSOs	Landfill Site Operators
LTT	Land transaction tax
NAO	National Audit Office
NCA	National Crime Agency
NRW	Natural Resources Wales
OBR	Office for Budget Responsibility
POCA	Proceeds of Crime Act 2002
RIPA	Regulation of Investigatory Powers Act 2000
SBRR	Small business rates relief
SDLT	Stamp duty land tax
SPI	Survey of Personal Incomes
TCMA	Tax Collection and Management (Wales) Act 2016
VOA	Valuation Office Agency
WAO	Wales Audit Office
WRA	Welsh Revenue Authority