

# Ymchwiliad i weithredu Deddf Cymru 2014 a'r Fframwaith Cyllidol Ymatebion i'r ymgynghoriad

Medi 2020

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Welsh Parliament  
**Finance Committee**

# Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework Consultation responses

September 2020



## Cynnwys | Contents

\*Ar gael yn Gymraeg a Saesneg | Available in English and Welsh

Rhif   Number	Sefydliad	Organisation
FFWA 01*	Archwilio Cymru	Audit Wales
FFWA 02	Swyddfa Cyllidebol Seneddol Awstralia	Australian Parliamentary Budget Office
FFWA 03	FSB Cymru	FSB Wales
FFWA 04	Swyddfa Cyllidebol Seneddol Fictoraidd	Victorian Parliamentary Budget Office
FFWA 05*	Llywodraeth Cymru	Welsh Government
FFWA 06	Adran Gwaith a Phensiynau	Department for Work and Pensions
FFWA 07*	Cyllid a Thollau Ei Mawrhydi	HM Revenue & Customs
FFWA 08	Y Sefydliad Siartredig ar gyfer Trethiant & Grŵp Diwygio Treth Incwm Isel	Chartered Institute of Taxation & Low Incomes Tax Reform Group

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**Cyfeirnod:** AC/207/SD

**Dyddiad cyhoeddi:** 4 Medi 2020

Annwyl Llŷr

## Ymchwiliad i roi Deddf Cymru 2014 ar waith a gweithredu'r Fframwaith Cyllidol

Diolch am roi cyfle imi gyfrannu i'r ymchwiliad uchod. Cyn imi ddod i'r Pwyllgor Cyllid ar 28 Medi, meddyliais y byddai'n fuddiol imi nodi rhai manylion allweddol am fy ngwaith a'm cyfrifoldebau yn y maes hwn.

Fel y gwyddoch, fel Archwilydd Cyffredinol Cymru, rwyf yn gyfrifol am archwiliad statudol datganiadau ariannol Awdurdod Cyllid Cymru (ACC), ac mae gennyf yr awdurdod cyfreithiol i graffu ar economi, effeithiolrwydd ac effeithlonrwydd y ffordd y mae ACC a chyrrff cyhoeddus eraill yng Nghymru yn defnyddio arian cyhoeddus. O ganlyniad, mae f'ymatebion yn y fan hon yn ymwneud â'm meysydd cyfrifoldeb i fy hun yn unig.

Mae rhai meysydd yn yr ymchwiliad hwn yn ymwneud â rhinweddau'r llywodraeth neu'r polisi trethiant, yn hytrach na'r ffordd y caiff ei weithredu, a byddai'n amhriodol imi roi ymatebion yn y meysydd hyn.

Dylwn hefyd sôn am gyfyngiad arall ar fy rôl yng nghyswllt materion treth yng Nghymru. Mae hyn yn ymwneud â gweinyddu Cyfraddau Treth Incwm Cymru (CTIC), sy'n cael ei gweinyddu a'i chasglu gan Gyllid a Thollau Ei Mawrhydi (HMRC), sydd yn ei dro yn dod o dan gylch gwaith archwilio'r Rheolwr a'r Archwilydd Cyffredinol. Deallaf y bydd y Rheolwr a'r Archwilydd Cyffredinol yn ymateb ar wahân i'r ymchwiliad hwn ac felly efallai y byddant yn gallu darparu tystiolaeth bellach ar weinyddu CTIC, yn ogystal ag unrhyw waith arall y mae'r Swyddfa Archwilio Genedlaethol wedi'i wneud ar fecanweithiau ariannu datganoledig.

Fodd bynnag, nodaf y meysydd isod lle gallaf gyfrannu i'r ymchwiliad hwn a gobeithiaf y bydd y wybodaeth o ddefnydd.

## Trethiant

### Pa mor llwyddiannus fu gweinyddu trethi Cymru a Chyfraddau Treth Incwm Cymru

Byddwch yn gwybod fy mod, rhwng 2016 a 2018, wedi cyhoeddi tri adroddiad yn monitro gweithrediad datganoli cyllidol yng Nghymru, sefydlu ACC a threfniadau i gasglu Cyfraddau Treth Incwm Cymru (CTIC). Mae'r adroddiadau hyn ar gael ar wefan Archwilio Cymru. Yn ein hadroddiad olaf yn 2018<sup>1</sup> daethom i'r casgliad:

- bod ACC wedi gweithredu'n effeithiol hyd yma i weinyddu trethi datganoledig yng Nghymru; a
- bod gan Drysorlys Cymru drefniadau priodol yn eu lle i gael sicrwydd ynghylch y ffodd y mae Cyllid a Thollau Ei Mawrhydi wedi gweithredu Cyfraddau Treth Incwm Cymru.

Ers 2018, rwyf wedi bod yn gyfrifol am archwiliad statudol cyfrifon ACC ac yn ddiweddar rwyf wedi cwblhau fy archwiliad o Gyfrifon Blynyddol 2019-20. Nid yw'r archwiliadau statudol hyn wedi nodi unrhyw faterion arwyddocaol yn natganiadau ariannol ACC, ac ni fu angen i mi ychwaith roi gwybod i Fwrdd ACC am unrhyw ddiffygion mewn rheolaeth na phrosesau. Rhoddais farn archwilio ddiamod ar gyfer datganiadau ariannol 2018-19 a 2019-20 ACC.

Fel y nodwyd uchod, caiff CTIC ei weinyddu a'i gasglu gan Gyllid a Thollau EM (HMRC). Y Rheolwr a'r Archwilydd Cyffredinol sy'n gyfrifol am archwilio HMRC ac mae wedi cyhoeddi dau adroddiad hyd yma ar weinyddu CTIC ar gyfer 2017-18<sup>2</sup> a 2018-19<sup>3</sup>. Roedd ei ganfyddiadau allweddol o 2018-19 fel a ganlyn:

- Mae Cyllid a Thollau Ei Mawrhydi wedi sefydlu strwythur llywodraethu prosiect o fewn ei raglen ddatganoli a newid ehangach, ac mae'n ymgysylltu â chynrychiolwyr Llywodraeth Cymru ar draws yr ystod lawn o weithgareddau'r prosiect;
- Mae cynnal cronfa ddata gyflawn a chywir o drethdalwyr Cymru yn bwysig er mwyn sicrhau y gall Cyllid a Thollau Ei Mawrhydi gasglu'r swm cywir o dreth gan drethdalwyr Cymru a dyrannu hyn i Lywodraeth Cymru;
- Mae Cyllid a Thollau Ei Mawrhydi yn cyfathrebu'n rheolaidd ag ystod amrywiol o gynulleidfaoedd allanol gan gynnwys cyflogwyr, darparwyr pensiynau a busnesau eraill sy'n darparu gwasanaethau cysylltiedig â

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<sup>1</sup> <https://www.audit.wales/publication/fiscal-devolution-wales-devolved-taxes-and-welsh-rates-income-tax>

<sup>2</sup> <https://www.nao.org.uk/report/administration-of-welsh-income-tax-2017-18/>

<sup>3</sup> <https://www.nao.org.uk/report/the-administration-of-the-welsh-rate-of-income-tax-2018-19/>

chyflogres i fod o gymorth i sicrhau bod prosiect cyfraddau treth incwm Cymru yn cael ei weithredu fel y bwriadwyd; ac

- Yn 2018-19, aeth Cyllid a Thollau Ei Mawrhydi i £5.8 miliwn o gostau ar gyfer gweithredu CTIC ac ailgodi tâl am hyn.

Gan fod archwiliad Cyllid a Thollau Ei Mawrhydi a'i waith yn gweinyddu CTIC yn fater i'r Rheolwr a'r Archwilydd Cyffredinol, mae fy rôl i wrth asesu llwyddiant gweinyddu trethi Cymru a CTIC a gwneud argymhellion ar gyfer gwelliannau, wedi'i chyfyngu i archwiliad gwerth am arian a phwerau astudio mewn perthynas ag ACC a Thrysorlys Cymru<sup>4</sup>.

Nid yw fy ngallu i gydweddu data mewn perthynas â gweinyddu trethi yng Nghymru wedi'i ddatblygu gystal ar gyfer ACC a Thrysorlys Cymru ag ydyw ar gyfer llywodraeth leol. Ac fel yr wyf i a'm rhagflaenydd wedi sôn o'r blaen, mae angen diweddarau fy mhwerau cydweddu data<sup>5</sup>. Yn benodol, mae fy mhŵer i gynnal ymarferion cydweddu data<sup>6</sup> wedi'i gyfyngu i'r diben o 'gynorthwyo i atal a chanfod twyll yng Nghymru neu mewn perthynas â Chymru', sy'n cau allan, er enghraifft, ymarferion i ganfod dyledion y gellir eu hadennill. Hefyd, ni allaf ei gwneud yn ofynnol ond i awdurdodau lleol a chyrff y GIG yng Nghymru ddarparu data; gall cyrff eraill, megis ACC, ddarparu gwybodaeth ar gyfer ymarferion o'r fath yn wirfoddol, neu gallant ddewis peidio â gwneud hynny.

Yn gyffredinol, rwyf yn arfer fy mhwerau cydweddu data ar y cyd â'r Fenter Twyll Genedlaethol (NFI)<sup>7</sup> ledled y DU. Hyd yma, mae'r Fenter wedi canfod £42.9 miliwn mewn twyll a gordaliadau yng Nghymru, gan gynnwys mewn perthynas â threthiant lleol. Yn yr ymarfer diweddaraf (2018-19), canfu gwaith o gydweddu data hawliadau am Ostyngiad yn y Dreth Gyngor i Bobl Sengl yn erbyn ffynonellau fel y gofrestr etholiadol 3,939 o hawliadau twyllodrus neu wallus a arweiniodd at dandaliadau'r Dreth Gyngor o £4.6 miliwn. Ac ar hyn o bryd rwyf yn treialu dull o ganfod hawliadau ffug am ryddhad ardrethi busnes o dan fesurau rhyddhad Covid-19.

Yn amlwg, mae gweithredu trefniadau codi trethi Cymru yn cyflwyno risgiau o dwyll, camgymeriadau a dyled heb ei chasglu, y gellir mynd i'r afael â hwy drwy gydweddu data. Yn wir, mae ACC wedi cydnabod gwerth cydweddu data, ac mae eisoes wedi datblygu gwaith gan ddefnyddio ei bwerau ymchwilio a rhannu data ei hun gan ddefnyddio Deddf yr Economi Ddigidol 2017. Serch hynny, rwyf o'r farn fod lle i gael budd sylweddol i ACC a chyrff cyhoeddus eraill hefyd yng

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<sup>4</sup>O dan adran 32 o Ddeddf Casglu a Rheoli Trethi (Cymru) 2016 ac adran 135 o Ddeddf Llywodraeth Cymru 2006, ynghyd ag adran 145A o Ddeddf Llywodraeth Cymru 1998

<sup>5</sup> Gweler er enghraifft [lythyr gan Huw Vaughan Thomas dyddiedig 5 Ebrill 2017](#)

<sup>6</sup>Dan s64A o Ddeddf Archwilio Cyhoeddus (Cymru) 2004

<sup>7</sup> Ynghyd â Gweinidog Swyddfa'r Cabinet, Archwilio'r Alban a Rheolwr ac Archwilydd Cyffredinol Gogledd Iwerddon.

Nghymru drwy ddiweddarau fy swyddogaethau cydweddu data. Mae gan yr NFI ddata a fyddai'n helpu ACC i ganfod twyll a dyled heb ei chasglu, ac mae ACC yn cadw data a fyddai, yn yr un modd, o gymorth i gyrff cyhoeddus eraill.

### **Sut mae'r mecanwaith i ddatganoli pwerau ar gyfer trethi newydd i Gymru wedi bod yn perfformio**

Mae fy sylwadau yn y maes hwn wedi'u cyfyngu i raddau helaeth i'm hadolygiadau o ddatganoli cyllidol rhwng 2016 a 2018, fel y soniwyd uchod. Canfu'r adroddiadau hyn fod y fframwaith deddfwriaethol ar gyfer datganoli'r Dreth Trafodion Tir a'r Dreth Gwarediadau Tirlenwi wedi'i drefnu a'i weithredu'n effeithiol ac mewn da bryd. Rhoddwyd Cydsyniad Brenhinol i ddeddfwriaeth sylfaenol ymhell cyn cyflwyno'r trethi eu hunain, a chafodd is-ddeddfwriaeth berthnasol ei phasio hefyd i sicrhau bod y pwerau a'r dyletswyddau perthnasol wedi eu dyfarnu i ACC i gasglu'r trethi datganoledig hyn o 1 Ebrill 2018.

At hynny, cadarnhaodd ein hadroddiad yn 2018 fod deddfwriaeth y DU, oedd yn ofynnol ar gyfer gweithredu CTIC, wedi cael ei drafftio a'i phasio mewn pryd i ganiatáu casglu trethi o 1 Ebrill 2019. Y tu allan i'r adroddiadau hyn, nodwn fod penderfyniadau CTIC i gadarnhau cyfraddau Cymru bob blwyddyn hefyd wedi cael eu pasio cyn dechrau pob blwyddyn dreth gan y Senedd:

- ar gyfer blwyddyn treth incwm 2019-20, cymeradwywyd penderfyniad CTIC gan y Senedd yn y Cyfarfod Llawn ar 15 Ionawr 2019; ac
- ar gyfer blwyddyn treth incwm 2020-21, cymeradwywyd penderfyniad CTIC gan y Senedd yn y Cyfarfod Llawn ar 3 Mawrth 2020

### **Y fframwaith cyllidol**

#### **Ystyried prosesau'r fframwaith cyllidol a sut y dyrennir cyllid i grant bloc Cymru**

Daw'r rhan fwyaf o gyllid Llywodraeth Cymru drwy Fformiwla Barnett.

Yn ein Canllaw i Gyllid Cyhoeddus Cymru, fe wnaethom ddarparu esboniad syml i helpu'r cyhoedd i ddeall sut mae'r fformiwla'n gweithio. Rwyf wedi ailadrodd yr adrannau perthnasol o'n canllaw i fod o gymorth i'r Pwyllgor wrth iddo ystyried fformiwla Barnett a'r elfen sy'n seiliedig ar anghenion, a gyflwynwyd yn y fframwaith cyllidol.

Nid yw Llywodraeth y DU yn gwneud unrhyw benderfyniadau uniongyrchol ynghylch faint o arian i'w ddyrannu i Gymru ar gyfer gwasanaethau datganoledig. Mae penderfyniadau Llywodraeth y DU yn ymwneud â'i hadrannau hi ei hun, sy'n cwmpasu gwariant yn Lloegr a gwariant nad yw wedi'i ddatganoli mewn mannau eraill. Mae'r penderfyniadau hynny'n cael effaith awtomatig ar y grant bloc i Gymru drwy fformiwla Barnett.

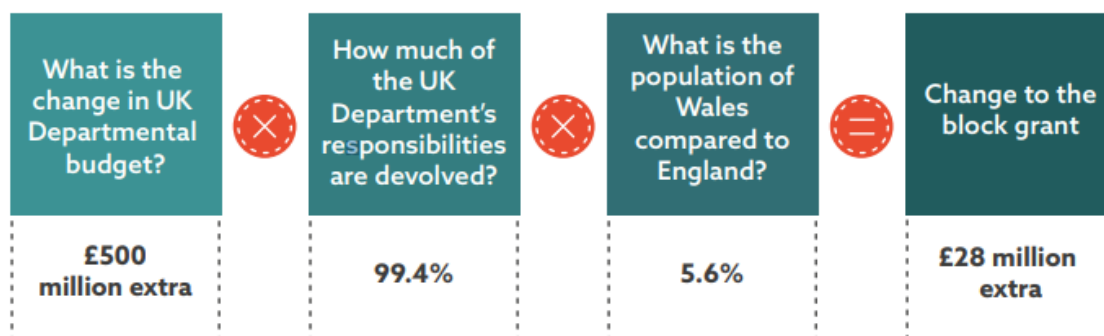
Mae'r fformiwla'n ymwneud â newidiadau blynyddol. Mae'n pennu faint yn fwy (neu lai) o arian y mae Cymru'n ei dderbyn drwy'r grant bloc bob blwyddyn yng nghyfnod yr adolygiad gwariant. Mae'r 'waelodlin' ar gyfer y newidiadau hyn yn

deillio o'r grant bloc yn y flwyddyn cyn cyfnod yr adolygiad gwariant. Yna, mae fformiwla Barnett yn trosi newidiadau yng nghyllidebau adrannol Llywodraeth y DU yn swm a fydd yn cael ei ychwanegu at (neu yn cael ei gymryd allan o'r) grantiau bloc ar gyfer cyrff datganoledig. Mae fformiwla Barnett fel y mae'n berthnasol i Gymru yn gofyn tri chwestiwn syml:

1. O faint y mae cyllideb Adran y DU wedi newid?
2. Pa ganran o'r maes polisi, y mae Adran y DU yn gyfrifol amdani, sydd wedi cael ei datganoli?
3. Beth yw poblogaeth Cymru o'i chymharu â Lloegr?

Dengys Ffigur 1 sut y byddai'r fformiwla'n gweithio'n ymarferol pe bai Llywodraeth y DU yn cynyddu cyllideb Adran Iechyd y DU i wario £500 miliwn yn fwy ar y GIG yn Lloegr

Beth yw'r newid yng nghyllideb Adrannol y DU?	x	Faint o gyfrifoldebau Adrannau'r DU sydd wedi cael eu datganoli?	x	Beth yw poblogaeth Cymru o gymharu â Lloegr?	=	Newid yn y grant bloc
£500 miliwn yn ychwanegol		99.4%		5.6%		£28 miliwn yn ychwanegol



Mae Llywodraeth y DU yn rhedeg y cyfrifiad hwn ar draws ei holl adrannau i gynhyrchu ffigur net cyffredinol. Cyn 2018-19, dyma lle byddai'r cyfrifiad yn dod i ben. Byddai'r newid net yn cael ei ychwanegu at grant bloc y flwyddyn flaenorol (neu ei dynnu allan ohono), i gynhyrchu'r grant bloc ar gyfer y flwyddyn honno.

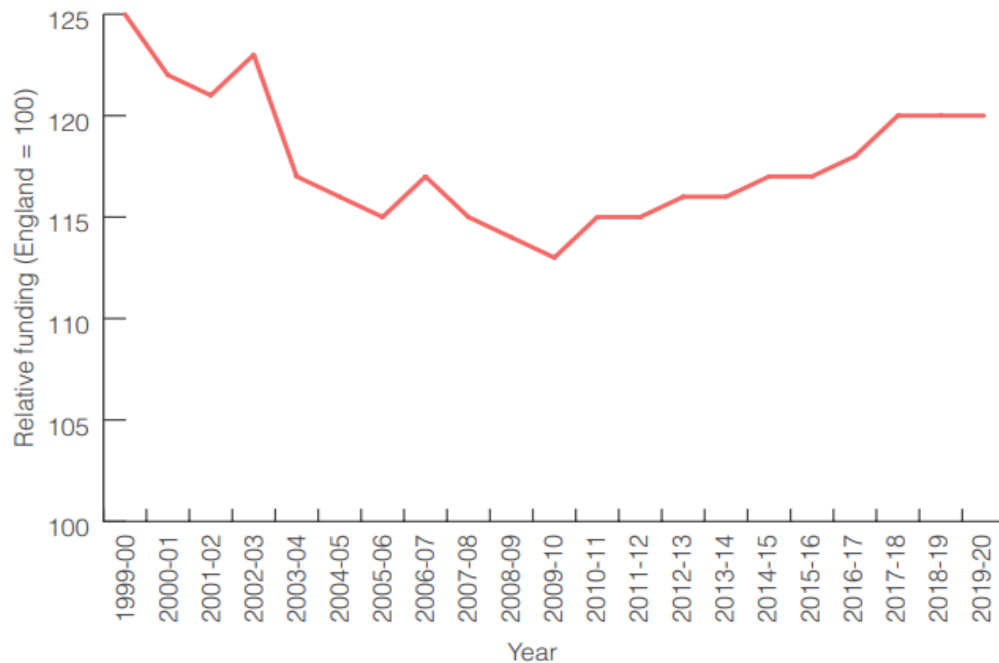
Fodd bynnag, mae Fframwaith Cyllidol 2017 y cytunwyd arno rhwng Llywodraeth y DU a Llywodraeth Cymru yn cyflwyno 'ffactor anghenion' i fynd i'r afael â dau bryder hirsefydlog:

- bod fformiwla Barnett yn methu ag adlewyrchu'r lefelau uwch o angen yng Nghymru. Mae gan Gymru boblogaeth hŷn, dlotach, fwy sâl a mwy gwasgaredig na Lloegr. O ganlyniad, mae gan Gymru fwy o angen am wasanaethau cyhoeddus a chyllid. Yn 2010, nododd Comisiwn Holtham,

am bob £1 oedd yn cael ei gwario ar wasanaethau yn Lloegr, fod ar Gymru angen rhwng £1.14 ac £1.17 ar gyfer gwasanaethau datganoledig.

- ‘Cyddyfeirio’: un o effeithiau’r fformiwla yw, pan fydd cyllidebau yn Lloegr yn codi, bod gwariant yng Nghymru, y pen o’r boblogaeth, yn cael ei wasgu tuag at yr un lefel â Lloegr. I’r gwrthwyneb, pan fydd y cyllidebau yn Lloegr yn gostwng, mae tuedd i ymwahanu, gyda gwariant y pen yng Nghymru yn gostwng yn gymharol arafach nag yn Lloegr.

Nod y ‘ffactor anghenion’ yw sicrhau bod Cymru bob amser yn cael o leiaf 115% o gyllid y pen o’r boblogaeth ar gyfer gwasanaethau datganoledig, o gymharu â Lloegr. Mae’r data a nodwyd yn y Fframwaith Cyllidol yn dangos, ers dechrau datganoli hyd 1999-2000, mai dim ond dwy flynedd oedd yna – 2008-09 a 2009-10 – pryd y syrthiodd y cyllid yn is na’r lefel o 115%. Yn 2019-20, derbyniodd Cymru tua £1.20 am bob £1 a ddyrannwyd i wasanaethau cyfatebol yn Lloegr.



Source: The agreement between the Welsh Government and the UK government on the Welsh Government’s fiscal framework (generally known as The Fiscal Framework)

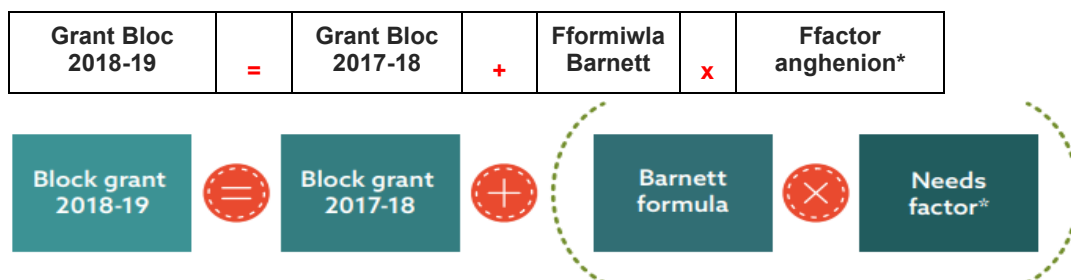
Ffynhonnell: Y cytundeb rhwng Llywodraeth Cymru a Llywodraeth y DU ar fframwaith cyllidol Llywodraeth Cymru (a adwaenir yn gyffredinol fel Y Fframwaith Cyllidol)

Mae’r ffactor anghenion yn golygu lluosir newid mewn cyllid o ganlyniad i fformiwla Barnett â chanran benodol. Gan fod Cymru ar hyn o bryd yn derbyn mwy na’r lefel o 115%, caiff y broses o gyflwyno’r ffactor anghenion ei chyflwyno’n raddol. I ddechrau, 105% fydd y ffigur. Bydd hyn yn berthnasol nes bydd lefelau ariannu’n graddol gydgyfeirio ar 115%. Bryd hynny, bydd y ffactor anghenion yn newid i 115%. Mae’n anodd amcangyfrif faint o amser y bydd yn ei gymryd i gyrraedd y pwynt o gydgyfeirio. Cymhwysir y ffactor anghenion



ychwanegol i gynnydd mewn gwariant o'i gymharu â gwaelodlin 2017-18. Dengys **Ffigur 2** enghraifft o'r modd y mae'r fformiwla anghenion yn cyfuno â fformiwla Barnett i greu'r grant bloc ar gyfer 2018-19.

**Ffigur 2**



\*the needs factor only applies if the Barnett formula results in a net increase to the block grant relative to the 2017-18 baseline.

\*Nid yw'r ffactor anghenion yn gymwys ond os bydd fformiwla Barnett yn arwain at gynnydd net yn y grant bloc o gymharu â gwaelodlin 2017-18.

Fel rhan o'i ymchwiliad, efallai y bydd y Pwyllgor yn dymuno archwilio gyda Llywodraeth Cymru sut y bydd y fformiwla newydd, sy'n seiliedig ar anghenion, yn gweithio os dychwelwn i gyfnod o galedi yn y dyfodol. Fel y mae wedi'i drafftio, mae'r fformiwla sy'n seiliedig ar anghenion yn golygu lluosï'r newid o ganlyniad i fformiwla Barnett (boed hynny'n gynnydd neu'n ostyngiad) â naill ai 105% neu 115%. Mae'r Fframwaith Cyllidol yn rhoi rhywfaint o amddiffyniad dros dro rhag mwyhau toriadau, gan ddweud:

'O 2018-19 ac am weddill cyfnod yr adolygiad gwariant presennol, bydd yr holl gynnydd i DEL Llywodraeth Cymru uwchlaw'r lefel yn 2017-18 yn denu'r ffactor 105%, tra bydd unrhyw ostyngiadau islaw lefel 2017-18 yn cael eu cymhwyso heb y ffactor ychwanegol.'

Mae geiriad y Fframwaith Cyllidol yn awgrymu, mewn cyfnodau adolygu gwariant yn y dyfodol, y gallai toriadau i gyllid datganoledig gael eu lluosï naill ai â 105% neu 115%, yn dibynnu ar lefelau ariannu cymharol ar y pryd. Efallai ei fod yn ymddangos yn groes, ond bydd y toriadau i'r grant bloc yn fwy os bydd y bwllch cyllido i Loegr wedi lleihau. Ymddengys y sefyllfa hon yn groes i bwrpas ac ysbryd y fframwaith cyllidol.

Gobeithiaf fod y wybodaeth hon yn ddefnyddiol i'ch ymchwiliad ac edrychaf ymlaen at fod yn bresennol yn bersonol ar 28 Medi.

Yn gywir

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**Reference:** AC/207/SD

**Date issued:** 4 September 2020

Dear Llyr

### **Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework**

Thank you for giving me the opportunity to contribute to the above inquiry. Prior to my attendance in person at the Finance Committee on 28 September, I thought it would be useful to set out some key details of my work and responsibilities in this area.

As you'll be aware, as Auditor General for Wales, I am responsible for the statutory audit of the financial statements of the Welsh Revenue Authority (WRA), and I have the legal power to scrutinise the economy, effectiveness and efficiency of how the WRA and other Welsh public bodies use public money. Consequently, my responses here relate only to my areas of responsibility.

Some areas of this inquiry relate to the merits of government or taxation policy, rather than its implementation, and it would be inappropriate for me to provide responses in these areas.

I should also mention another limitation on my role in relation to Welsh tax matters. This concerns the administration of the Welsh Rates of Income Tax (WRIT), which is administered and collected by HM Revenue & Customs (HMRC), who in turn fall under the audit remit of the Comptroller & Auditor General. I understand that the C&AG will be responding separately to this inquiry and so may be able to provide further evidence on the administration of WRIT, as well as any other work that the National Audit Office has carried out on devolved funding mechanisms.

However, I set out the areas below where I can contribute to this inquiry and hope that the information proves to be of use.

## Taxation

### How successful the administration of Welsh taxes and the Welsh Rates of Income Tax has been

You will be aware that, between 2016 and 2018, I issued three reports monitoring the implementation of fiscal devolution in Wales, the establishment of the WRA and arrangements to collect Welsh Rates of Income Tax (WRIT). These reports are available on the Audit Wales website. In our closing 2018 report<sup>1</sup> we concluded that:

- the WRA has operated effectively to date to administer devolved taxes in Wales; and
- the Welsh Treasury has appropriate arrangements in place to obtain assurance over HMRC's implementation of Welsh Rates of Income Tax.

Since 2018, I have been responsible for the statutory audit of the accounts of the WRA and have recently completed my audit of the 2019-20 Annual Accounts. These statutory audits have not identified any significant issues in the WRA's financial statements, nor have I needed to report any shortcomings in controls or processes to the WRA Board. I have provided an unqualified audit opinion for the WRA's 2018-19 and 2019-20 financial statements.

As noted above, WRIT is administered and collected by HM Revenue & Customs (HMRC). The C&AG is responsible for the audit of HMRC and has issued two reports to date on the administration of WRIT for 2017-18<sup>2</sup> and 2018-19<sup>3</sup>. His key findings from 2018-19 were as follows:

- HMRC has established a project governance structure within its wider devolution and change programme and it is engaging with Welsh Government representatives across the full range of project activities;
- maintaining a complete and accurate database of Welsh taxpayers is important to ensuring that HMRC can collect the correct amount of tax from Welsh taxpayers and allocate this to the Welsh Government;
- HMRC regularly communicates with a diverse range of external audiences including employers, pension providers and other businesses that deliver payroll-related services to help ensure the Welsh rates of income tax project is implemented as intended; and

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<sup>1</sup> <https://www.audit.wales/publication/fiscal-devolution-wales-devolved-taxes-and-welsh-rates-income-tax>

<sup>2</sup> <https://www.nao.org.uk/report/administration-of-welsh-income-tax-2017-18/>

<sup>3</sup> <https://www.nao.org.uk/report/the-administration-of-the-welsh-rate-of-income-tax-2018-19/>

- in 2018-19, HMRC incurred and recharged £5.8 million of costs for implementing WRIT.

With the audit of HMRC and its administration of WRIT being a matter for the C&AG, my role in assessing the success of the administration of Welsh taxes and the WRIT, and making recommendations for improvements, is restricted to value for money examination and study powers in relation to the WRA and the Welsh Treasury<sup>4</sup>.

My ability to undertake data matching in relation to Welsh tax administration is not as well developed for the WRA and Welsh Treasury as it is for local government. And as I and my predecessor have mentioned before, my data-matching powers need updating<sup>5</sup>. In particular, my power to conduct data-matching exercises<sup>6</sup> is confined to the purpose of 'assisting in the prevention and detection of fraud in or with respect to Wales', which precludes, for example, exercises to identify recoverable debt. Also, I am only able to require local authorities and NHS bodies in Wales to provide data; other bodies, such as the WRA, may provide information for such exercises on a voluntary basis, or they may choose not to.

Generally, I exercise my data-matching powers in conjunction with the UK-wide National Fraud Initiative (NFI)<sup>7</sup>. To date, the NFI has identified £42.9 million in fraud and overpayments in Wales, including in respect of local taxation. In the most recent exercise (2018-19), data-matching claims for Council Tax Single Persons Discount against sources such as the electoral register identified 3,939 fraudulent or erroneous claims resulting in Council Tax underpayments of £4.6 million. And currently I am piloting an approach to identify false claims for business rate relief under the Covid-19 relief measures.

Clearly, the implementation of Welsh tax-raising arrangements presents risks of fraud, error and uncollected debt, which may be addressed by data matching. Indeed, the WRA has recognised the value of data matching, and has already developed work using its own investigation powers and data sharing using the Digital Economy Act 2017. Nevertheless, I consider that there is scope for significant benefit to both the WRA and other Welsh public bodies from updating my data matching functions. The NFI holds data that would assist the WRA identify fraud and uncollected debt, and the WRA holds data that would similarly assist other public bodies.

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<sup>4</sup> Under section 32 of the Tax Collection & Management (Wales) Act 2016 and section 135 of the Government of Wales Act 2006, together with section 145A of the Government of Wales Act 1998

<sup>5</sup> See for example [letter from Huw Vaughan Thomas of 5 April 2017](#)

<sup>6</sup> Under s64A of the Public Audit (Wales) Act 2004

<sup>7</sup> Together with the Minister for the Cabinet Office, Audit Scotland and the Comptroller & Auditor General Northern Ireland.

## **How the mechanism for devolving powers for new Welsh taxes has been performing**

My comments in this area are largely restricted to my reviews of fiscal devolution between 2016 and 2018, as mentioned above. These reports found that the legislative framework for the devolution of Land Transaction Tax and Landfill Disposals Tax was scheduled and implemented effectively and in good time. Primary legislation was given Royal Assent well before the introduction of the taxes themselves, and relevant secondary legislation was also passed to ensure that the WRA was awarded the relevant powers and duties to collect these devolved taxes from 1 April 2018.

Furthermore, our 2018 report confirmed that UK legislation required for the implementation of WRIT was drafted and passed in time to allow tax collection from 1 April 2019. Outside these reports, we note that WRIT resolutions to confirm the Welsh rates each year were also passed prior to the start of each tax year by the Senedd:

- for the 2019-20 income tax year, the WRIT resolution was approved by the Senedd in plenary on 15 January 2019; and
- for the 2020-21 income tax year, the WRIT resolution was approved by the Senedd in plenary on 3 March 2020.

## **The fiscal framework**

### **Consider the fiscal framework processes and how funding is allocated to the Welsh block grant**

The bulk of the Welsh Government's funding comes through the Barnett Formula. On our Guide to Welsh Public Finances, we provided a simple explanation to help the public understand how the formula works. I have repeated the relevant sections from our guide to help support the Committee's consideration of the Barnett formula and the needs-based element introduced in the fiscal framework.

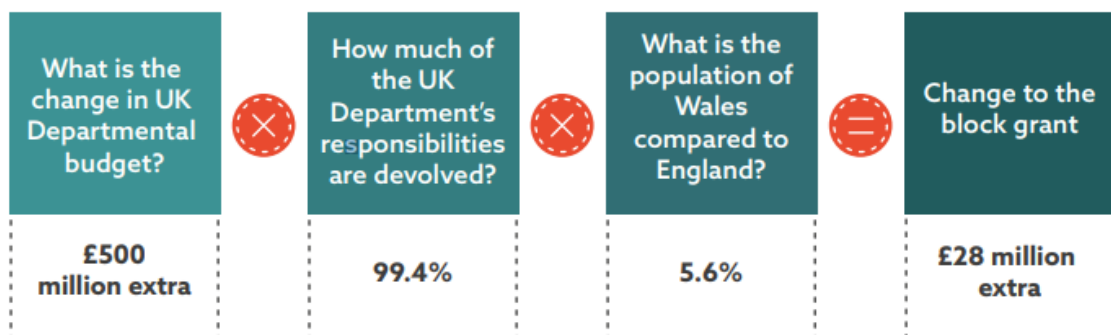
The UK Government makes no direct decisions about how much money to allocate to Wales for devolved services. The UK Government's decisions relate to its own departments, which cover spending in England and non-devolved spending elsewhere. Those decisions have an automatic impact on the block grant to Wales through the Barnett formula.

The formula is about annual changes. It determines how much more (or less) money Wales gets through the block grant each year of the spending review period. The 'baseline' for these changes derives from the block grant in the year preceding the spending review period. The Barnett formula then translates changes in UK Government departmental budgets into an amount that will be added to (or be taken from) the block grants for devolved bodies. The Barnett formula as it applies to Wales asks three simple questions:

1. How much has the UK Department's budget changed by?

2. What percentage of the policy area, the UK Department is responsible for, has been devolved?
3. What is the population of Wales compared with England?

Figure 1 shows how the formula would work in practice if the UK Government increased the budget of the UK Department for Health to spend £500 million more on the NHS in England

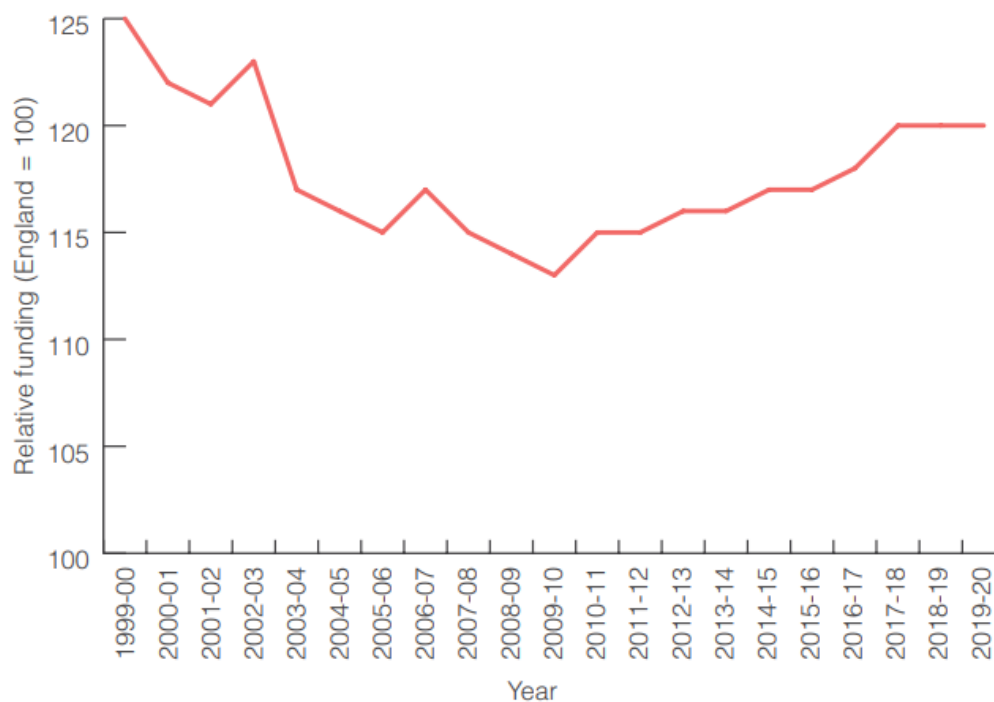


The UK Government runs this calculation across all of its departments to produce an overall net figure. Prior to 2018-19, this is where the calculation would end. The net change would be added to (or taken away from) the previous year's block grant, to produce the block grant for that year.

However, the 2017 Fiscal Framework agreed between the UK Government and the Welsh Government, introduces a 'needs factor' to address two long-standing concerns:

- that the Barnett formula failed to reflect the higher levels of need in Wales. Wales has an older, poorer, sicker and more dispersed population than England. As a result, Wales has a greater need for public services and funding. In 2010, the Holtham Commission identified that for every £1 spent on services in England, Wales needs between £1.14 and £1.17 for devolved services.
- 'convergence': one of the effects of the formula is that when budgets in England rise, spending in Wales, per head of population, gets squeezed towards the same level as England. Conversely, when the budgets in England fall, there is a tendency to diverge, with spending per head in Wales falling proportionately more slowly than in England.

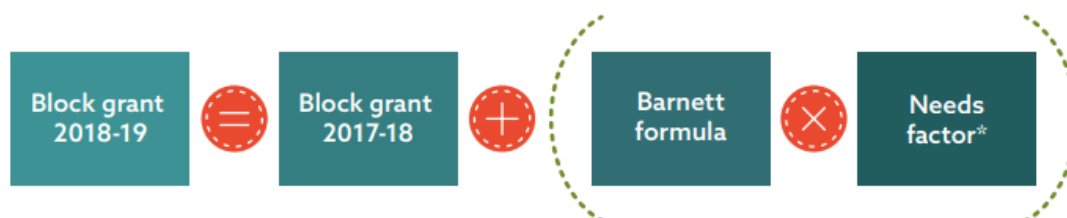
The 'needs factor' aims to ensure that Wales always gets at least 115% funding per head of population for devolved services, compared to England. The data set out in the Fiscal Framework shows that, since the start of devolution in 1999-2000 there were only two years – 2008-09 and 2009-10 – where the funding fell below the 115% level. In 2019-20, Wales had around £1.20 for every £1 allocated to equivalent services in England.



Source: The agreement between the Welsh Government and the UK government on the Welsh Government's fiscal framework (generally known as The Fiscal Framework)

The needs factor involves multiplying the change in funding as a result of the Barnett formula by a set percentage. Because Wales currently gets above the 115% level, the introduction of the needs factor is phased. Initially, the figure will be 105%. This will apply until funding levels gradually converge at 115%. At that point, the needs factor will change to 115%. It is difficult to estimate how long it will take to reach the point of convergence. The additional needs factor is applied to increases in spending relative to the 2017-18 baseline. **Figure 2** shows an example of how the needs formula combines with the Barnett formula to create the block grant for 2018-19.

Figure 2



\*the needs factor only applies if the Barnett formula results in a net increase to the block grant relative to the 2017-18 baseline.

As part of its inquiry, the Committee may wish to explore with the Welsh Government how the new needs-based formula will work if we return to a period of austerity in future. As drafted, the needs-based formula involves multiplying the change as a result of the Barnett formula (whether that is an increase or a reduction) by either 105% or 115%. The Fiscal Framework sets out a degree of temporary protection from amplifying cuts, stating that:

‘From 2018-19 and for the remainder of the current spending review period, all uplifts to Welsh Government DEL above the level in 2017-18 will attract the 105% factor, while any reductions below the 2017-18 level will be applied without the additional factor.’

The wording of the Fiscal Framework suggests that in future spending review periods, cuts to devolved funding could be multiplied by either 105% or 115%, depending on relative funding levels at the time. It may seem perverse, but the cuts to the block grant will be bigger if the funding gap to England has reduced. This situation seems contrary to the purpose and spirit of the fiscal framework.

I hope you find this information useful to your inquiry and I look forward to attending in person on 28 September.

Yours sincerely



Adrian Crompton  
Auditor General for Wales





4 September 2020

# Submission to the Finance Committee of the Welsh Parliament

## Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework

The Australian Parliamentary Budget Office (PBO) welcomes the invitation to make a submission to this inquiry. The PBO is not able to comment on the specifics of the Welsh fiscal environment, however, we have briefly addressed the role of the PBO in Australia's fiscal framework and the conditions which are important for operation of an independent fiscal institution within this framework.

Independent fiscal institutions generally, including the Australian PBO, have contributed to an increased focus on fiscal issues and have improved the transparency of the debate around fiscal matters. The PBO has achieved this by supporting parties to fully cost their policy proposals and by publishing independent research on budget and fiscal policy matters.

In our view, the PBO's success can be attributed to a range of factors including:

- independence and transparency in how we operate
- confidentiality of the requests made to us, our responses and the information we hold
- cooperative relationships with government agencies and access to information
- independent reviews providing opportunities to improve the efficiency and effectiveness of our operations
- our complementary research and costing functions.

The independence and non-partisanship of the PBO, and the ability to work confidentially, are essential characteristics that give parliamentarians the confidence to interact with the PBO as they formulate their policy proposals. These characteristics also enable the PBO to publish analysis of the budget and fiscal policy settings unconstrained by external influences.

The independence of the PBO is enshrined in the *Parliamentary Service Act 1999*. The Parliamentary Budget Officer is appointed by the Presiding Officers<sup>1</sup> of the Parliament, with the approval of a parliamentary oversight committee (the Joint Committee of Public Accounts and Audit (JCPAA)). The JCPAA is also responsible for overseeing the operations and resourcing of the PBO. Further information on the purpose and functions of the PBO is outlined in Attachment A.

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<sup>1</sup> The Speaker of the House of Representatives and the President of the Senate together are known as the Parliament's Presiding Officers.

# Attachment A: Australian Parliamentary Budget Office

The Australian PBO was established in 2012. It is an independent and non-partisan institution of the Australian Parliament.

The PBO's purpose, independence, confidentiality, accountability and oversight arrangements are set out in the *Parliamentary Service Act 1999*. The PBO's access to information from government agencies is governed by the Australian Government Protocols governing the engagement between Commonwealth bodies and the Parliamentary Budget Officer (the Protocols), and the Memorandum of Understanding between the Parliamentary Budget Officer and the heads of Commonwealth bodies in relation to the provision of information and documents (the MoU).<sup>2</sup>

## Purpose

The purpose of the PBO is articulated in section 64B of the Parliamentary Service Act and comprises three main elements, which are to:

- enable fiscal impacts to be considered during policy development by providing policy costing and budget analysis services to all parliamentarians
- improve public understanding of budget and fiscal policy issues by conducting and publishing research in these areas
- enhance transparency around election commitments by preparing a post-election report on the budget impacts of the election commitments of parliamentary parties.

## Functions

The PBO has three core functions: policy costings, research, and reporting on election commitments. More specifically, the PBO:

- provides all parliamentarians with access to advice on the financial implications of their policy proposals, based on the policy specifications they provide. Outside of the caretaker period for an election, parliamentarians may submit requests for policy costings on a confidential basis, in which case both the request and our response are kept in confidence.
- provides parliamentarians with access to information relating to the budget. This can include information such as expenditure on particular programs and more detailed disaggregated information (where available) on specific budget measures.
- responds to requests for assistance from parliamentary committees on issues that fall within its mandate.

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<sup>2</sup> Available at:

[https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/Guidance\\_for\\_Commonwealth\\_Agencies](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Guidance_for_Commonwealth_Agencies)

- publishes research which focusses on the fiscal sustainability of the Australian Government budget, particularly over the medium term (ie 10 years). The PBO also seeks, through its publications, to improve budget transparency and promote a better public understanding of the budget and fiscal policy settings.
- publishes a report after each federal election that presents the budget impacts of each of the election commitments of the major parliamentary parties, including their aggregate impact on the fiscal position. This report includes estimates of impacts over the medium term.



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Experts in Business

Senedd Cymru / Welsh Parliament  
Y Pwyllgor Cyllid / Finance Committee  
Ymchwiliad i weithredu Deddf Cymru 2014 a'r Fframwaith Cyllidol /  
Inquiry into the implementation of the Wales Act 2014 and operation  
of the Fiscal Framework  
FFWA 03  
FSB Cymru / FSB Wales

# FSB Wales response

## Implementation of the Wales Act 2014 and operation of the Fiscal Framework

September 2020

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## About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales, with around 10,000 members. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

## Introduction

FSB Wales welcomes the opportunity to respond to the Senedd Finance Committee's inquiry into the operation of the Wales Act 2014 and the Fiscal Framework. Our primary interest in the inquiry relates to the first series of questions on taxation on which we have some evidence. We therefore make no comment on the fiscal framework and the operation of the Barnett Formula.

FSB Wales undertook a partnership with Bangor University funded by the ESRC to understand the impact of tax devolution to Wales. The report entitled [Funding Prosperity: Creating a New Tax System in Wales](#) looks at the experience of tax administration through the Land Transaction Tax.

### ***The Welsh Government's tax principles, whether these have been met and whether the current tax regime and proposed new taxes align with these principles;***

On the whole, FSB Wales believes the transition to devolved administration of taxation in Wales has been a positive experience. Of the Welsh Government's main aims such as a clear and stable tax system and a degree of involvement in tax policy, we are content that they have been achieved throughout this process. The devolved taxes have on the whole been well managed and as an organisation FSB Wales has been significantly involved and consulted on this process.

### ***How successful the administration of Welsh taxes and the Welsh Rates of Income Tax has been;***

The evidence gathered through our research partnership with Bangor University demonstrated that in respect of the Land Transaction Tax the Welsh Revenue Authority has performed well in its administration of the first of the devolved taxes. Despite this, significant challenges remain around awareness of devolved taxes amongst businesses in Wales.

In summary, our work which included the opinions of both businesses and professional services such as lawyers found that:



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1. The FSB survey responses and solicitor interview data indicate there is a low level of public awareness about Welsh devolved taxes, including LTT.
2. The majority of FSB member respondents reported they would like to receive information on devolved taxes from the Welsh Government. A small proportion reported they expect their accountants to make them aware of developing tax policy.
3. The WRA's approach of engaging with, and encouraging participation from, solicitors who deal with LTT, has worked well in that there are very good levels of awareness and understanding reported by this targeted group.
4. Some solicitors pointed to a lack of clarity and guidance on certain aspects, including properties on the border between Wales and England.
5. The majority of FSB respondents perceived that the newly devolved taxes would increase complexity, and so the time and cost of compliance. This should be interpreted in the context of the low awareness and understanding of the newly devolved taxes. It suggests that a lack of awareness increases uncertainty for small business owners with concerns about increased complexity. It also indicates the scope to counter some of these concerns by helping taxpayers become better informed.
6. Solicitors are an important channel for increasing awareness of devolved taxes and disseminating information about the new LTT to taxpayers. Some solicitors reported an increased burden for making taxpayers aware of the new LTT, in cases where they had to deliver bad news about an increase in the tax payable.
7. There was an overwhelming preference reported from small business owners and solicitors to deal with Welsh Government officials, such as the WRA, rather than non-Welsh Government officials, such as HMRC. Solicitors reported receiving timely, detailed and meaningful assistance from WRA officials in comparison with HMRC.
8. Concerns were expressed about the potential for the different rates between LTT and SDLT to influence taxpayer behaviour, and lead to distortions in the property market, particularly close to the border.
9. The survey prompted some respondents to become aware of devolved taxes in Wales for the first time. This reinforces the importance of the work carried out by the FSB in keeping members up-to-date on important issues affecting them.

It is important to acknowledge that the data for the study above was gathered during the summer of 2018 at the very first instance of LTT being devolved. It is therefore



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reasonable to assume that some of the issues such as awareness of devolved taxes may have developed since.

Nonetheless, many of the issues identified will be relevant to the Committee's inquiry and the general point about the experience of transition on the whole being positive still stands.

### ***What possible future tax changes could look like and what scope there is for a different approach to taxation in Wales;***

FSB Wales feels that the scope of devolved taxation powers available to Welsh Government are now sufficient enough to clearly articulate a Welsh tax policy. As such, we have developed proposals for an enterprising Welsh tax policy that aims to support entrepreneurship and business growth during the next Welsh Parliament term. Our proposals can be found here, but in summary we advocate the following policies.

#### **Non-domestic rates:**

The general consensus is that the current system is unfit for purpose, but a complete abolition would cost too much. Abolition could also create a very imbalanced landscape across the UK. Options therefore focus on either replacing or reforming the current regime. Welsh Government has itself commissioned work from Bangor University into a Land Value Tax and has committed to reviewing both of those options in the medium term<sup>1</sup>. Similarly, in recent years small alterations have been made on a UK basis including moving from an RPI to CPI inflation measure, promising (although not yet delivering) more frequent revaluation and changes to the appeals process.

For our part, we believe the next Welsh Government could go further in reforming the tax, while continuing to review options for future replacement. Whilst not addressing all the issues with NDR, we believe the following would help facilitate a more enterprising tax policy:

#### **1) Relieve the rates burden by introducing a Business Rate Freeze for the life of the next Senedd**

Over time, business rates has increased as a cost faster than other taxes and general prices, making property and in particular property on the high street, less attractive. To rectify this, the next Welsh Government could introduce a business rates multiplier freeze. The impact on individual businesses would not be large, but over time a freeze would rebalance the size of rates as a tax and make occupying property more viable, particularly in more valuable locations such as the high street.

#### **2) Move from a revaluation cycle to rates indexing**

The revaluation process for business rates happens every five years at present and sees major winners and losers in terms of sectors and towns in Wales. It's a painful exercise and in recent

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<sup>1</sup> Ap Gwilym, R; Jones, E; & Rogers, H. 2019. *A technical assessment of the potential for a local land value tax in Wales*. Cardiff: Welsh Government, GSR report number 17/2020 [Online]. Available at:

<https://gov.wales/sites/default/files/statistics-and-research/2020-03/technical-assessment-of-the-potential-for-a-local-land-value-tax-in-wales.pdf> (accessed 31st July 2020)



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years economic turbulence (following 2008 and the current crisis caused by Covid-19) have meant governments are unwilling to carry out revaluations. We believe the next Welsh Government could look to introduce local property indices instead which would be regularly updated and maintained by the VOA in Wales and would remove the need for a revaluation process. This has been proposed by Prof Gerry Holtham in a paper done for us previously and more recently by the Institute for Fiscal Studies in their submission to the Westminster Treasury Committee's review on NDR.

### 3) **Minimise the cost of appeals**

One benefit of more frequent revaluations or indexing is that it could lower the frequency of appeals. The present system generates a large number of appeals to the revaluation process and is often a cause of difficulties for businesses who often fall victim to unscrupulous agencies purporting to help with the appeals process. Furthermore, Wales should not introduce further costs for the appeals process as has happened in England through the *Check, Challenge, Appeal* process. Instead, where possible we should look to make the appeals system simpler and the overall process of rating and revaluations more approachable for SMEs.

### 4) **Increase the role of the Welsh Revenue Authority on Rates**

The creation of the Welsh Revenue Authority has created new possibilities for tax administration in Wales. FSB Wales would like to see the current system of 22 local authority billing authorities removed and the responsibility placed instead with the Welsh Revenue Authority.

### 5) **Introduce a new Investment Relief**

One of the largest issues around NDR is its disincentive to investment. Currently, new properties and elements of plant and machinery are included in the rating process and bring with them an increased bill. The Scottish Government has introduced a Business Growth Accelerator Relief to deal with these issues, leaving new build and improvements a 12 month period before rates liability applies. We think the next Welsh Government could match this and go further by removing certain types of new investments from the rating process completely by introducing an Investment Relief for improvements that accord with government ambitions on productivity and decarbonisation – for instance new plant and machinery and new energy efficiency investments.

### 6) **Review existing reliefs**

It is important that any reliefs introduced through the business rates system are subject to regular reviews in order to ensure they are effective in their stated aims and achieving good value for businesses and the taxpayer.

#### *Income Tax*

### 7) **Commit to no income tax rises above England during the next Senedd**

FSB Wales believes that the next Welsh Government should make a commitment to at the very least maintain the same tax rates as currently exist in England. By doing this, revenues will be maintained that can be used to fund public services and investment in infrastructure whilst





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businesses will not be at a competitive disadvantage to their counterparts in England in recruiting their workforce

#### *Land Transaction Tax*

### **8) The next Welsh Government should maintain the 1 per cent lower band for the Land Transaction Tax between £150,000 and £250,000.**

The Welsh Government budget for 2018/19 set out the first rates and bands for the Land Transaction Tax. In relation to non-residential transactions the Welsh Government reduced the rate between £150,000 and £250,000 from 2 per cent (as currently applies in England) to 1 per cent.<sup>2</sup> This essentially halves the cost of tax on transactions between these values.

#### *Corporation Tax*

Corporation tax has a significant impact on the attractiveness of Wales not only as a location for foreign direct investment but on the profitability of domestic businesses.

### **9) Revisit the proposals of the Holtham Commission on GVA weighted Corporation Tax reductions**

The Holtham Commission which undertook its work between 2008 and 2010 recommended that the then Welsh Government should explore the feasibility of corporation tax devolution. However, it did not favour a blanket devolution; rather it called for the ability to vary corporation tax in Wales in line with Wales' relative GVA performance. Whilst this recommendation has not come to pass, we believe it warrants further consideration.

## **New Taxes**

### **10) Introduce an SME test for any new Wales specific taxes**

The Welsh Parliament now has capacity to introduce new Welsh specific taxes in Wales through a consenting process through the UK Parliament. FSB Wales is not currently convinced of the need for new taxes at this moment in time, but should a future Welsh Government decide to pursue this route then an SME test should be introduced in order to ensure it does not disproportionately impact on SMEs. Such a test would involve ensuring new taxes do not provide barriers to entrepreneurship, innovation and business growth, is not unduly punitive on certain types of businesses and is not merely aimed at raising revenue without a reasonable justification for doing so.

#### ***How the mechanism for devolving powers for new Welsh taxes has been performing.***

FSB Wales has little evidence upon which to judge the process for devolving powers for new Welsh taxes. We have been involved in various consultations on all four of the early proposals for new taxes. However, the proposals have all been at a very early stage and it has therefore been difficult to discern the direct business impact of some of the proposals. We are not aware of the progress of the intergovernmental discussion on new taxes and as such are unsure as to whether the new taxes are being pursued as a matter of priority.

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<sup>2</sup> Welsh Government. 2018. *Welsh Tax Policy Report* [Online]. Available at:

<https://beta.gov.wales/sites/default/files/publications/2018-06/welsh-tax-policy-report.pdf> (accessed 11<sup>th</sup> September 2018). P.51



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## Conclusion

FSB Wales welcomes the opportunity to inform the Finance Committee's inquiry into the operation of devolved taxes in Wales. We hope our evidence is of interest and would be happy to discuss the points raised with the committee further should it be of use.

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Senedd Cymru / Welsh Parliament

Y Pwyllgor Cyllid / Finance Committee Ymchwiliad i  
weithredu Deddf Cymru 2014 a'r Fframwaith Cyllidol /  
Inquiry into the implementation of the Wales Act 2014  
and operation of the Fiscal Framework

FFWA 04

Swyddfa Cyllidebol Seneddol Fictoraidd / Victorian  
Parliamentary Budget Office

4 September 2020

Llyr Gruffydd MS / AS  
Cadeirydd / Chair  
Finance Committee  
Welsh Parliament  
Cardiff Bay  
Cardiff  
CF99 1SN

**RE: Inquiry into the implementation of the Wales Act 2014 and operation of the  
Fiscal Framework—Consultation**

Dear Mr Gruffydd

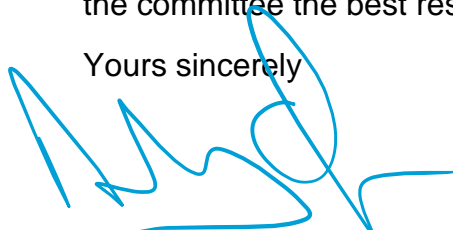
Thank you for the opportunity to contribute to your inquiry, in relation to the committee's desire to compare Wales and other international fiscal frameworks.

I am the Parliamentary Budget Officer for the state of Victoria, a subnational independent fiscal institution in Australia. I lead an office that provides members of our parliament and the public with independent policy costings of their policy proposals and advice on economic, fiscal and financial matters. At each election, I independently cost and publish parliamentary leaders' publicly released policies. To perform my functions, I have powers to request information and documents from the public sector.

As requested, I provide the following input to your inquiry from specific questions made of me, using Victoria's approach and experience as my basis.

I am happy to provide further input or clarification if you require and I wish you and the committee the best result in your deliberations.

Yours sincerely



Anthony Close  
Parliamentary Budget Officer

## **What are the strengths and weaknesses of subnational fiscal frameworks and how could they be designed to maximise their effectiveness?**

### **Context**

In Victoria, grants represent almost half of total state revenues, mainly through Australian Government goods and service tax distributions and payments for specific purposes, such as funding agreements for the state to deliver major projects or national reform. The Victorian Government collects the remaining revenue—mainly state taxes and from the sale of goods and services.

Victoria's state tax revenue relies heavily on property taxes through land transfer duties on transactions and land tax on eligible properties. Combined with payroll tax, these make up over two thirds of state taxation. Most of the remainder of Victoria's state tax revenue applies to a relatively narrow scope of household consumption and business expenditure—gambling, insurance and motor vehicles.

Land transfer duty is sensitive to changes in the property market as it reflects both the number of transactions and property prices. Land tax is sensitive to the number and value of land holdings. It is less sensitive to fluctuations in economic conditions than land transfer duty. However due to exemptions and concessions—particularly through exemptions on principal place of residence and land used for agricultural purposes—the Victorian Government forgoes more land tax revenues than it collects. Payroll tax is sensitive to employment growth, wage growth and the tax-free threshold that aims to exempt smaller businesses.

### **Design options**

In designing a fiscal framework, governments make decisions about what taxes to levy, how much and on whom the tax burden lies. When setting tax policy, governments generally consider:

- the efficiency of a tax—the impact a tax has on economy activity
- the equity of a tax—how the impact is distributed across individuals
- compliance—how burdensome the tax is to administer by governments and for liable individuals.

Maintaining a broad range or a few broad-based taxes are ways for governments to stabilise their revenues—as different parts of the economy expand and contract, increases in some revenue sources may offset decreases in others.

Minimising tax exemptions, which narrow the tax base, could also be considered.

Please refer to [Victorian taxes and revenue—Volatility, trends and stability](#) at [pbo.vic.gov.au](http://pbo.vic.gov.au) for further analysis.

## **How should fiscal rules be implemented to enable subnational frameworks to react to economic downturns and national emergencies such as the COVID-19 pandemic?**

### **Fiscal rules in Victoria and their evolution**

The Victorian Government's long-term financial management objectives, medium-term financial targets and objectives and fiscal sustainability objectives are in Victorian Budget 19/20 Paper No. 2 and No. 5 and the budget update (Appendix A).

A trend toward greater use of qualitative fiscal targets and objectives has taken place since 2011-12 (Appendix B), despite an independent Review of State Finances in 2011-12 concluding that a:

‘fresh approach to financial management is required  
if the State's finances are to be sustainable into the future.’

The government of the day implemented a range of the review's recommendations, but many were dropped by successive governments.

### **Issues**

Unlike the past 3 decades of positive growth, Victoria is in the midst of a profound shock to its economic and fiscal landscape. This is reflected in sharply falling economic growth and revenues and rising borrowings associated with expanded asset investment and COVID-19 related expenditures. Even prior to this, a large public infrastructure program with intergenerational debt implications was progress.

We assessed Victoria's fiscal targets and objectives and found:

- Some feature fixed numerical floors or ceilings on fiscal measures—known as first generation targets—which can be rigid and complicated, or so flexible that they form non-binding constraints.
- They focus on a limited area of public finances—net debt, superannuation liabilities and net operating surpluses—which does not fully align to revenue and expenditure that the Victorian Government can control.
- The government has also set progressively fewer targets and objectives and they have become increasingly less specific and measurable in recent years.
- When it cannot meet them, the government has changed or discontinued them.

We also found that the scope and quality of budget paper performance indicators make public scrutiny of whether these targets have been achieved difficult. General government fiscal targets and objectives are spread across the budget papers, different terms have the same meaning and less information is published to monitor performance than was provided around 2011-12.

But the single largest issue we found was that budget paper planning horizons for fiscal policy can work against medium and longer-term fiscal sustainability objectives and targets. The Victorian budget covers the budget year and 3 years of forward estimates and can accommodate near term fiscal challenges, such as the COVID-19 pandemic. Yet some fiscal challenges faced by the state, such as population ageing which the budget papers describe, unfold over decades.

### Implement flexible fiscal rules

We undertook a global scan of fiscal rules and found an emerging trend where some subnational governments are using more flexible, effective and transparent fiscal targets and objectives—known as second generation targets— which feature:

- measurable target ranges for net operating balances, revenue, expenditure and debt levels
- clear escape clauses to give policymakers discretion to support citizens during periods of economic weakness without recasting targets
- greater focus on expenditure targets that are not linked to revenues to avoid overspending during periods of strong revenue growth
- regular fiscal statements that assess fiscal sustainability over the longer-term
- independent oversight to assess performance against targets and objectives.

Flexibility provides opportunity for policy adjustments to be made instead of changing or discarding targets and objectives if they become unachievable in the short term.

Most importantly, fiscal rules could be enshrined in legislation and focused on the medium to long term to avoid successive governments reducing their effectiveness or transparency. The state of New South Wales in Australia has enshrined its targets and objectives in legislation—the *Fiscal Responsibility Act 2012* (NSW). This Act also requires the NSW Government to:

- report annually on its performance against fiscal targets and objectives
- outline the reasons for a departure from the fiscal targets and objectives
- planned actions to achieve the fiscal objectives over the budget forecast years.

Please refer to [Fiscal sustainability—Victoria's performance and options to strengthen](#) at [pbo.vic.gov.au](http://pbo.vic.gov.au) for further analysis (available late September 2020).

## Appendix A – Victoria’s fiscal objectives and targets

**Figure 1 – Long-term financial management objectives**

Priority	Objective
Sound financial management	Victoria’s finances will be managed in a responsible manner to provide capacity to fund services and infrastructure at levels consistent with maintaining a triple-A credit rating
Improved services	Public services will improve over time
Building infrastructure	Public infrastructure will grow steadily over time to meet the needs of a growing population
Efficient use of public resources	Public sector resources will be invested in services and infrastructure to maximise the economic, social and environmental benefits

Source: Department of Treasury and Finance, Victorian Government.

**Figure 2 – Medium-term financial measures and targets**

Financial measure	Target
Net debt	General government net debt as a percentage of GSP to be maintained at a sustainable level over the medium term
Superannuation liabilities	Fully fund the unfunded superannuation liability by 2035
Operating surplus	A net operating surplus consistent with maintaining general government net debt at a sustainable level over the medium term

Source: Department of Treasury and Finance, Victorian Government.

**Figure 3 – Financial sustainability objectives**

Fiscal sustainability objective
Net operating surpluses in each year over the next 4 years
Operating expenditure growth will be no greater than revenue growth, on average, over the next 4 years
Net debt to gross state product will be no greater than 12 per cent over the medium term

Source: Department of Treasury and Finance, Victorian Government.

## Appendix B – Evolution of Victoria’s fiscal framework

Financial measure	2011-12	2012-13 to 2014-15	2015-16	2016-17 to 2018-19	2019-20
Net debt and net financial liabilities	Ensuring that debt as a percentage of GSP will stabilise, with net financial liabilities falling as a percentage of GSP by 2014-15 and remaining consistent with retaining Victoria’s AAA credit rating	General government net debt reduced as a percentage of GSP over the decade to 2022	General government net debt as a percentage of GSP to be maintained at a sustainable level over the medium term		
Superannuation liabilities	Fully fund unfunded government superannuation liability by 2035				
Operating balance	Operating surplus of at least \$100 million in each year	A net operating surplus consistent with maintaining general government net debt at a sustainable level over the medium term			
Expenses	Constraining expenses growth to average 3.2 per cent a year over the forward estimates	No target	No target	Expenditure growth no greater than revenue growth, on average, over the budget and forward estimates	
Infrastructure	Over rolling five-year periods, net infrastructure investment is at least equal to 0.5 per cent of the historical five-year average of GSP	Infrastructure investment of 1.3 per cent of GSP (calculated as a rolling five-year average)	No target	No target	No target
Taxation	When revenue growth exceeds the rolling five-year average, the Government preserves the excess in the form of cash reserves or equivalent financial assets	No target	No target	No target	No target
Efficiency	Efficiency savings totalling \$2.2 billion over five years	No target	No target	No target	No target
Wages	Constraining public sector wage outcomes to 2.5 per cent a year plus productivity gains	No target	No target	No target	No target

Source: Parliamentary Budget Office, Victoria.



## **Ymchwiliad y Pwyllgor Cyllid i'r ffordd y cafodd Deddf Cymru 2014 ei rhoi ar waith**

### **Papur Tystiolaeth**

#### **Cyflwyniad**

1. Mae'r Pwyllgor Cyllid yn cynnal ymchwiliad i'r ffordd y cafodd Deddf Cymru 2014 ei rhoi ar waith a'r ffordd y mae'r fframwaith cyllidol yn gweithredu. Bydd yr ymchwiliad hefyd yn ystyried yr ymwybyddiaeth o ddatganoli cyllidol a threthiant ymhlith y cyhoedd yng Nghymru.

#### **Cyd-destun**

2. O dan Ddeddf Cymru 2014 datganolwyd trethi yng Nghymru a bu hynny'n achlysur hanesyddol yn hanes gwleidyddol Cymru. Chwe blynedd ar ôl cyflwyno'r Ddeddf, mae'r darpariaethau ariannol olaf wedi cael eu rhoi ar waith ac mae blwyddyn gyntaf gweithredu cyfraddau treth incwm Cymru wedi dod i ben. Mae'n bwysig cydnabod faint o waith sydd wedi cael ei wneud yn ystod y cyfnod hwn, gan gynnwys:

- llunio tair Deddf: Deddf Casglu a Rheoli Trethi (Cymru) 2016; Deddf Treth Trafodiadau Tir a Gwrthweithio Osgoi Trethi Datganoledig (Cymru) 2017; a Deddf Treth Gwarediadau Tirlenwi (Cymru) 2017;
- creu corff casglu trethi newydd yng Nghymru, sef Awdurdod Cyllid Cymru;
- pontio'n llwyddiannus o dreth dir y dreth stamp a'r dreth dirlenwi i'r dreth trafodiadau tir a'r dreth gwarediadau tirlenwi yng Nghymru;
- cyflwyno cyfradd treth incwm i Gymru.

3. O dan adran 23 o Ddeddf Cymru 2014, mae'n ofynnol i Weinidogion Cymru gyflwyno adroddiad blynyddol ar y cynnydd a wnaed wrth roi'r darpariaethau yn Rhan 2 ar waith, a hynny tan y bydd blwyddyn wedi mynd heibio ers rhoi'r darpariaethau olaf ar waith. Mae'r adroddiadau blynyddol hyn, a gyhoeddir ar wefan Llywodraeth Cymru, yn nodi'n fanwl yr ymdrech fawr a wnaed dros y chwe blynedd diwethaf i gyflwyno'r newidiadau hyn ar amser ac o fewn y gyllideb. Ceir dolen yma i'r adroddiadau blynyddol hyn, <https://llyw.cymru/trethi-cymru>.

4. Mae'n bwysig cydnabod hefyd, er mwyn i'r trethi datganoledig newydd hyn gael eu rhoi ar waith yn llwyddiannus, ein bod yn ddyledus iawn i'r cyfraniadau gwerthfawr gan amrywiaeth eang o randdeiliaid a sefydliadau.

5. Mae'r newidiadau hyn wedi rhoi mwy o atebolrwydd wrth wraidd setliad datganoli Cymru ac wedi sicrhau bod mwy o gyfrifoldeb ar Lywodraeth Cymru am y ffordd y caiff arian ei godi a'i wario yng Nghymru.

6. O ganlyniad, mae tua £5 biliwn o wariant yng Nghymru bellach wedi'i ariannu drwy drethi datganoledig a lleol – y dreth trafodiadau tir, y dreth gwarediadau tirlenwi, cyfraddau treth incwm Cymru, y dreth gyngor ac ardrethi annomestig.

7. Rydym hefyd wedi dechrau ar y cam nesaf yn y broses o ddatganoli trethi drwy ystyried trethi newydd i Gymru. Gallai hyn wneud gwahaniaeth gwirioneddol i Gymru, gan ein helpu i gyflawni ein blaenoriaethau polisi, boed hynny drwy newid ymddygiad, codi referniw i fuddsoddi yn ein gwasanaethau cyhoeddus, sicrhau mwy o degwch, neu gyfuniad o bob un ohonynt.

8. Am y tro cyntaf, rydym yn fynd drwy broses Deddf Cymru i drosglwyddo'r pwerau perthnasol i Gymru mewn perthynas â threth newydd (treth ar dir sy'n addas ar gyfer datblygu, neu dreth tir gwag). Mae'r ymarfer presennol yn allweddol i brofi a oes gennym system a fydd yn cynnig cyfleoedd eraill i lunio polisi trethi er mwyn cefnogi ein hamcanion.

### **Egwyddorion treth**

9. Amlinellwyd egwyddorion Llywodraeth Cymru ar gyfer datblygu, gweithredu a gweinyddu trethi i Gymru yn y Fframwaith Polisi Trethi a gyhoeddwyd yn 2017,

10. sef y dylai trethi Cymru wneud y canlynol:

- i) Codi referniw i gyllido gwasanaethau cyhoeddus mor deg â phosibl;
- ii) Cyflawni amcanion polisi Llywodraeth Cymru, yn enwedig cefnogi twf a swyddi;
- iii) Bod yn glir, yn sefydlog ac yn syml;
- iv) Cael eu datblygu drwy gydweithio a chyfranogi;
- v) Cyfrannu'n uniongyrchol at nod Deddf Llesiant Cenedlaethau'r Dyfodol o greu Cymru sy'n fwy cyfartal.

11. Mae ein strategaeth dreth, sydd wedi'i harwain gan yr egwyddorion hyn, wedi sicrhau ein bod wedi datblygu trethi sy'n deg i'r busnesau a'r unigolion sy'n eu talu. sy'n syml, gyda rheolau clir, sy'n anelu at leihau costau cydymffurfio a gweinyddu; sy'n cefnogi twf a swyddi a fydd, yn ei dro, yn helpu i drechu tlodi; ac sy'n cynnig sefydlogrwydd a sicrwydd i drethdalwyr.

12. Yn y dyfodol, bydd y cydbwysedd rhwng buddsoddi mewn gwasanaethau cyhoeddus, cystadleurwydd economi Cymru a'r effaith ar drethdalwyr yn parhau i fod wrth wraidd penderfyniadau, yn ogystal ag ystyriaeth o'r ffordd orau o ddefnyddio unrhyw dreth newydd neu ddatganoli trethi ymhellach fel modd i hyrwyddo tegwch a chydaddoldeb, gan ein galluogi i fynd i'r afael â materion cymdeithasol, a sicrhau cyfiawnder a sicrwydd economaidd.

### **Gweinyddu trethi datganoledig**

13. Arweiniodd y mesurau yn Neddf Cymru 2014 sy'n caniatáu datblygu trethi datganoledig at baratoi tair Deddf Trethi i Gymru, sef Deddf Casglu a Rheoli Trethi (Cymru) 2016; Deddf Treth Trafodiadau Tir a Gwrthweithio Osgoi Trethi

Datganoledig (Cymru) 2017; a Deddf Treth Gwarediadau Tirlenwi (Cymru) 2017.

14. Ar 1 Ebrill 2018, daeth y tair deddf hyn i rym. Sefydlwyd Bwrdd Rhaglen Datganoli Trethi, a arweiniwyd gan CThEM. Ei ddiben oedd goruchwyllo'r broses o bontio o dreth dir y dreth stamp i'r dreth trafodiadau tir, ac o'r dreth dirlenwi i'r dreth gwarediadau tirlenwi Goruchwylodd y Bwrdd hefyd brosiect cyfraddau treth incwm Cymru – gweler paragraff 33). Cynigiodd Bwrdd y Rhaglen Datganoli Trethi ffordd o ddatrys heriau ar lefel prosiect. Mae'r bwrdd hwn bellach wedi'i gau'n ffurfiol.

#### *Treth Trafodiadau Tir*

15. Cytunwyd ar y rheoliadau i ddwyn cyfraddau a bandiau'r dreth trafodiadau tir i rym gan Gynulliad Cenedlaethol Cymru ar 30 Ionawr 2018. Roedd y cyfraddau a'r bandiau hyn ar waith nes iddynt gael eu diwygio ym mis Gorffennaf 2020. O dan y rheoliadau diwygiedig, cynyddwyd y trothwy ar gyfer talu'r brif gyfradd o £180,000 i £250,000.

#### *Treth Gwarediadau Tirlenwi*

16. Daeth cyfraddau cychwynnol y dreth gwarediadau tirlenwi i rym ar 24 Ionawr 2018. Ymrwymodd Llywodraeth Cymru i gynyddu cyfraddau'r dreth gwarediadau tirlenwi yn unol â chwyddiant, er mwyn bod yn gyson â'r ffordd y mae Llywodraeth y DU yn ymdrin â chyfraddau'r dreth dirlenwi.
17. Cymeradwywyd y rheoliadau a fyddai'n pennu cyfraddau'r dreth gwarediadau tirlenwi ar gyfer 2020-21 gan Gynulliad Cenedlaethol Cymru ar 28 Ionawr 2020.

#### *Awdurdod Cyllid Cymru*

18. Yn dilyn Deddf Cymru 2014, sefydlodd Deddf Casglu a Rheoli Trethi (Cymru) 2016 Awdurdod Cyllid Cymru (yr Awdurdod) i weinyddu'r ddwy dreth sydd wedi'u datganoli'n llawn i Gymru – y dreth trafodiadau tir a'r dreth gwarediadau tirlenwi.
19. Sefydlwyd yr Awdurdod yn 2017 fel adran anweinidogol yn Llywodraeth Cymru. Dechreuodd gasglu'r ddwy dreth ddatganoledig o fis Ebrill 2018. Mae cytundeb fframwaith rhwng Llywodraeth Cymru a'r Awdurdod yn nodi eu perthynas a'u priod rolau a chyfrifoldebau.
20. Mae'r Awdurdod yn ymrwymedig i gyflwyno system drethi deg i Gymru drwy'r hyn a elwir yn 'Ein Dull o Weithredu' – ffordd Gymreig o drethu. Mae hwn yn ddull a arweinir gan bartneriaeth, sy'n golygu gweithio gyda threthdalwyr, eu cynrychiolwyr, a sefydliadau partner, ac a ysbrydolir gan dri them Cymraeg: Cydweithio, Cadarnhau, Cywiro:

- Mae cydweithio yn golygu gweithio gyda'n gilydd ac mae'n dwyn yr ystyr gweithio tuag at nod cyffredin.

- Mae cadarnhau yn awgrymu ansawdd cadarn, solet y gellir dibynnu arno. Mae hyn yn ymwneud â rhoi sicrwydd, bod yn gywir a chryfhau ymddiriedaeth.
- Mae cywiro yn golygu dychwelyd i'r gwirionedd ac mae'n ymwneud â'r ffordd rydym yn gweithio gyda chi i ymdrin â gwallau neu bryderon.

21. Drwy'r dull hwn, a ysbrydolwyd gan Siarter yr Awdurdod, sy'n cynnwys wyth gwerth, credo a safon a rennir, mae'r Awdurdod yn rhannu ei wybodaeth a'i ddealltwriaeth â chwsmeriaid er mwyn eu galluogi i dalu'r swm cywir o dreth ar yr adeg gywir. Mae prosesau ar waith i'r rhai a fydd yn ceisio osgoi talu'r swm cywir o dreth yn fwriadol.

22. Mae'r Awdurdod wedi mabwysiadu dull digidol yn gyntaf mewn perthynas â'i wasanaethau o'r cychwyn cyntaf. Ochr yn ochr â chymorth gwasanaeth cwsmeriaid penodol, mae hyn yn ei gwneud yn hawdd i gwsmeriaid ffeilio eu ffurflenni a thalu eu trethi. Cynhelir y mwyafrif helaeth o drafodiadau'r Awdurdod yn ddigidol, ond mae opsiynau papur ar gael i'r rhai na allant ffeilio na thalu'n ddigidol.

23. Nododd y Gweinidog Cyllid a'r Trefnydd ei disgwiliadau ar gyfer y ffordd y byddai'r Awdurdod yn gweithredu rhwng 2019-20 a 2021-22 mewn llythyr cylch gwaith. Nododd y llythyr y blaenoriaethau canlynol:

- Datblygiad parhaus yr Awdurdod – adeiladu ar gyflawniadau'r Awdurdod ac edrych ymlaen at y tymor hwy;
- Cyflawni canlyniadau – datblygu cyfres o fesurau perfformiad gweithredol er mwyn nodi pa mor effeithiol y mae'r system drethi yn gweithio yng Nghymru;
- Gwarediadau Anawdurdodedig – y dylai'r Awdurdod dargedu adnoddau at achosion sy'n mynd i'r afael ag effeithiau amgylcheddol ac sy'n rhoi busnesau tirlenwi cyfreithlon o dan anfantais.

24. Mae cynllun corfforaethol tair blynedd cyntaf yr Awdurdod ar gyfer 2019-22, y cytunwyd arno gan y Gweinidog Cyllid a'r Trefnydd ac a gyhoeddwyd ym mis Mai 2019, yn adlewyrchu'r disgwiliadau hyn sy'n ategu ei gilydd, a'r cyfan wedi'i anelu at helpu trethdalwyr i dalu'r swm cywir o dreth ar yr adeg gywir.

25. Gosodir y cynllun yng nghyd-destun diben y sefydliad:

- i. cynllunio a darparu gwasanaethau cyllid cenedlaethol i Gymru;
- ii. arwain y gwaith o ddefnyddio data trethdalwyr Cymru yn well dros Gymru.

26. Mae amcanion strategol presennol yr Awdurdod fel a ganlyn:

- a. Gwneud pethau'n haws;
- b. Sicrhau ein bod yn deg;
- c. Bod yn fwy effeithlon;

d. Ehangu ein gallu.

Yn ogystal â dau amcan arall sydd â'r nod o fanteisio i'r eithaf ar rôl yr Awdurdod:

e. Data – Gwneud y defnydd gorau posibl o asedau data er budd Cymru.

f. Cynllunio – Defnyddio profiad ac arbenigedd i gefnogi'r broses o gynllunio gwasanaethau cyllid Cymru.

27. Eleni, mae'r Awdurdod wedi arwain y gwaith o ystyried sut i wneud y defnydd gorau o ddata trethdalwyr Cymru. Mae'n rhannu gwybodaeth am y math o ddata y mae'r Awdurdod bellach yn eu dal ar y trethi datganoledig â Llywodraeth Cymru a'r Awdurdodau Lleol ond mae meysydd o ddiddordeb cyffredin a chyfleoedd posibl i gydweithio i wella gwasanaethau wedi'u nodi. Mae diogelwch data trethdalwyr bob amser yn hollbwysig i'r gwaith hwn.

28. O dan amcan Cynllunio, mae Llywodraeth Cymru a'r Awdurdod wedi cydweithio i ddwyn amrywiaeth o sgiliau ac arbenigedd ynghyd, er mwyn cefnogi syniadau cynnar ar y gwaith o gynllunio unrhyw wasanaethau cyllid newydd posibl. Mae'r ffordd hon o weithio hefyd wedi bod o fudd o ran newidiadau i'r ddwy dreth bresennol.

29. Mae cynllun corfforaethol 2019-22 yn cynnwys set o fesurau perfformiad. Gan fod dull gweithredu'r Awdurdod yn wahanol, mae'r naw mesur perfformiad hefyd yn wahanol, gan adlewyrchu'r ffordd newydd Gymreig o drethu. Pennwyd y targedau ar gyfer diwedd cyfnod y cynllun corfforaethol (2021-22). Bydd yr Awdurdod yn cyflwyno adroddiad ar y mesurau hyn am y tro cyntaf yn ei Adroddiad Blynyddol ar gyfer 2019-20, y bwriedir iddo gael ei gyhoeddi yn ystod hydref 2020, gan ddefnyddio enghreifftiau ar ffurf naratif a data.

30. Mae cyfrifon blynyddol diweddaraf yr Awdurdod, a gyhoeddwyd ym mis Gorffennaf 2020, yn cofnodi i'r Awdurdod godi £260 miliwn drwy refeniw'r dreth treth trafodiadau tir a £37 miliwn drwy refeniw'r dreth treth gwarediadau tirlenwi yn ystod 2019-20. Prosesodd yr Awdurdod ychydig dros 61,000 o ffurflenni'r dreth trafodiadau tir, sy'n debyg i'r cyfnod blaenorol.

31. Mae'r Awdurdod wedi wynebu heriau gweithredol penodol o ganlyniad i'r llyfogydd yn ei bencadlys yn Nhrefforest ym mis Chwefror ac wedyn effaith pandemig COVID-19. Mae'r system gwmwl a'r prif ffocws ar ddarparu ei wasanaethau'n ddigidol wedi sicrhau bod yr Awdurdod wedi llwyddo i barhau i ddarparu gwasanaethau gyda chyn lleied o darfu â phosibl.

#### *Cyfraddau Treth Incwm Cymru (CTIC)*

32. Mae adrannau 8 i 11 o Ddeddf Cymru 2014 yn darparu ar gyfer cyfraddau treth incwm sylfaenol, uwch ac ychwanegol yng Nghymru i'w pennu gan y Senedd drwy benderfyniad, ac yn rhoi diffiniad pellach o "dretthalwyr Cymru".

33. Pan gafodd Deddf Cymru 2014 ei deddfu'n wreiddiol, roedd yn darparu ar gyfer cynnal refferendwm yng Nghymru ynghylch p'un a ddylai'r darpariaethau treth incwm a nodwyd yn y Ddeddf ddod i rym ai peidio. Yn dilyn hynny, cafodd y

darpariaethau hyn mewn perthynas â refferendwm eu dileu gan adran 17 o Ddeddf Cymru 2017.

34. Cadarnhaodd fframwaith cyllidol Llywodraeth Cymru, y cytunwyd arno gan Lywodraeth Cymru a Llywodraeth y DU ym mis Rhagfyr 2016, y byddai Llywodraeth Cymru yn cyflwyno CTIC yn ystod 2019-20, a hynny'n amodol ar ddileu'r gofyniad am refferendwm.
35. Cyflwynwyd CTIC ar 6 Ebrill 2019. Ar gyfer incwm nad yw'n deillio o gynilion neu incwm difidend, penderfynodd Llywodraeth y DU dynnu 10c oddi ar y tair cyfradd treth incwm – cyfraddau sylfaenol, uwch ac ychwanegol – a delir gan drethdalwyr Cymru. Ar 15 Ionawr 2019, cytunodd y Senedd â chynnig Llywodraeth Cymru i bennu cyfraddau treth incwm ar gyfer 2019-20 ar 10c, er mwyn sicrhau bod y cyfraddau a delir gan drethdalwyr Cymru yn aros yr un fath â'r rhai a delir gan drethdalwyr yn Lloegr a Gogledd Iwerddon.
36. Mae CThEM wedi cadw'r cyfrifoldeb am gasglu a rheoli CTIC. Yn nhermau cyfreithiol a chymhwysedd, erys y dreth hon yn un o drethi'r DU, felly hefyd y trefniadau cysylltiedig ar gyfer lwfansau a rhyddhadau (gan gynnwys y lwfans personol), a'r trothwyon a'r bandiau treth. Mae Llywodraeth y DU yn parhau i gadw'r refeniw sy'n deillio o dreth incwm ar gynilion ac incwm difidend gan drethdalwyr yng Nghymru.
37. Cafodd y gwaith paratoi ar gyfer cyflwyno CTIC ei oruchwylio gan Fwrdd Prosiect trawslywodraethol Cyfraddau Treth Incwm Cymru, gan weithredu o dan Fwrdd y Rhaglen Datganoli Trethi. Roedd yn cynnwys cynrychiolwyr o Lywodraeth Cymru, CThEM a Thrysorlys EM.
38. Gan fod y prosiect i roi cyfraddau treth incwm Cymru ar waith wedi'i gwblhau i raddau helaeth a bod CTIC wedi dod yn weithrediad Busnes Fel Arfer, mae Bwrdd y prosiect wedi cael ei droi'n Fwrdd Treth Incwm Cymru a fydd yn goruchwylio'r trefniadau Busnes Fel Arfer.
39. Caiff y camau gweithredu sy'n weddill mewn perthynas â pharatoi datganiad y Crynodeb Blynyddol o Drethi a'r broses o gau'r prosiect yn ffurfiol eu rheoli drwy'r strwythur Bwrdd newydd. Mae'r Bwrdd yn cyfarfod bob chwarter i fonitro cynnydd ac fe'i cadeirir ar y cyd gan Lywodraeth Cymru a CThEM.
40. Bu Swyddfa Archwilio Cymru a'r Swyddfa Archwilio Genedlaethol yn adolygu'r gwaith paratoi yn ystod y misoedd cyn cyflwyno'r cyfraddau a daethpwyd i'r casgliad bod gan CThEM drefniadau cyflwyno a llywodraethu priodol i roi CTIC ar waith.
41. Caiff alldro blwyddyn gyntaf datganoli treth incwm (2019-20) ei gyhoeddi gan CThEM yn ystod haf 2021.
42. Mae cynnal cywirdeb y boblogaeth o drethdalwyr Cymreig yn hanfodol i'r gwaith o weinyddu CTIC. Mae'r Cytundeb Lefel Gwasanaeth rhwng Llywodraeth Cymru a CThEM yn cynnwys mesurau perfformiad a oedd â'r nod o sicrhau focws parhaus ar nodi a chynnal cofnod cywir a chadarn o'r boblogaeth o

drethdalwyr Cymreig. Mae'r CLG yn cynnwys cylch rheolaidd o weithgarwch, gan gynnwys sganiau data CThEM, er mwyn sicrhau cywirdeb y data. Un o'r gofynion allweddol yw bod CThEM yn cyflwyno adroddiad blynyddol ar y ffordd y mae wedi darparu'r gwasanaethau y cytunwyd arnynt.

43. Caiff perfformiad CTIC ei archwilio gan Archwilydd Cyffredinol Cymru, yng nghyd-destun paratoi cyfrifon Cronfa Gyfunol Cymru, a'r Swyddfa Archwilio Genedlaethol, a hynny er mwyn sicrhau digonolrwydd rheolau a gweithdrefnau CThEM a roddwyd ar waith, o ganlyniad i ddarpariaethau cyfraddau Cymru, er mwyn sicrhau y caiff treth incwm a godir ar gyfraddau a bennir o dan y darpariaethau hynny ei hasesu a'i chasglu'n briodol.

44. Ar ôl i gyfrifon CThEM gael eu harchwilio, bydd adroddiad cryno sy'n ymdrin â'r holl faterion sy'n ymwneud â CTIC ar gael i'r Senedd. Ar hyn o bryd, bwriedir ei gyhoeddi ym mis Ionawr 2021.

## **Dull trethu yng Nghymru**

45. Mae ein cynllun gwaith trethi blynyddol yn nodi sut rydym yn mynd ati i ddatblygu polisi trethi yng Nghymru. Mae'r fersiwn ddiweddaraf a gyhoeddwyd yn ymwneud â 2019. Oherwydd effaith pandemig COVID-19, bu oedi wrth baratoi Cynllun Gwaith 2020.

46. Gellir trefnu'r materion yr eir i'r afael â nhw drwy'r cynlluniau gwaith trethi blynyddol yn dair thema fel a ganlyn:

- Datblygu polisi trethi mor deg â phosibl, sy'n gyson â blaenoriaethau polisi Llywodraeth Cymru, ac ar y cyd â rhanddeiliaid.
- Gweithredu trethi Cymreig yng nghyd-destun y DU.
- Gwella gwybodaeth a dealltwriaeth o drethi yng Nghymru.

47. Bydd y cydbwysedd rhwng buddsoddi mewn gwasanaethau cyhoeddus, cystadleurwydd economi Cymru a'r effaith ar drethdalwyr wrth wraidd penderfyniadau, yn union fel y defnyddiwn drethi fel ffordd o hyrwyddo tegwch a chydarddoldeb, gan ein galluogi i fynd i'r afael â materion cymdeithasol, gan gynnwys cyfiawnder a sicrwydd economaidd.

48. Yn benodol, rydym yn parhau i ofyn am i dreth newydd (treth tir gwag) gael ei datganoli i Gymru, gan brofi'r drefn a gofynion y broses am y tro cyntaf.

## **Y drefn ar gyfer datganoli pwerau**

49. Mae parhau â'r gwaith o feithrin y gallu sydd ei angen i ddatblygu a gweinyddu'r trethi datganoledig yn flaenoriaeth allweddol o hyd.

50. Rydym yn parhau i weithio gyda Llywodraeth y DU i sicrhau y caiff cymhwysedd trethu mewn perthynas â thir gwag ei ddatganoli. Cyhoeddwyd datganiad ysgrifenedig ar 7 Medi a oedd yn rhoi'r wybodaeth ddiweddaraf i

Senedd Cymru. Hefyd, ysgrifennais at gadeirydd y Pwyllgor Cyllid ar y mater hwn.

51. Ochr yn ochr â hyn, rydym wrthi'n ymgynghori ar ddeddfwriaeth bellach yng Nghymru a fydd yn sicrhau y gall Gweinidogion Cymru wneud newidiadau i "Ddeddfau Trethi Cymru" ar fyr rybudd o dan yr amgylchiadau canlynol:

- er mwyn atal achosion o osgoi neu efadu'r trethi a ddatganolwyd i Gymru;
- er mwyn cydymffurfio â rhwymedigaethau rhyngwladol;
- mewn sefyllfaoedd o angen eithriadol (megis mewn ymateb i benderfyniad gan driwlynlys neu'r llysoedd uwch);
- o dan amgylchiadau penodol lle mae Gweinidogion Cymru o'r farn bod gwneud hynny er budd y cyhoedd;
- yn benodol, mewn ymateb i newidiadau i bolisiâu trethi gan Lywodraeth y DU.

## **Fframwaith cyllidol**

52. Nodir y fframwaith sy'n sail i drefniadau cyllido Llywodraeth Cymru mewn dwy ddogfen allweddol: y datganiad am bolisi cyllido a chytundeb fframwaith cyllidol Llywodraeth Cymru.

53. Mae'r datganiad am bolisi cyllido yn disgrifio cyfrifiadau manwl fformiwla Barnett a'r ffordd y defnyddir y rhain i benderfynu ar newidiadau i'r grantiau bloc ar gyfer pob un o'r gweinyddiaethau datganoledig. Mae hefyd yn manylu ar nifer o elfennau eraill y trefniadau ar gyfer cyllid datganoledig. Fe'i cyhoeddwyd ddiwethaf yn 2015 ochr yn ochr â'r adolygiad cynhwysfawr o wariant yn y flwyddyn honno. Mae Llywodraeth y DU yn bwriadu cyhoeddi fersiwn wedi'i diweddarau eleni ar y cyd â'r adolygiad arfaethedig o wariant.

54. Cyhoeddwyd y cytundeb fframwaith cyllidol ym mis Rhagfyr 2016. Bu'n galluogi rhoi'r pwerau trethu a benthyca yn Neddfau Cymru 2014 a 2017 ar waith. Cyflwynodd y cytundeb newidiadau i'r ffordd y mae fformiwla Barnett yn gweithredu yng Nghymru hefyd.

55. Mae'r adrannau canlynol yn ymdrin â gwahanol agweddau ar y fframwaith cyllidol. Cyflwynwyd y trethi sydd wedi'u datganoli'n llawn, y dreth trafodiadau tir a'r dreth gwarediadau tirlenwi ym mis Ebrill 2018 a chyfraddau treth incwm Cymru ym mis Ebrill 2019. Felly, mae'n dal yn rhy gynnar i asesu perfformiad y fframwaith cyllidol mewn perthynas â rhoi'r trethi datganoledig ar waith. Fodd bynnag, mae'r adrannau isod yn cynnwys rhywfaint o ystyriaeth ragarweiniol o berfformiad hyd yma.

Grant bloc / fformiwla Barnett



56. Ariennir Llywodraeth Cymru yn bennaf drwy un grant bloc heb ei neilltuo. Caiff newidiadau i'r grant bloc eu pennu drwy fformiwla Barnett. O dan y fformiwla hon, mae'r grant bloc mewn unrhyw flwyddyn benodol yn cyfateb i'r grant bloc yn y flwyddyn flaenorol ynghyd â chyfran ar sail poblogaeth o'r newidiadau yng ngwariant Llywodraeth y DU ar feysydd sydd wedi'u datganoli i Lywodraeth Cymru.

57. Ar adeg adolygiad o wariant, mae'r broses hon yn cynnwys elfen o frasamcan. I ddechrau, dim ond ar lefel adrannol y bydd cynlluniau Llywodraeth y DU ar gyfer y blynyddoedd sydd i ddod ar gael. Gan fod rhai o adrannau'r DU yn cwmpasu swyddogaethau sydd wedi'u datganoli a rhai heb eu datganoli, nid oes modd dweud yn union beth fydd y newid mewn cyllid ar gyfer meysydd sydd wedi'u datganoli. Er mwyn mynd i'r afael â hyn, caiff y rhaniad canrannol rhwng gwariant sydd wedi'i ddatganoli a gwariant heb ei ddatganoli o flwyddyn sylfaen ei gymhwyso at y newid cyffredinol yng nghyllideb pob un o adrannau'r DU dros gyfnod yr adolygiad o wariant.

58. Cyfrifir y canrannau neu'r ffactorau cymaradwy hyn ar lefel adrannol drwy asesu a yw pob rhaglen wariant unigol wedi'i datganoli ai peidio. Caiff y gwariant ar raglenni y tybir eu bod wedi'u datganoli ei adio ar gyfer y flwyddyn sylfaen (fel arfer y flwyddyn cyn y cyfnod a gwmpesir gan yr adolygiad o wariant) a'i rannu â chyllideb gyffredinol yr adran honno. Mae Llywodraeth y DU yn cyfrifo'r ffactorau cymaradwy cyn adolygiad o wariant ac yn eu cyhoeddi yn y datganiad am bolisi cyllido. Ymgynghorir â'r gweinyddiaethau datganoledig fel rhan o'r broses hon.

59. Cyflwynodd y cytundeb fframwaith cyllidol elfen newydd i fformiwla Barnett yng Nghymru. Caiff newidiadau i grant bloc Llywodraeth Cymru eu lluosio â ffactor sy'n seiliedig ar anghenion. Bwriedir i hyn fynd i'r afael â phriodwedd cydgyfeirio fformiwla Barnett a fyddai'n golygu, heb ei diwygio, y byddai cyllid cymharol cymedrig y pen yng Nghymru yn gostwng tuag at y lefel yn Lloegr. Caiff y ffactor sy'n seiliedig ar anghenion ei bennu ar 115%, yn seiliedig ar yr amrediad o angen cymharol a argymhellwyd gan [Gomisiwn Holtham](#) a'r cyllid gwaelodol a roddwyd ar waith yn Adolygiad o Wariant 2015. Am gyfnod trosiannol, tra bod cyllid grant bloc cymharol y pen yng Nghymru uwchlaw 115% o gyllid cyfatebol y pen yn Lloegr, pennir y ffactor ar 105%.

60. Mae'r ffactor sy'n seiliedig ar anghenion wedi'i gymhwyso at newidiadu yng ngrant bloc Llywodraeth Cymru ers 2018-19, o gymharu â llinell sylfaen 2017-18. Mae wedi cyflwyno cyfanswm o tua £360 miliwn o gyllid ychwanegol hyd yma,

gyda thua hanner y swm hwnnw yn ymwneud â chyllid o ganlyniad i'r coronafeirws yn 2020-21.

61. Nod Llywodraeth Cymru yn yr hirdymor yw sicrhau system gyllido sy'n seiliedig ar anghenion sy'n gweithredu'n gyson ledled y DU. Mae hyn wedi'i nodi yn y papur [Diwygio trefniadau ariannu a chodi cyllid y DU ar ôl Brexit: Sicrhau Dyfodol Cymru](#) a gyhoeddwyd yn 2018 ac wedi'i grynhai yn yr adran ar gyllid yn [Diwygio ein Hundeb: Cydlywodraethu yn y DU](#). Yn y cyfamser, mae ychwanegu ffactor penodol sy'n seiliedig ar anghenion yn golygu, am y tro cyntaf, fod cyllid cymharol yng Nghymru yn ystyried angen cymharol Cymru i ariannu gwasanaethau cyhoeddus datganoledig. Mae ei gyflwyno yn mynd gryn dipyn o'r ffordd i sicrhau system gyllido decach i Gymru.

#### Trefniadau llywodraethu a dyraniadau cyllid penodol y tu allan i fformiwla Barnett

62. Mae'r papurau y cyfeirir atynt uchod yn nodi barn Llywodraeth Cymru ar y ffordd y dylid diwygio trefniadau cyllid datganoledig. Fel y nodwyd yn y papurau hynny, gosodir y trefniadau presennol yn y datganiad am bolisi cyllido gan Lywodraeth y DU. Nid oes fawr ddim ymgynghori ystyrion â'r llywodraethau datganoledig ac ni chytunir ar y trefniadau ar y cyd. O ganlyniad, cafwyd anghydfod ynglŷn â'r prosesau hynny. Er enghraifft, yn 2017, cododd Llywodraeth Cymru a Llywodraeth yr Alban ar y cyd anghytundeb yn sgil penderfyniad Llywodraeth y DU i ddyrannu £1bn ychwanegol i Ogledd Iwerddon fel rhan o'r cytundeb hyder a chyflenwi rhwng y Blaid Geidwadol a'r Blaid Undebol Ddemocrataidd ar ôl Etholiad Cyffredinol 2017.

63. Dylai'r system bresennol gael ei disodli gan drefniadau cyllido y cytunir arnynt ar y cyd sy'n seiliedig ar gydsynio a chydweithio. Dylai'r rhain weithredu ar y cyd â Llywodraeth y DU a phob un o'r gweinyddiaethau datganoledig, gan roi terfyn ar gytundebau dwyochrog er mwyn dod â chysondeb ac eglurder i'r trefniadau cyllidol o fewn y DU.

64. Fel y nodwyd yn gynharach, caiff y datganiad am bolisi cyllido ei ddiwygio cyn yr adolygiad o wariant yn y flwyddyn gyfredol. Bydd Llywodraeth y DU yn ymgynghori â Lywodraeth Cymru fel rhan o'r broses ond bydd yn parhau i fod yn ddogfen Llywodraeth y DU ac mae'n annhebygol y bydd yn mynd i'r afael â'r materion a godir yma.

#### Addasiadau i'r grant bloc

65. Mae'r cytundeb fframwaith cyllidol yn cynnwys manylion am addasiadau i'r grant bloc a gyflwynwyd ochr yn ochr â'r trethi datganoledig. Mae'r addasiadau yn lleihau grant bloc Llywodraeth Cymru, gan adlewyrchu'r ffaith bod Llywodraeth Cymru yn cael y refeniw o drethi datganoledig yn uniongyrchol yn hytrach na Thrysorlys y DU.

66. Mae'r addasiadau ar gyfer y ddwy dreth sydd wedi'u datganoli'n llawn yn cael eu cyfrifo ar sail llinell sylfaen sy'n adlewyrchu'r dreth a gasglwyd o dan dreth ragflaenol y DU yng Nghymru yn y flwyddyn cyn datganoli (2017-18). Mae'r addasiadau i'r grant bloc blynyddol yn tyfu o'r llinell sylfaen hon, gan adlewyrchu newidiadau yn nhreth gyfatebol Llywodraeth y DU yn Lloegr a Gogledd Iwerddon.

67. Roedd yr addasiad i'r bloc grant a gafwyd yn sgil cyflwyno cyfraddau treth incwm Cymru yn 2019-20 yn cynnwys trefniant trosiannol, gan nad oedd y sefyllfa sylfaen ar gyfer y sylfaen drethu ar adeg datganoli yn hysbys. Yn y flwyddyn gyntaf, pennwyd yr addasiad ar lefel ddisgwyliedig y refeniw a gesglir yng Nghymru o 10c o dreth ym mhob band (a gymhwyswyd at incwm nad yw'n deillio o gynilion ac incwm difidend). Gan fod Llywodraeth Cymru wedi pennu'r cyfraddau treth datganoledig ar 10c ym mhob band, roedd yr addasiad i'r grant bloc yr un peth â'r refeniw datganoledig yn 2019-20. Felly, ni chafwyd unrhyw effaith net ar gyllideb Llywodraeth Cymru o ganlyniad i ddatganoli treth incwm yn y flwyddyn gyntaf. O 2020-21 ymlaen, bydd lefel yr addasiad i'r grant bloc ar gyfer pob band yn cynyddu neu'n gostwng er mwyn adlewyrchu twf yng ngwerth 10c treth incwm (o incwm nad yw'n deillio o gynilion ac incwm difidend) yn Lloegr a Gogledd Iwerddon.

68. Yr enw ar yr union ffordd a ddefnyddir i gyfrifo addasiadau i'r grant bloc yw'r model cymaradwy ac fe'i hamlinellir yn fanwl yn y chytundeb fframwaith cyllidol. Mae'r addasiadau i'r grant bloc yn seiliedig ar ragolygon y Swyddfa Cyfrifoldeb Cyllidebol o refeniw trethi Llywodraeth y DU.

69. O ran cyfradd treth incwm Cymru, mae'r addasiad i'r grant bloc wedi'i bennu cyn dechrau'r flwyddyn dan sylw, drwy ddefnyddio Rhagolwg Economaidd a Chyllidol yr hydref blaenorol. Caiff yr addasiadau i'r grant bloc ar gyfer y trethi sydd wedi'u datganoli'n llawn hefyd eu pennu drwy ddefnyddio Rhagolwg Economaidd a Chyllidol yr hydref blaenorol ond cânt eu diwygio yn ystod y flwyddyn drwy ddefnyddio rhagolwg yr hydref canlynol.

70. Ar gyfer 2020-21, pennwyd pob addasiad i'r grant bloc ar gyfer pob treth drwy ddefnyddio Rhagolwg Economaidd a Chyllidol Mawrth 2020, am nad oedd un yn ystod hydref 2019. Dangosir yr addasiadau terfynol i'r grant bloc ar gyfer 2018-19 a 2019-20 a'r addasiadau cyfredol i'r grant bloc ar gyfer 2020-21 yn nhabl 1.

**Tabl 1: Addasiadau i'r Grant Bloc**

	2018-19 <sup>1</sup>	2019-20 <sup>2</sup>	£ million 2020-21 <sup>3</sup>
Land Transaction Tax	241.8	234.8	260.9
Landfill Disposals Tax	26.5	24.9	24.7
Welsh Rates of Income Tax		2,059.4	2,156.3
Of which: Basic rate		1,778.4	1,854.3
Higher rate		237.3	248.9
Additional rate		43.6	53.2

1. Based on OBR autumn 2018 Economic and Fiscal Outlook
2. LTT and LDT based on OBR December 2019 Welsh Taxes Outlook  
WRIT based on autumn 2018 Economic and Fiscal Outlook
3. All based on OBR March 2020 Economic and Fiscal Outlook

71. Dangosir yr alldro refeniw a rhagolygon y flwyddyn gyfredol ar gyfer y trethi sydd wedi'u datganoli'n llawn a'r rhagolygon cyfredol ar gyfer CTIC yn Nhabl 2. Bydd pandemig y coronafeirws yn effeithio ar refeniw pob treth ddatganoledig yn 2020-21. At ddibenion cyllidebol, mae refeniw CTIC yn y flwyddyn gyfredol bellach wedi'i bennu. Caiff y gwahaniaeth rhwng y ffigurau yn nhabl 2 a'r alldro terfynol ei ystyried mewn ymarfer cysoni. Caiff hyn ei gyfuno ag unrhyw newid i'r addasiad i'r grant bloc yn nhabl 1, yng ngoleuni alldro Lloegr a Gogledd Iwerddon. Bydd y wybodaeth berthnasol am alldro treth incwm ar gyfer 2020-21 ar gael yn ystod haf 2022. Yna, caiff yr addasiad cysoni cyffredinol ei gymhwyso at grant bloc Llywodraeth Cymru ar gyfer 2023-24.

72. Caiff rhagolygon refeniw'r Swyddfa Cyfrifoldeb Cyllidebol ar gyfer y trethi sydd wedi'u datganoli'n llawn yn 2020-21 eu diwygio yn yr hydref, ochr yn ochr â'r addasiadau cysylltiedig i'r grant bloc.

**Tabl 2: Refeniw trethi datganoledig**

	2018-19 <sup>1</sup>	2019-20 <sup>1</sup>	£ million 2020-21 <sup>2</sup>
Land Transaction Tax <sup>3</sup>	227.9	260.3	254.0
Landfill Disposals Tax	44.4	36.9	34.2
Welsh Rates of Income Tax		2,059.4	2,169.7
Of which: Basic rate		1,778.4	1,864.2
Higher rate		237.3	251.3
Additional rate		43.6	54.1

1. Outturn for LDT and LTT from Welsh Revenue Authority annual accounts  
WRIT for 2019-20 from OBR autumn 2018 Economic and Fiscal Outlook
2. All forecasts from OBR March 2020 Economic and Fiscal Outlook
3. 2019-20 LTT outturn affected by £28.2m tax liability associated with Transport for Wales purchase of Core Valleys Lines from Network Rail, with no overall net resource benefit to Welsh Government.

73. Gyda dim ond dwy flynedd o wybodaeth alldro ar gyfer y trethi sydd wedi'u datganoli'n llawn a dim byd eto ar gyfer cyfraddau treth incwm Cymru, mae'n rhy gynnar i farnu pa mor dda y mae triniaeth gyllidebol trethi datganoledig yn perfformio. Gyda'i gilydd, mae refeniw'r dreth trafodiadau tir a'r dreth gwarediadau tirlenwi dros y ddwy flynedd y mae alldro ar eu cyfer ychydig yn uwch na'r addasiadau cysylltiedig i'r grant bloc. Bydd hyn yn adlewyrchu nifer o ffactorau, gan gynnwys: dewisiadau polisi trethi, perfformiad ym maes gweinyddu trethi, y farchnad eiddo ac amodau economaidd ehangach.

74. Mae'r oedi cyn bod gwybodaeth alldro ar gael ar gyfer refeniw treth incwm yn golygu nad oes modd asesu'r elfen hon o'r fframwaith cyllidol yn briodol i Gymru ar hyn o bryd. Gall yr oedi mawr cyn bod addasiadau cysoni'n cael eu cymhwyso, yn amlwg, arwain at broblemau cyllidebol yn y dyfodol, fel y gwelwyd yn ddiweddar yn yr Alban.

75. Mae'n debygol y bydd y gwahaniaethau rhwng datganoli treth incwm yng Nghymru a'r Alban yn golygu y bydd problemau cysoni yn llai difrifol yng Nghymru. Yn yr Alban, mae'r holl dreth incwm ar incwm nad yw'n deillio o gynilion ac incwm difidend wedi'i ddatganoli. Gyda dim ond 10c o bob cyfradd treth wedi'i ddatganoli yng Nghymru, mae Llywodraeth Cymru yn llai agored i'r risgiau sy'n gysylltiedig â thwf refeniw treth incwm gwahaniaethol. Dylai'r addasiadau ar wahân i'r grant bloc ar gyfer pob band treth incwm yng Nghymru hefyd helpu i leihau'r risg hon, drwy bwysoli'r addasiad cyffredinol i'r grant bloc mewn ffordd sy'n debycach i sylfaen treth incwm Cymru. Un addasiad i'r grant bloc ar gyfer treth incwm sydd gan yr Alban.

76. Bydd Llywodraeth Cymru yn parhau i fonitro'r trefniadau'n ofalus ar gyfer pob treth ddatganoledig a bydd yn codi unrhyw bryderon gyda Llywodraeth y DU.

#### Adnoddau rheoli'r gyllideb

77. Roedd y cytundeb fframwaith cyllidol yn cynnwys creu Cronfa Wrth Gefn i Gymru. Gall Llywodraeth Cymru gadw refeniw dros ben a chyllid grant bloc nas defnyddiwyd yng Nghronfa Wrth Gefn Cymru, hyd at derfyn o £350m. Dechreuodd y Gronfa Wrth Gefn weithredu ar ddiwedd 2017-18, ac roedd Llywodraeth Cymru yn gallu cadw tanwariant i gefnogi'r broses o ddatganoli trethi a rheoli pwysau eraill ar y gyllideb yn y flwyddyn ganlynol. Gall hawlio hyd at £125m o gyllid adnoddau a £50m o gyllid cyfalaf mewn unrhyw flwyddyn benodol.

78. Dengys tabl 3 sefyllfa gychwynol y Gronfa Wrth Gefn ar gyfer pob un o'r blynyddoedd y mae trethi datganoledig wedi bod yn weithredol. Mae'r terfyn cyffredinol o £350m ar y Gronfa Wrth Gefn a'r terfyn hawlio blynyddol, ynghyd â newidiadau hwyr i grant bloc Llywodraeth Cymru drwy broses Amcangyfrifon Atodol y DU, yn golygu bod y broses o reoli sefyllfa diwedd blwyddyn Llywodraeth Cymru wedi bod yn heriol iawn dros y ddwy flynedd ddiwethaf. Byddai'r rhan hon o'r broses gyllidebol yn haws ac yn fwy effeithiol pe bai'r terfynau'n cael eu cynyddu.

**Tabl 3: Sefyllfa Cronfa Wrth Gefn Cymru ar ddechrau pob blwyddyn**

	2018-19	2019-20	£ million 2020-21 <sup>1</sup>
Resource	270	304	232
Traditional Capital	53	8	39
Financial Transactions Capital	1	14	66
<b>Total</b>	<b>325</b>	<b>326</b>	<b>337</b>

1. Provisional

79. Gall Llywodraeth Cymru fenthycu hyd at £200m bob blwyddyn at ddibenion adnoddau, o fewn terfyn cyffredinol o £500m, os bydd refeniw trethi yn is na'r rhagolwg. Mae'n rhaid ad-dalu benthyciadau o fewn 5 mlynedd.

80. Nid yw Llywodraeth Cymru wedi defnyddio'r cyfleuster hwn eto. Mae Llywodraeth yr Alban wedi defnyddio'i chyfleuster cyfatebol ar gyfer taliad cysoni treth incwm 2017-18 yn y flwyddyn gyfredol.

81. O ystyried yr heriau sy'n gysylltiedig â therfynau cyfredol y Gronfa Wrth Gefn a nodir uchod, mae pryderon penodol yn codi na fydd yr adnoddau rheoli cyllideb sydd ar gael yn ddigon i ymdrin â'r ansicrwydd ychwanegol sy'n gysylltiedig â phandemig y coronafeirws yn y flwyddyn gyfredol, ac o bosibl yn y dyfodol. Mae Llywodraeth Cymru wedi cael £4bn ychwanegol i ariannu ei hymateb i'r pandemig eleni. Mae graddfa'r cyllid ychwanegol hwn yn ystod y flwyddyn ynghyd â tharfu ar raglenni gwariant presennol a'r effaith bosibl ar refeniw trethi yn golygu bod y Llywodraeth yn wynebu lefelau o ansicrwydd na welwyd eu tebyg o'r blaen.

82. Mae trafodaethau â Llywodraeth y DU wedi arwain at warantu £4bn o gyllid ychwanegol, cyn y cyhoeddiadau ar wariant cysylltiedig yn Lloegr, sy'n rhoi rhywfaint o sicrwydd o ran un agwedd ar reoli'r gyllideb yn ystod y flwyddyn. Fodd bynnag, mae'n bosibl y bydd newidiadau sylweddol o hyd yn ddiweddarach yn y flwyddyn. Fel y nodwyd yn y cytundeb fframwaith cyllidol, gall Gweinidogion Cymru ofyn am hyblygrwydd ychwanegol o dan amgylchiadau eithriadol. Mae'r sefyllfa yn ystod y flwyddyn gyfredol yn eithriadol ac mae Llywodraeth Cymru yn cyflwyno'r achos dros hyblygrwydd ychwanegol y flwyddyn hon, yn ogystal â newidiadau i'r terfynau yn y tymor hwy.

### Benthyca Cyfalaf

83. Gall Llywodraeth Cymru fenthyca hyd at £150m y flwyddyn at ddibenion cyfalaf, gyda therfyn cyffredinol o £1bn. Benthycodd £65m yn 2018-19 ond nid oedd angen y cyfleuster yn 2019-20 am fod Llywodraeth y DU wedi darparu gwariant cyfalaf ychwanegol yn ystod y flwyddyn, ac roedd ei ddefnyddio ar fyr rybudd yn golygu nad oedd angen y benthyciad cyfalaf arfaethedig ar gyfer y flwyddyn honno mwyach. Mae cynlluniau cyllideb 2020-21 yn tybio £125m o fenthyca cyfalaf.

84. Bydd gwariant cyfalaf yn elfen hollbwysig o gynlluniau Llywodraeth Cymru ar gyfer adfer yn sgil pandemig y coronafeirws. Ni wyddom eto pa lefel o gyllid cyfalaf a ddaw drwy'r grant bloc y flwyddyn nesaf a thu hwnt. Fodd bynnag, mae'n ddigon posibl y bydd angen i Lywodraeth Cymru gyflwyno'r achos dros derfynau benthyca cyfalaf uwch er mwyn cefnogi'r adferiad economaidd yn effeithiol.

### Effeithiau canlyniadol

85. Cytunodd Llywodraeth Cymru ar y ffordd y dylid trin effeithiau canlyniadol sy'n ymwneud â threthi a'r trefniadau i ymdrin â nhw fel rhan o'r cytundeb fframwaith cyllidol cyffredinol. Caiff effeithiau canlyniadol mwy cyffredinol eu trin yn y datganiad am bolisi cyllido ac maent wedi bod yn destun anghytundeb yn y gorffennol. Dim ond trafod y trefniadau yn y cytundeb fframwaith cyllidol a wna'r adran hon.

86. Un o newidiadau polisi Llywodraeth y DU sydd fwyaf tebygol o effeithio ar refeniw Llywodraeth Cymru fyddai newidiadau i lwfans personol treth incwm. Mae'r dosbarthiad incwm wedi ei grynhoi'n fwy ar y pen isaf yng Nghymru nag yn Lloegr. Mae hyn yn golygu bod newidiadau i'r lwfans personol yn cael effaith gymharol fwy ar refeniw yng Nghymru. Mae'r trefniadau ar gyfer addasiadau i'r grant bloc yn fodd i ymdrin â'r effaith ganlyniadol benodol hon. Fel y nodir uchod, mae'r addasiadau ar wahân i'r grant bloc ar gyfer pob band treth yn golygu bod yr addasiad cyfun i'r grant bloc yn ymddwyn yn debycach i sylfaen drethu Cymru nag y byddai'n digwydd pe bai un addasiad heb ei bwysoli i'r grant bloc. O ganlyniad, mae effaith newidiadau i'r lwfans personol ar yr addasiadau ar wahân i'r grant bloc yn debycach i refeniw trethi Cymru, sy'n helpu i ystyried yr effaith anghymesur ar refeniw.

87. Ni fu achos penodol eto o gymhwyso'r trefniadau eraill i ymdrin ag effeithiau calyriadol a nodwyd yn y cytundeb fframwaith cyllidol.

#### Cymariaethau rhyngwladol

88. Mae'r papur *Diwygio trefniadau ariannu a chodi cyllid y DU ar ôl Brexit: Sicrhau Dyfodol Cymru* y cyfeiriwyd ato'n gynharach yn cynnwys rhai enghreifftiau o ddatganoli cyllidol mewn gwledydd eraill yn Atodiad 1.



## **Finance Committee Inquiry into the Implementation of the Wales Act 2014**

### **Evidence Paper**

#### **Introduction**

1. The Finance Committee is undertaking an inquiry into the implementation of the Wales Act 2014 and the operation of the Fiscal Framework. The inquiry will also consider public awareness of fiscal devolution and taxation in Wales.

#### **Context**

2. The Wales Act 2014 heralded the devolution of taxes in Wales and marked an historic moment in Welsh political history. Six years on from its introduction, the last of the financial provisions in the Act have been implemented and the first year of operation of the Welsh rates of income tax has been completed. It is important to recognise the amount of work that has gone in over this period including:
  - the establishment of three Acts: the Tax Collection and Management (Wales) Act 2016; the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017; and the Landfill Disposals Tax (Wales) Act 2017;
  - the creation of a new tax collection body in Wales, the Welsh Revenue Authority; and
  - the successful transition from Stamp Duty Land Tax and Landfill Tax, to the Land Transaction Tax and Landfill Disposals Tax in Wales;
  - the introduction of a Welsh Rate of Income Tax.
3. Under section 23 of the Wales Act 2014, Welsh Ministers are required to report annually on the progress made in effecting the provisions under Part 2, until the first anniversary after the final provisions have been implemented. These annual reports, published on the Welsh Government website, detail the considerable effort that has been involved over the last six years to deliver these changes on time and within budget. A link is provided here to these annual reports, <https://gov.wales/welsh-taxes#WalesActreports>.
4. It is also important to recognise the successful implementation of these new devolved taxes owes much to the valuable contributions provided by a wide range of stakeholders and organisations.
5. These changes has placed greater accountability at the heart of the Welsh devolution settlement and ensured the Welsh Government has more responsibility for how money is raised and spent in Wales.

6. As a consequence, around £5 billion of spending in Wales is now funded through devolved and local taxation - land transaction tax, landfill disposals tax, Welsh rates of income tax, council tax and non-domestic rates.
7. We have also embarked on the next stage of tax devolution by considering new taxes for Wales. This has the potential to make a real difference to Wales - helping us to deliver our policy priorities, whether this is by changing behaviour, raising revenue to invest in our public services, improving equity, or a combination of all.
8. For the first time, we are navigating the Wales Act process to transfer the relevant powers to Wales in relation to a new tax (a tax on land suitable for development, or a vacant land tax). The current exercise is key to testing whether we have a mechanism which will deliver further opportunities for tax policy to support our objectives.

### **Tax principles**

9. The Welsh Government's principles for the development, implementation and administration of Welsh taxes were set out in the Tax Policy Framework published in 2017.
10. These are that Welsh taxes should:
  - i) Raise revenue to fund public services as fairly as possible;
  - ii) Deliver Welsh Government policy objectives, in particular supporting jobs and growth;
  - iii) Be clear, stable and simple;
  - iv) Be developed through collaboration and involvement;
  - v) Contribute directly to the Well Being of Future Generations Act goal of creating a more equal Wales.
11. Guided by these principles, our tax strategy has ensured that we have developed taxes that are fair to the businesses and individuals who pay them; which are simple, with clear rules, aiming to minimise the costs of compliance and administration; that support growth and jobs, which in turn will help tackle poverty; and which provide stability and certainty for taxpayers.
12. Moving forward, the balance between investment in public services, the competitiveness of the Welsh economy and the impact on tax payers will continue to be at the forefront of decisions. As well as consideration of how best to use any new tax or further devolved tax as a lever to advance fairness and equality, enabling us to tackle social issues, ensuring justice and economic security.

### **Administration of devolved taxes**

13. The measures in the Wales Act 2014 to allow for the development of devolved taxes, led to the preparation of three Welsh Tax Acts, the Tax Collection and Management (Wales) Act 2016; the Land Transaction Tax and Anti-avoidance of

Devolved Taxes (Wales) Act 2017; and the Landfill Disposals Tax (Wales) Act 2017.

14. On 1 April 2018, these Welsh Tax Acts came into force. A Tax Devolution Programme Board was established, led by HMRC. Its purpose to oversee the transition from Stamp Duty Land Tax to Land Transaction Tax, and from Landfill Tax to Landfill Disposals Tax. The Board also oversaw the Welsh Rates of Income Tax project – see paragraph 37). The Tax Devolution Programme Board provided a route for resolving project-level challenges. This board has now been formally closed.

#### *Land Transaction Tax*

15. The regulations to bring the rates and bands for Land Transaction Tax into effect were agreed by the National Assembly for Wales on 30 January 2018. These rates and bands have remained in place until they were amended in July 2020. The revised regulations increased the threshold for paying the main rate from £180,000 to £250,000.

#### *Landfill Disposal Tax*

16. The initial rates for Landfill Disposals Tax came into force on 24 January 2018. The Welsh Government committed to increase the rates of Landfill Disposals Tax in line with inflation, to maintain consistency with the UK Government's approach to Landfill Tax rates.
17. The regulations setting the Landfill Disposals Tax rates for 2020-21 were approved by the National Assembly for Wales on 28 January 2020.

#### *Welsh Revenue Authority*

18. Subsequent to the Wales Act 2014, the Tax Collection and Management (Wales) Act 2016 established the Welsh Revenue Authority (WRA) to administer the two fully devolved Welsh taxes – Land Transaction Tax and Landfill Disposals Tax.
19. The WRA was established in 2017 a non-ministerial department of Welsh Government. It began collecting the two devolved taxes from April 2018. A framework agreement between Welsh Government and the WRA sets out their relationship and the respective roles and responsibilities.
20. The WRA is committed to delivering a fair tax system for Wales through what it calls 'Our Approach' – a Welsh way of doing tax. This is a partnership-led approach, working with taxpayers, their representatives, and partner organisations, and is inspired by three Welsh terms: Cydweithio, Cadarnhau, Cywiro:

- Cydweithio - This literally means 'to work together' and carries a sense of working towards a common goal.

- Cadarnhau - This suggests a solid, robust quality that can be relied on. This is about providing certainty, being accurate and reinforcing trust.
- Cywiro - This literally means 'returning to the truth' and is about the way we work with you to resolve errors or concerns.

21. This approach, inspired by the WRA Charter, which consists of eight shared values, beliefs and standards, sees the WRA sharing its knowledge and insights with customers to enable them to pay the right amount of tax at the right time. There are processes in place for those who will deliberately try to avoid paying the right amount of tax.

22. The WRA has had a digital first approach to its services from the outset. Alongside dedicated customer service support this makes it easy for customers to file and pay their returns. The vast majority of WRA transactions are conducted digitally, with paper options available for those who cannot file or pay digitally.

23. The Minister for Finance and Trefnydd set out her expectations for the operation of the WRA over the period 2019-20 to 2021-22 in a remit letter. The letter set out the following priorities:

- Ongoing development of the WRA – to build on the WRA's achievements and to look ahead over the longer term;
- Achieving outcomes – to develop a suite of operational performance measures to identify how effectively the tax system in Wales is operating; and
- Unauthorised Disposals – that the WRA should target resources on cases which address environmental impacts and place legitimate landfill businesses at a disadvantage.

24. The WRA's first three year corporate plan 2019-22, agreed by the Minister for Finance and Trefnydd and published in May 2019, reflects these complementary expectations, all aimed towards supporting taxpayers to pay the right amount of tax at the right time.

25. The plan is set in the context of the organisation's purpose:

- i. to design and deliver Welsh national revenue services;
- ii. to lead the better use of Welsh taxpayer data for Wales.

26. The WRA's current strategic objectives are:

- a. Making it easier;
- b. Ensuring we are fair;
- c. Being more efficient;
- d. Enhancing our capability.

As well as two further objectives that aim to make the most out of the WRA's role:

- e. Data - Making the most of data assets for the benefit of Wales.
  - f. Design - Using experience and expertise to support the design of Welsh revenue services.
27. This year the WRA has led on work to consider how to make the best use of Welsh taxpayer data. While sharing information on the type of data the WRA now holds on the devolved taxes, with Welsh Government and Local Authorities, areas of common interest and possible opportunities to collaborate on improving services have been identified. The security of taxpayer data is always paramount to this work.
28. The Design objective has seen collaboration across Welsh Government and WRA to bring together a range of skills and expertise, to support early thinking on the design of any potential new revenue services. This way of working has also benefited changes to the existing two taxes.
29. The 2019-22 corporate plan includes a set of performance measures. As the WRA's approach is different, so are the nine performance measures, reflecting the new Welsh way of doing tax. The targets have been set for the end of the corporate plan period (2021-22). The WRA will report on these measures for the first time in its 2019-20 Annual Report, due to be published in Autumn 2020 – using both narrative examples and data.
30. The WRA's latest annual accounts published in July 2020 record the Authority raised £260 million through Land Transaction Tax revenues and £37 million through the landfill disposals tax revenues during 2019-20. The WRA processed just over 61,000 LTT returns, a similar volume to the previous period.
31. The WRA has been faced with particular operational challenges as a result of the flooding of its headquarters at Trefforest in February followed by the impact of the Covid-19 pandemic. The cloud based system and the primary focus on digital provision of its services has ensured the WRA has been able to maintain services with minimal disruption.

#### *Welsh Rates of Income Tax (WRIT)*

32. Sections 8 to 11 of the Wales Act 2014 provide for Welsh basic, higher and additional rates of income tax to be set by the Senedd by way of resolution, and further define "Welsh taxpayers".
33. The Wales Act 2014, when originally enacted, made provision for a referendum to be held in Wales about whether the income tax provisions set out in the Act should come into force. These provisions in relation to a referendum were subsequently removed by section 17 of the Wales Act 2017.
34. The Welsh Government's fiscal framework, agreed by the Welsh and UK governments in December 2016, confirmed the Welsh Government would introduce WRIT in 2019-20, subject to removal of the requirement for a referendum.

35. WRIT was introduced on 6 April 2019. For non-savings and non-dividend income, the UK Government reduced each of the three rates of income tax – basic, higher and additional rates – paid by Welsh taxpayers by 10p. On 15 January 2019, the Senedd agreed the Welsh Government's proposal to set the Rates of Income Tax for 2019-20 at 10p, ensuring the rates paid by Welsh taxpayers remained the same as those paid by English and Northern Irish counterparts.
36. HMRC retains responsibility for the collection and management of WRIT. In competence and legal terms this remains a UK tax, as are the associated arrangements for all allowances and reliefs (including the personal allowance), the tax thresholds and bands. The UK Government continues to retain the revenues from Income Tax on savings and dividend income from taxpayers in Wales.
37. Preparations for the introduction of WRIT were overseen by a cross-Government Welsh Rates of Income Tax Project Board, sitting below the Welsh Tax Devolution Programme Board, and comprising representatives of the Welsh Government, HMRC and HM Treasury.
38. As the project to implement Welsh Rates of Income Tax is now largely completed and WRIT has moved into Business as Usual operation, the project Board has transitioned to the Welsh Income Tax Board which will oversee the Business As Usual (BAU) arrangements.
39. The remaining outstanding actions in respect of the preparation of the Annual Tax Summary statement and the formal closure of the project will be managed through the new Board structure. The Board meets quarterly to monitor progress and is jointly chaired by Welsh Government and HMRC.
40. Both the Wales Audit Office and National Audit Office reviewed the preparations in the months before introduction and concluded that HMRC had appropriate delivery and governance arrangements in place to implement WRIT.
41. The outturn from the first year of income tax devolution (2019-20) will be published by HMRC in summer 2021.
42. Maintaining the accuracy of the Welsh taxpayer population is fundamental to the administration of WRIT. The Service Level Agreement (SLA) between Welsh Government and HMRC includes performance measures designed to ensure there is a continued focus on identifying and maintaining an accurate and robust record of the Welsh taxpayer population. The SLA includes a regular cycle of activity, including HMRC data scans, to ensure the accuracy of the data. One of the key requirements is for HMRC to report annually on its delivery of the agreed services.
43. The performance of WRIT is subject to audit by the Auditor General for Wales in the context of the production of the Welsh Consolidated fund and the National Audit Office. This is to ensure the adequacy of HMRC's rules and procedures put in place, in consequence of the Welsh rates provisions, for the purpose of

ensuring the proper assessment and collection of income tax charged at rates determined under those provisions.

44. Following an audit of the HMRC accounts, an extract covering all matters relating to WRIT will be made available to the Senedd. This is currently planned for January 2021.

### **The approach to taxation in Wales**

45. Our annual tax work plan sets out how we are taking forward the development of tax policy in Wales. The latest published version relates to 2019. The 2020 Work Plan has been delayed due to the impact of the Covid-19 pandemic.

46. The issues addressed through the annual tax work plans can be grouped into the following three themes:

- Develop tax policy as fairly as possible, aligned with Welsh Government policy priorities, and in collaboration with stakeholders.
- Operate Welsh taxes within a UK context.
- Increase knowledge and understanding about taxes in Wales.

47. The balance between investment in public services, the competitiveness of the Welsh economy and the impact on tax payers will be at the forefront of decisions, just as we use taxes as a lever to advance fairness and equality, enabling us to tackle social issues, including justice and economic security.

48. In particular we are continuing to pursue the devolution of a new tax (a vacant land tax) to Wales, testing the mechanism and the requirements of the process for the first time.

### **Mechanism for devolving powers**

49. Continuing to build the capacity and capability required for the development and administration of the devolved taxes continues to be a key priority.

50. We are continuing to work with the UK Government to secure the devolvement of tax competence in respect of vacant land. A written statement was issued on w/c 7 September updating the Senedd Cymru on the latest position. I also wrote separately to the Chairs of the Legislation, Justice and Constitution and Finance Committees on this.

51. Alongside this, we are currently consulting on further legislation in Wales which will ensure Welsh Ministers can make changes to the “Welsh Tax Acts” at short notice in the following circumstances:

- to stop avoidance or evasion of the devolved Welsh taxes;
- to comply with international obligations;

- in situations of exceptional need (such as in response to a tribunal or higher courts decision);
- in specific circumstances where Welsh Ministers consider it in the public interest to do so; and
- in particular, in response to tax policy changes made by the UK government.

## **Fiscal framework**

52. The framework underpinning the Welsh Government's funding arrangements is set out in two key documents: the statement of funding policy and the Welsh Government's fiscal framework agreement.
53. The statement of funding policy describes the detailed workings of the Barnett formula and how this is used to determine changes to the block grants for each of the devolved administrations. It also details a number of other elements of devolved finance arrangements. It was last published in 2015 alongside the comprehensive spending review in that year. The UK Government is planning to publish an updated version this year to accompany the forthcoming spending review.
54. The fiscal framework agreement was published in December 2016. It enabled the implementation of the tax and borrowing powers included in the Wales Acts 2014 and 2017. The agreement also introduced changes to the way the Barnett formula operates in Wales.
55. The following sections address various aspects of the fiscal framework. The fully devolved taxes, land transaction tax and landfill disposals tax, were introduced in April 2018 and the Welsh rates of income tax in April 2019. It is therefore still early to assess the performance of the fiscal framework in relation to the implementation of the devolved taxes. However, the sections below include some preliminary consideration of performance so far.

### Block grant / Barnett formula

56. The Welsh Government is largely funded through a single unhypothecated block grant. Changes to the block grant are determined by the Barnett formula. Under this formula, the block grant in any given year is equal to the block grant in the previous year plus a population share of changes in UK Government spending on areas which are devolved to the Welsh Government.
57. At the time of a spending review this process involves a degree of approximation. UK Government plans for future years are only initially available at a departmental level. As some UK departments cover both devolved and non-devolved functions, it is not possible to say precisely what the change in funding for areas which are devolved will be. To address this, the percentage split



between devolved and non-devolved spending from a base year is applied to the overall change in each UK department's budget over the period covered by the spending review.

58. These department-level percentages or comparability factors are calculated by assessing whether each individual spending programme is devolved or not. The spending on programmes which are deemed to be devolved is added up for the base year (usually the year prior to the period covered by the spending review) and divided by that department's overall budget. The comparability factors are calculated by the UK Government in the run up to a spending review and published in the statement of funding policy. The Devolved Administrations are consulted as part of this process.
59. The fiscal framework agreement introduced a new element to the Barnett formula in Wales. Changes to the Welsh Government's block grant are multiplied by a needs based factor. This is intended to address the convergent property of the Barnett formula which, if unreformed, would mean relative funding per person in Wales would fall towards the level in England. The needs based factor will be set at 115%, based on the range of relative need recommended by the [Holtham Commission](#) and the funding floor implemented in the 2015 Spending Review. For a transitional period, while relative block grant funding per person in Wales is above 115% of equivalent funding per person in England, the factor is set at 105%.
60. The needs based factor has been applied to changes in the Welsh Government's block grant since 2018-19, compared to a 2017-18 baseline. It has delivered a total of around £360 million additional funding to date, with about half of that in relation to coronavirus funding in 2020-21.
61. The Welsh Government's long term aim is for a needs based funding system which operates consistently across the UK. This is set out in the 2018 paper [Reforming UK funding and fiscal arrangements after Brexit: Securing Wales' Future](#) and summarised in the finance section of [Reforming our Union: Shared Governance in the UK](#). In the meantime, the addition of a specific needs based factor means that for the first time relative funding in Wales takes account of Wales' relative need to fund devolved public services. Its introduction goes some way to delivering a fairer funding system for Wales.

#### Governance arrangements and specific funding allocations outside Barnett

62. The papers referenced above set out the Welsh Government's views on how devolved finance arrangements should be reformed. As noted in those papers, the current arrangements in the statement of funding policy are imposed by the UK Government. There is little meaningful consultation with the devolved governments and the arrangements are not jointly agreed. As a result, those

processes have been brought into dispute. For example, in 2017 the Welsh and Scottish Governments jointly raised a disagreement following the UK Government's decision to allocate an additional £1bn to Northern Ireland as part of the confidence and supply agreement between the Conservative Party and the Democratic Unionist Party following the 2017 General Election.

63. The current system should be replaced by jointly-agreed funding arrangements based on consent and cooperative working. This should operate with the UK Government and all of the devolved administrations, ending bilateral deals and agreements to bring consistency and clarity to the fiscal arrangements within the UK.
64. As noted earlier, the statement of funding policy will be revised in the run up to the spending review in the current year. The Welsh Government will be consulted as part of the process, however it will remain a UK Government document and revisions are unlikely to address the issues raised here.

#### Block grant adjustments

65. The fiscal framework agreement includes details of the block grant adjustments introduced alongside the devolved taxes. The adjustments reduce the Welsh Government's block grant, reflecting the fact that devolved tax revenues now go directly to the Welsh Government rather than the UK Exchequer.
66. The adjustments for the two fully-devolved taxes work from a baseline which reflects tax collected under the predecessor UK tax in Wales in the year prior to devolution (2017-18). The annual block grant adjustments (BGAs) are grown from this baseline reflecting changes in the equivalent UK Government tax in England and Northern Ireland.
67. The BGA accompanying the introduction of the Welsh rates of income tax in 2019-20 included a transitional arrangement, as the baseline position for the tax base at the point of devolution was not known. In the first year the adjustment was set at the expected level of revenues collected in Wales from 10p of tax in each band (applied to non-savings non-dividend income). With the Welsh Government setting the devolved tax rates at 10p in each band, the block grant adjustment was the same as the devolved revenues in 2019-20. As a result, there was no net impact on the Welsh Government budget from income tax devolution in the first year. From 2020-21 onwards the block grant adjustment for each band will increase or decrease reflecting growth in 10p's worth of income tax (from non-savings non-dividend income) in England and Northern Ireland.
68. The precise mechanism used to calculate the BGAs is known as the comparable model and is set out in detail in the fiscal framework agreement. The BGAs are

based on the Office for Budget Responsibility's (OBR) forecasts of UK Government tax revenues.

69. For the Welsh rates of income tax, the BGA is fixed before the beginning of the year in question, using the previous autumn's Economic and Fiscal Outlook (EFO). The BGAs for the fully devolved taxes are also set using the previous autumn's EFO but are revised in-year using the following autumn's EFO.

70. For 2020-21 the BGAs for all taxes have been set using the March 2020 EFO, because there wasn't an EFO in autumn 2019. The final BGAs for 2018-19 and 2019-20 and the current BGAs for 2020-21 are shown in table 1.

**Table 1: Block Grant Adjustments**

	2018-19 <sup>1</sup>	2019-20 <sup>2</sup>	£ million 2020-21 <sup>3</sup>
Land Transaction Tax	241.8	234.8	260.9
Landfill Disposals Tax	26.5	24.9	24.7
Welsh Rates of Income Tax		2,059.4	2,156.3
Of which: Basic rate		1,778.4	1,854.3
Higher rate		237.3	248.9
Additional rate		43.6	53.2

1. Based on OBR autumn 2018 Economic and Fiscal Outlook

2. LTT and LDT based on OBR December 2019 Welsh Taxes Outlook  
WRIT based on autumn 2018 Economic and Fiscal Outlook

3. All based on OBR March 2020 Economic and Fiscal Outlook

71. The revenue outturns and current year forecasts for the fully devolved taxes and the current forecasts for WRIT are shown in Table 2. The coronavirus pandemic will affect revenues in 2020-21 across the devolved taxes. For budgetary purposes, the WRIT revenues in the current year are now fixed. The difference between the figures in table 2 and the eventual outturn will be taken into account in a reconciliation exercise. This will be combined with any change to the BGA shown in table 1, in the light of England and Northern Ireland outturn. The relevant income tax outturn information for 2020-21 will be available in the summer of 2022. The overall reconciliation adjustment will then be applied to the Welsh Government's block grant for 2023-24.

72. The OBR revenue forecasts for the fully devolved taxes in 2020-21 will be revised in the autumn, alongside the associated BGAs.

**Table 2: Devolved tax revenues**

	2018-19 <sup>1</sup>	2019-20 <sup>1</sup>	£ million 2020-21 <sup>2</sup>
Land Transaction Tax <sup>3</sup>	227.9	260.3	254.0
Landfill Disposals Tax	44.4	36.9	34.2
Welsh Rates of Income Tax		2,059.4	2,169.7
Of which: Basic rate		1,778.4	1,864.2
Higher rate		237.3	251.3
Additional rate		43.6	54.1

1. Outturn for LDT and LTT from Welsh Revenue Authority annual accounts

WRIT for 2019-20 from OBR autumn 2018 Economic and Fiscal Outlook

2. All forecasts from OBR March 2020 Economic and Fiscal Outlook

3. 2019-20 LTT outturn affected by £28.2m tax liability associated with Transport for Wales purchase of Core Valleys Lines from Network Rail, with no overall net resource benefit to Welsh Government.

73. With just two years of outturn information for the fully devolved taxes and none yet for the Welsh rates of income tax, it is early to judge how well the budgetary treatment of devolved taxation is performing. In aggregate, the revenues from land transaction tax and landfill disposals tax over the two years for which there is outturn are a little higher than the associated BGAs. This will reflect a number of factors, including: tax policy choices, tax administration performance, the property market and wider economic conditions.

74. The delay before outturn information is available for income tax revenues means that this element of the fiscal framework cannot be properly assessed for Wales at the moment. The long lag before reconciliation adjustments are applied can clearly lead to budgetary issues in future years, as has recently been observed in Scotland.

75. The differences between income tax devolution in Wales and Scotland are likely to mean that reconciliation issues are less severe in Wales. In Scotland, all income tax on non-savings non-dividend income is devolved. With just 10p of each tax rate devolved in Wales, the Welsh Government has less exposure to the risks associated with differential income tax revenue growth. The separate BGAs for each income tax band in Wales should also help to reduce this risk, by weighting the overall BGA in a way that more closely resembles the Welsh income tax base. Scotland has a single BGA for income tax.

76. The Welsh Government will continue to monitor the arrangements carefully across all the devolved taxes and will raise any concerns with the UK Government.

#### Budget management tools

77. The fiscal framework agreement included the creation of a Wales Reserve. The Welsh Government can save surplus revenues and unused block grant funding in

the Wales Reserve, up to a limit of £350m. The Reserve started operating at the end of 2017-18, with the Welsh Government able to save underspends to support tax devolution and manage other budget pressures in the following year. It can draw down up to £125m of resource and £50m of capital in any year.

78. Table 3 shows the starting position for the Reserve in each of the years that tax devolution has been in operation. The overall £350m limit on the Reserve and the annual drawdown limit, combined with late changes to the Welsh Government's block grant via the UK Supplementary Estimates process, have made the management of the Welsh Government's end year position very challenging over the last two years. This part of the budgetary process would be smoother and more effective if the limits were increased.

**Table 3: Wales Reserve position at the start of each year**

	£ million		
	2018-19	2019-20	2020-21 <sup>1</sup>
Resource	270	304	232
Traditional Capital	53	8	39
Financial Transactions Capital	1	14	66
<b>Total</b>	<b>325</b>	<b>326</b>	<b>337</b>

1. Provisional

79. The Welsh Government can borrow up to £200m each year for resource purposes, within an overall cap of £500m, if tax revenues are lower than forecast. Repayments must be within 5 years.

80. The Welsh Government has not made use of this facility yet. The Scottish Government has used its equivalent facility to cover the 2017-18 income tax reconciliation payment in the current year.

81. Given the challenges with the current Reserve limits noted above, there are particular concerns that the available budget management tools will not be sufficient to deal with the additional uncertainty associated with the coronavirus pandemic in the current year, and potentially in future years. The Welsh Government has been provided with an additional £4bn to finance its response to the pandemic this year. The scale of this additional in-year funding, combined with disruption to existing expenditure programmes and the potential impact on tax revenues means that the Government is facing unprecedented levels of uncertainty.

82. Discussions with the UK Government have led to the guaranteed £4bn additional funding, ahead of associated spending announcements in England, which provides some reassurance regarding one aspect of in-year budget management. However, there could still be substantial changes later in the year.

As noted in the fiscal framework agreement, Welsh Ministers can request additional flexibility in exceptional circumstances. The situation in the current year is exceptional and the Welsh Government is making the case for additional flexibilities this year, as well as longer term changes to the limits.

### Capital Borrowing

83. The Welsh Government can borrow up to £150m a year for capital purposes, with an overall limit of £1bn. It borrowed £65m in 2018-19 but did not require the facility in 2019-20 due to the UK Government providing additional capital spending in-year, which to use at short notice meant the planned capital borrowing for that year was no longer required. The 2020-21 budget plans assume £125m of capital borrowing.

84. Capital spending will form a vital element of the Welsh Government's plans for reconstruction in the wake of the coronavirus pandemic. We do not yet know the level of capital funding that will come via the block grant next year and beyond. However, it is quite possible that the Welsh Government will need to make the case for increased capital borrowing limits in order to effectively support the economic recovery.

### Spill-over effects

85. The treatment of tax-related spill-over effects and mechanisms to deal with them were agreed by the Welsh Government as part of the overall fiscal framework agreement. More general spill-over effects are treated in the statement of funding policy and have been the cause of disagreement in the past. This section only discusses the arrangements in the fiscal framework agreement.

86. One of the most likely UK Government policy changes to impact on Welsh Government revenues would be changes to the income tax personal allowance. The income distribution is more concentrated at the lower end in Wales than in England. This means that changes to the personal allowance have a greater relative impact on revenues in Wales. The BGA arrangement provides a mechanism to deal with this particular spill-over effect. As noted above, the separate BGAs for each tax band mean that the combined BGA behaves more like the Welsh tax base than would be the case with a single, unweighted BGA. As a result, the effect of personal allowance changes on the separate BGAs is more like that on Welsh tax revenues, helping to take account of the asymmetric revenue impact.

87. There has been no specific application yet of the other arrangements to deal with spill-over effects set out in the fiscal framework agreement.

### International comparisons

88. The paper *Reforming UK funding and fiscal arrangements after Brexit: Securing Wales' Future* referenced earlier includes some examples at Annex 1 of fiscal decentralisation in other countries.

## **1.0 Welsh Rate of Income Tax. (WRIT).**

Below is a summary of the Terms of Reference for the project which includes the changes we made to our systems and how we delivered to cost and timeframes.

The Department of Work and Pensions (DWP) Digital team worked closely with Strategy and Devolution colleagues to support the project, including:

- facilitating/attending all meetings between HMRC, Welsh Government colleagues and DWP.
- ensuring an appropriate level of join-up with the broader WRIT programme/ project that HMRC and Welsh Government were working on.
- from a devolution perspective providing the assurance and visibility about what DWP was doing to update our benefit IT systems to recognise the Welsh tax-codes.
- drafting the document which set out the arrangements agreed between DWP and the Welsh Government for WRIT – which included: respective roles and responsibilities; implementation; operations; funding and cost reimbursement etc.
- DWP Digital responsibility was to ensure all DWP systems complied with the new legislation and making the necessary changes.

## **2.0 What we did:**

- DWP put in place appropriate governance arrangements to ensure DWP IT systems, relevant staff guidance, customer forms and letters comply with WRIT provisions in the 2014 Act. The process took an inter-governmental approach to quality assurance, reviewing progress against milestones and ensuring value for money.
- DWP made the necessary changes to benefit IT platforms (JSAPS, PSCS, UC RTE) which interface with the UK tax systems to enable them to recognise the new “C” Welsh tax code. At the same time and where appropriate staff guidance and customer forms and letters were amended accordingly. All changes to IT systems were delivered ahead of schedule and within cost (Final costs were £129,571.)



- Go Live Date was April 2019. The Job Seekers system (JSAPS) was changed on 30/06/2018; The Pensions system (PSCS) was changed on 01/09/18; Universal Credit (UCRTE) was changed on 19/12/2018; and some accounting reconciliation changes were completed in February 2019. All work ahead of schedule.
- DWP developed and tested the IT and administration of WRIT in consultation with HMRC and the Welsh Government.
- DWP had/have no role in relation to determining an individual's tax liability nor for the publicity of WRIT other than ensuring, where appropriate, that customer communications reflect the Welsh rate.
- DWP remained responsible for ensuring that the correct IT and administrative systems were in place to support the timely introduction of WRIT.
- DWP kept the Welsh Government informed of, and consulted with them on plans, timetables, estimated costs, risks and progress.
- DWP upgraded and tested all areas of DWP business that was impacted by WRIT. This was done through contracted IT suppliers and in accordance with its normal IT development practice.
- Transparent change costs of each part of the IT system were notified to the Welsh Government.
- A breakdown of the expected costs and activities for both IT system and non IT system changes were shared with the Welsh Government before such costs were incurred.
- DWP and the Welsh Government scrutinised the IT and non IT System costs with a view to ensuring value for money. There were no concerns identified by the Welsh Government about the costs of DWP IT system changes.
- After IT changes were made to deliver WRIT, DWP maintains its IT and administrative systems so that WRIT continues to operate effectively in respect of the administration of benefits.
- Welsh Government costs were borne for Capital and other costs of making IT changes to DWP systems and ancillary costs (i.e. non-IT) relating to staff guidance and customer forms and letters required as a result of the introduction of WRIT.
- DWP invoiced the Welsh Government for costs associated for the changes made to IT systems as agreed.

### **3. Post go live issue:**

Following go live there was an issue with SSCL which affected all Departments, including DWP, to whom SSCL provide a payroll service. This resulted in approximately 5,580 DWP employees who live in Wales being charged the Scottish Rate of Income Tax. The Welsh Government escalated

the issue and it was discussed in the Welsh Parliament. This was an issue caused by SSCL and the problem was quickly rectified by DWP.

# Y ffordd y mae CThEM yn gweinyddu Cyfraddau Treth Incwm Cymru

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## 1. Cyflwyniad

- 1.1 Gwnaeth Deddf Cymru 2014 ddiwygio Deddf Llywodraeth Cymru 2006 er mwyn galluogi Senedd Cymru i bennu cyfradd treth incwm sylfaenol, uwch ac ychwanegol Cymru i'w chymhwyso i incwm trethdalwyr Cymreig nad yw'n deillio o gynilion a'u hincwm nad yw'n deillio o ddifidendau. Daeth y pŵer hwn i rym ar gyfer blwyddyn dreth 2019-20.

- 1.2 Mae Cyllid a Thollau EM (CThEM) yn gweinyddu Cyfraddau Treth Incwm Cymru (CTIC) drwy'r prosesau Talu Wrth Ennill a Hunanasesiad sy'n bodoli eisoes. Mae CThEM yn gweithio'n agos gyda Llywodraeth Cymru er mwyn sicrhau bod CTIC yn cael eu gweinyddu'n llwyddiannus, ac mae'r ddogfen hon yn nodi rhai o'r mesurau sydd wedi'u cymryd fel rhan o'r gwaith a busnes arferol o ran gweithredu CTIC.

## 2. Llywodraethu CTIC

- 2.1 Er mwyn sicrhau bod CTIC yn cael eu gweinyddu'n ddidrafferth, cytunodd CThEM ar ddull llywodraethu gyda Llywodraeth Cymru. Mae'r berthynas waith agos rhwng CThEM a Llywodraeth Cymru yn sail i hyn, ac mae'n sicrhau bod Llywodraeth Cymru yn cael gwybod y newyddion diweddaraf ac yn gallu herio CThEM ar ei berfformiad wrth weinyddu CTIC.
- 2.2 Mae CThEM wedi penodi Swyddog Cyfrifyddu Ychwanegol (SCY) sydd â chyfrifoldeb pennaf am CTIC, sy'n atebol am berfformiad CThEM wrth sefydlu a gweithredu CTIC. Ruth Stanier, Cyfarwyddwr Cyffredinol Strategaeth a Chynllunio Treth ar gyfer Cwsmeriaid yw'r SCY presennol.
- 2.3 Mae'r SCY yn gyfrifol am yr holl faterion llywodraethu, gwneud penderfyniadau a rheoli ariannol mewn perthynas â CTIC, ac mae ar gael i roi tystiolaeth i bwyllgorau Senedd Cymru pan fo angen.

### Cytundebau rhwng CThEM a Llywodraeth Cymru

- 2.4 Cyn gweithredu CTIC, gwnaeth CThEM a Llywodraeth Cymru gytuno ar Gytundeb Lefel Gwasanaeth (CLG)<sup>1</sup> ar gyfer blwyddyn dreth 2019-20, sy'n nodi'r gofynion, yr amserlenni a'r mesurau perfformiad ar gyfer gweithredu CTIC o ddydd i ddydd. Mae hyn yn sicrhau bod trethdalwyr Cymreig yn cael gwasanaeth o ansawdd cyson ac mae'n galluogi CThEM a Llywodraeth Cymru i fodloni eu priod gyfrifoldebau mewn perthynas â gweithredu CTIC. Mae'r CLG yn cael ei adolygu bob blwyddyn.
- 2.5 Bydd CThEM yn llunio Adroddiad Blynyddol CTIC cyntaf ym mis Medi 2020, a fydd yn adrodd ar y gofynion a nodir yn yr CLG, ac yn rhoi sicrwydd bod y rhain wedi'u bodloni. Caiff y Pwyllgor gopi o'r adroddiad hwn.
- 2.6 Mae'r CLG yn atodol i'r Memorandwm Cyd-ddealltwriaeth<sup>2</sup>, sy'n rhoi'r fframwaith ar gyfer gwaith rhynglywodraethol ar lefel weinidogol a swyddogol er mwyn goruchwyllo'r gwaith o sefydlu a gweithredu CTIC. Mae'r ddogfen

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<sup>1</sup> Mae CLG CThEM a Llywodraeth Cymru ar gyfer gweithredu CTIC i'w weld yma: <https://www.gov.uk/government/publications/service-level-agreement-for-operation-of-welsh-rates-of-income-tax-by-hmrc.cy>

<sup>2</sup> Mae'r Memorandwm Cyd-ddealltwriaeth rhwng CThEM a Llywodraeth Cymru ar gyfer rhoi CTIC ar waith i'w weld yma: <https://llyw.cymru/memorandwm-cyd-ddealltwriaeth-ar-gyfer-cyfradd-treth-incwm-cymru-html>

hon wrthi'n cael ei hadolygu gan CThEM a Llywodraeth Cymru er mwyn sicrhau ei bod yn rhoi'r wybodaeth ddiweddaraf.

### Prosiect CTIC

- 2.7 Cafodd y broses o roi CTIC ar waith ei rheoli drwy Brosiect CTIC CThEM. Cafodd CTIC eu rhoi ar waith yn llwyddiannus i gael eu gweithredu o ddechrau blwyddyn dreth 2019-20. Nid oedd angen rhai agweddau ar y gwaith cyflwyno, er enghraifft, newidiadau i'r systemau Hunanasesiad a'r Crynodeb Treth Blynnyddol tan yn hwyrach. Mae'r newidiadau o ran Hunanasesiad wedi'u cyflwyno ers hynny yn unol â'r amserlen ac mae'r Crynodeb Treth Blynnyddol wrthi'n cael ei ddatblygu.
- 2.8 Roedd Bwrdd Rhaglen o uwch-swyddogion yn goruchwyllo gwaith datganoli treth Cymru CThEM, ac roedd Bwrdd Prosiect CTIC yn rheoli'r broses o roi CTIC ar waith. Roedd cynrychiolwyr o Lywodraeth Cymru yn aelodau o Fwrdd y Prosiect a Bwrdd y Rhaglen er mwyn sicrhau bod ganddynt gyfle i feirniadu'r ffordd roedd CTIC yn cael eu rhoi ar waith.
- 2.9 Cynhaliwyd Adolygiad Cyfaill Beirniadol ym mis Chwefror 2020 i asesu effeithiolrwydd y Prosiect mewn perthynas â llywodraethu prosiectau, y gallu o'i gyflwyno a chynllunio, parodrwydd o ran ei wneud y rhan lawn o fusnes arferol, a gwerth am arian. Roedd canfyddiadau cyffredinol yr adolygiad yn gadarnhaol. Gwnaeth yr adolygiad sawl argymhelliad hefyd. Fe'u trafodwyd gan Fwrdd y Prosiect ac aethpwyd i'r afael â nhw.

### Llywodraethu Busnes Arferol

- 2.10 Rhoddwyd strwythur llywodraethu newydd ar waith cyn i CTIC gael eu symud o'r cam prosiect i'r cam busnes arferol. Gan fod y rhan fwyaf o'r gwaith wedi'i roi ar waith, cafodd Bwrdd Prosiect CTIC ei olynu gan Fwrdd CTIC. Cynhaliwyd ei gyfarfod cyntaf ym mis Chwefror 2020. Mae'r Bwrdd yn cwrdd bob chwarter i oruchwyllo'r ffordd y mae CTIC yn cael eu gweinyddu ac i sicrhau bod CThEM yn cyflawni ei gyfrifoldebau fel y nodir yn yr CLG. Mae Llywodraeth Cymru wedi ei chynrychioli ar y Bwrdd, ac mae'n rhannu cyfrifoldebau cadeirio gyda CThEM.
- 2.11 Mae CThEM a Llywodraeth Cymru wedi enwebu Un Man Cyswllt yr un ar gyfer CTIC i oruchwyllo'r gwaith rheoli o ddydd i ddydd. Mae'r unigolion hyn yn cwrdd yn gyson ac mae cyfarfodydd yn cael eu cynnal yn rheolaidd hefyd rhwng y sawl sydd wedi llofnodi'r CLG a rhwng y sawl sy'n cadeirio Bwrdd CTIC.
- 2.12 Mae'r gwaith agos rhwng CThEM a Llywodraeth Cymru yn sicrhau bod CTIC yn cael eu gweithredu'n ddidrafferth a bod modd nodi a mynd i'r afael ag unrhyw broblemau'n gyflym. Os bydd anghydfod yn codi rhwng CThEM a

Llywodraeth Cymru, mae proses datrys anghydfod ar waith i sicrhau bod anghydfod yn cael ei gyfeirio'n briodol a'i ddatrys yn brydlon.

### Archwiliadau'r Swyddfa Archwilio Cyffredinol

- 2.13 Yn ogystal â'n proses llywodraethu fewnol, mae CThEM yn dibynnu ar y Swyddfa Archwilio Cyffredinol i asesu'r ffordd rydym yn gweinyddu CTIC.
- 2.14 Cyhoeddwyd yr archwiliad diweddaraf gan y Swyddfa Archwilio Cyffredinol ym mis Ionawr 2020, ac fe wnaeth ystyried y ffordd roedd CThEM yn gweinyddu CTIC yn 2018-19<sup>3</sup>. Gwnaeth y Swyddfa Archwilio Cyffredinol ganfyddiadau cadarnhaol mewn sawl maes, gan gynnwys llywodraethu, ailgodi, a nodi a rhoi sicrwydd. Ni wnaeth y Swyddfa Archwilio Cyffredinol unrhyw argymhellion yn ei hadroddiad. Fodd bynnag, mae CThEM wedi ei ystyried yn ofalus i sicrhau ein bod yn parhau i weinyddu CTIC yn effeithiol.
- 2.15 Mae'r Swyddfa Archwilio Genedlaethol yn cynnal yr archwiliadau hyn bob blwyddyn, a bydd archwiliad o'r ffordd y mae CThEM wedi gweinyddu CTIC yn 2019-20 yn cael ei gyhoeddi yn hwyrach yn y flwyddyn ariannol hon.

### Edrych i'r Dyfodol

- 2.16 Bydd y dull llywodraethu ar gyfer busnes arferol sydd ar waith yn parhau i gael ei weithredu. Mae CThEM wedi ymrwmo i gynnal ei berthynas waith agos gyda Llywodraeth Cymru i sicrhau y llywodraethir CTIC yn effeithiol o hyd.

## 3. Nodi Trethdalwyr Cymreig a Rhoi Sicrwydd

- 3.1 Er mwyn gweinyddu CTIC yn effeithiol, mae'n rhaid i CThEM nodi a chynnal a chadw cofnod cywir a chadarn o'r boblogaeth o drethdalwyr Cymreig<sup>4</sup>. Mae CThEM felly'n cynnal amrywiaeth o weithgareddau i nodi trethdalwyr Cymreig a rhoi sicrwydd bod y broses nodi honno'n gywir.

### Trefniadau Nodi Cychwynnol

- 3.2 Cyn cyflwyno CTIC yn 2019-20, cynhaliodd CThEM ymarfer gwrthdaro data trydydd parti a wnaeth gyfateb cofnodion cyfeiriadau CThEM â data trydydd parti. Roedd hyn yn cynnwys y gofrestr etholiadol, data a gedwir gan asiantaethau gwirio credyd, a chofnodion cyflogwyr. Roedd wedi galluogi CThEM i brofi a oedd cofnodion cyfeiriadau eraill yn cyd-fynd â'r trethdalwyr Cymreig roeddem wedi'u nodi.

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<sup>3</sup> Mae archwiliad y Swyddfa Archwilio Cyffredinol o'r ffordd y mae CThEM yn gweinyddu CTIC yn 2018-19 i'w weld yma: <https://www.nao.org.uk/report/the-administration-of-the-welsh-rate-of-income-tax-2018-19/>

<sup>4</sup> Mae crynodeb o bwy sy'n cael ei ddiffinio'n drethdalwr Cymreig i'w weld yma: <https://www.gov.uk/treth-incwm-cymru>

- 3.3 Rhoddodd canlyniadau'r ymarfer hwn dystiolaeth i awgrymu bod CThEM yn nodi trethdalwyr Cymreig yn gywir mewn 98-99% o'r achosion. Mae hyn yn rhoi hyder i CThEM ein bod wedi nodi'r rhan fwyaf o'r trethdalwyr Cymreig yn gywir. Nid oedd yr ymarfer gwrthdaro data yn gallu ategu'r 1-2% o'r achosion eraill, ond nid yw'r rhain o reidrwydd yn gyfeiriadau anghywir. Nid oes rheswm dros gredu bod data trydydd parti a ddefnyddiwyd ar gyfer yr ategiad hwn yn fwy tebygol o fod yn gywir na data CThEM.
- 3.4 Mae CThEM hefyd wedi nodi codau post sy'n rhychwantu'r ffin rhwng Cymru a Lloegr. Gan ddefnyddio data arolwg ordnans, roedd modd i ni gadarnhau a oedd yr holl eiddo yn y codau post hyn yng Nghymru neu Loegr.
- 3.5 Roedd CThEM wedi cyfathrebu a threthdalwyr Cymreig cyn i CTIC gael eu cyflwyno i roi gwybod iddynt am y newidiadau ar y gweill i'r system dreth. Ym mis Tachwedd 2018, anfonwyd llythyr dwyieithog at 2.01 miliwn o gwsmeriaid CThEM y nodwyd eu bod yn breswyl yng Nghymru. Yn ogystal â rhoi gwybodaeth am gyflwyno CTIC, roedd y llythyr hwn hefyd wedi rhoi gwybod am yr angen iddynt roi gwybod i CThEM am unrhyw newid i gyfeiriad.
- 3.6 Roedd amrywiaeth o ohebiaeth wedi ategu'r llythyr hwn, gan dargedu cyflogwyr, darparwyr meddalwedd, darparwyr pensiwn, gweithwyr treth proffesiynol, ac eraill.
- 3.7 Mae gan CThEM arweiniad helaeth ar waith i gadarnhau statws trethdalwr Cymreig, gan gynnwys arweiniad ar faterion ar draws y ffin.

### Gwaith Parhaus

- 3.8 Mae CThEM yn cynnal nifer o brosesau sganiau i sicrhau bod trethdalwyr Cymreig yn cael eu nodi. Mae hyn yn cynnwys sganio codau post gwag ac annilys mewn cofnodion lle y nodwn ddangosyddion yng ngweddill y cyfeiriad sydd yn Gymraeg. Mae cofnodion a nodir yn y gwaith sganio hwn yn cael eu diweddarau i sicrhau eu bod yn nodi'r codau post a'r statws preswyl cywir.
- 3.9 Mae CThEM hefyd yn defnyddio data a ddarperir gan y Swyddfa Ystadegau Gwladol i adlewyrchu eiddo newydd sy'n cael eu codi ac eiddo presennol sy'n cael eu his-rannu ar ein systemau.
- 3.10 Rydym yn parhau i ddefnyddio sianeli'r cyfathrebu helaeth sydd gennym gyda threthdalwyr i atgyfnerthu prif negeseuon CTIC, gan gynnwys sianeli fel cyfryngau cymdeithasol ar-lein a'r Cyfrif Treth Personol. Mae'r dulliau cyfathrebu hyn wedi canolbwyntio ar angen y cwsmer i ddiweddarau manylion ei gyfeiriad gyda CThEM unwaith y bydd yn symud.

### Edrych i'r Dyfodol

- 3.11 Mae nodi trethdalwyr Cymreig, a rhoi sicrwydd bod y gwaith nodi hwn yn gywir, yn broses barhaus. Bydd CThEM yn parhau i gynnal ystod o

weithgareddau i ategu hyn, a byddwn yn gweithio'n agos gyda Llywodraeth Cymru i fireinio ein dull gweithredu ymhellach. Rydym wrthi'n trafod â Llywodraeth Cymru pryd y dylai'r ymarfer gwrthdaro data trydydd parti nesaf gael ei gynnal.

## 4. Dull Cydymffurfio

- 4.1 Mae CThEM yn parhau i asesu risg a chynnal gweithgareddau cydymffurfio i faterion treth trethdalwyr Cymreig yn yr un ffordd â'r arfer, fel rhan o'r gwaith o weinyddu system treth incwm y DU yn ei chyfanrwydd. Mae CThEM yn cynnal gweithgareddau cydymffurfio ar sail risg i'r ffordd y cesglir CTIC yn yr un ffordd ag y mae'n eu cynnal o ran casglu treth incwm oddi wrth drethdalwyr yng ngweddill y DU. Nid yw cost y gweithgareddau hyn yn cael ei hailgodi ar Lywodraeth Cymru.
- 4.2 Mae CThEM hefyd yn ystyried unrhyw risgiau cydymffurfio sy'n benodol i CTIC. Mae'r risg sy'n briodoladwy i drethdalwyr Cymreig yn dibynnu ar wahaniaeth CTIC o'u cymharu â gweddill y DU. Mae'r risg hon, ac unrhyw weithgareddau a gynhelir gan CThEM o ganlyniad i hynny, yn cael ei chrynhoi yng Nghynllun Cydymffurfio CTIC, a gaiff ei lunio bob blwyddyn. Rhoddwyd y Cynllun Cydymffurfio CTIC cyntaf i Lywodraeth Cymru ym mis Gorffennaf 2020.

### Risg a Gweithgareddau ar hyn o bryd

- 4.3 Mae CTIC yn aros ar yr un lefel â chyfraddau eraill yn y DU, felly ar hyn o bryd nid oes risg o newid mewn ymddygiad trethdalwyr Cymreig. Fodd bynnag, mae CThEM yn monitro tueddiadau mudo ar draws y ffin unigolion o ran Hunanasesiad a Thalu Wrth Ennill, ac yn dilysu cywirdeb symudiadau y rhoddir gwybod amdanynt a chyflawnder eu data cyfeiriadau.
- 4.4 Mae CThEM yn defnyddio'r model Rheoli Cydymffurfiad Cwsmeriaid a dulliau rhyngweithio eraill gyda chwsmeriaid cyfoethog i godi ymwybyddiaeth, addysgu cwsmeriaid o'u hymrwymiaadau CTIC ac asesu risg gydymffurfio sy'n gysylltiedig â chamliwio statws trethdalwyr Cymreig neu danddatgan incwm sy'n agored i CTIC.

### Cydymffurfiad Cyflogwyr

- 4.5 Mae CThEM hefyd wedi gweithio i sicrhau bod cyflogwyr yn cyflawni eu cyfrifoldebau. Ym mis Mehefin 2019, gwnaethom nodi nad oedd 10.4% o gyflogwyr yn cymhwyso'r codau 'C' a gyflwynwyd gan CThEM yn gywir, sy'n dynodi bod cwsmeriaid yn drethdalwyr Cymreig.
- 4.6 Rhan o'r rheswm dros hyn oedd problemau gyda meddalwedd y gyflogres a ddefnyddir gan rai cyflogwyr ac roedd CThEM yn gweithio gyda chyflogwyr a darparwyr meddalwedd i'w datrys.



- 4.7 Mae CThEM yn monitro hyn o hyd, gan sganio codau'n gyson a'u hail-anfon at gyflogwyr. Rydym hefyd yn cyfathrebu â chyflogwyr, gan dynnu sylw at bwysigrwydd cymhwyso'r codau a gyhoeddir gan CThEM yn gywir.
- 4.8 Roedd y sgan diweddaraf, a gynhaliwyd ym mis Mehefin 2020, yn dangos bod canran y cyflogwyr sy'n methu â chymhwyso'r codau 'C' wedi gostwng i 2.9%. Mae hyn yn dangos gwelliant parhaus, ac yn dangos bod y rhan fwyaf o gyflogwyr yn cymhwyso'r codau 'C' a gyhoeddwyd gan CThEM yn gywir.
- 4.9 Nid yw methiant cyflogwyr i gymhwyso'r codau 'C' cywir a gyhoeddir gan CThEM yn effeithio ar broses CThEM o nodi trethdalwyr Cymreig. Lle nad yw codau treth wedi'u cymhwyso'n gywir gan gyflogwyr, mae gwaith cysoni diwedd blwyddyn yn sicrhau bod cwsmeriaid yn talu'r swm cywir o dreth a bod hwn yn cael ei ddyrannu i'r llywodraeth gywir.

### Edrych i'r Dyfodol

- 4.10 Bydd CThEM yn parhau i fonitro'r risg o ymddygiad diffyg cydymffurfio trethdalwyr Cymreig, ac i helpu cyflogwyr i gymhwyso codau 'C' yn gywir.
- 4.11 Bydd y gweithgareddau cydymffurfio a gynhelir ar gyfer trethdalwyr Cymreig fel rhan o weinyddu ehangach system dreth y DU hefyd yn cael eu defnyddio i lywio dull CThEM ar gyfer blynyddoedd i ddod. Os bydd y gweithgarwch hwn yn dangos unrhyw dueddiadau mewn newid i ymddygiad, caiff hwn ei ystyried yn y dyfodol.

## 5. Rheoli Costau ac Ailgodi Tâl am Gostau

- 5.1 Mae'r Fframwaith Cyllidol y cytunwyd arno rhwng Llywodraeth y DU a Llywodraeth Cymru yn 2016 yn nodi'r trefniadau ariannu ar gyfer rhoi Deddf Cymru 2014 ar waith<sup>5</sup>. O dan y cytundeb hwn, mae'n ofynnol i Lywodraeth Cymru ad-dalu Llywodraeth y DU ar gyfer costau ychwanegol net yr eir iddynt yn llawn ac o anghenrhaid o ganlyniad i weinyddu pwerau treth incwm Cymru.

### Egwyddorion Ailgodi Tâl

- 5.2 Cyfrifoldeb CThEM yw sicrhau bod y tâl a ailgodir ar Lywodraeth Cymru am gostau'n deg ac yn gywir, ac rydym wedi cytuno ar ddull gyda Llywodraeth Cymru i sicrhau bod ganddi'r cyfle i'w beirniadu. Mae Gweithredu Fframwaith Treth Incwm Cymru o ran Costau y Gellir Ailgodi Tâl Amdanynt, yn un o atodiadau'r CLG, yn disgrifio'r broses hon.

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<sup>5</sup> Mae'r Fframwaith Cyllidol rhwng Llywodraeth y DU a Llywodraeth Cymru i'w weld yma: <https://llyw.cymru/sites/default/files/publications/2018-11/cytundeb-ar-fframwaith-cyllidol-llywodraeth-cymru.pdf>

- 5.3 Mae CThEM yn ailgodi tâl ar Lywodraeth Cymru gan ddefnyddio'r egwyddor costau ychwanegol net. Mae hyn yn golygu ein bod yn ailgodi tâl am gostau elfennau sy'n ymwneud yn benodol â gweinyddu CTIC ac nid pob cost sy'n gysylltiedig â gweinyddu'r system treth incwm ar gyfer trethdalwyr Cymreig. Mae hyn yn sicrhau bod y costau yr ailgodir tâl amdanynt yn gostau ychwanegol y mae CThEM yn mynd iddynt o ganlyniad i CTIC, ac nid oes mantais cost i CThEM.

#### Costau gweithredu

- 5.4 Roedd Bwrdd Prosiect CTIC, gyda Bwrdd Rhaglen Cymru'n goruchwylio, yn gyfrifol am gymeradwyo costau rhoi CTIC ar waith, a gwnaeth tîm y prosiect hefyd feirniadu a herio'r costau hyn. Mae costau gweithredu yn cynnwys costau TG, busnes a staff sy'n ymwneud â chyflwyno CTIC.
- 5.5 Amcangyfrif presennol CThEM o gostau gweithredu CTIC yw £8-9 miliwn, sy'n cwmpasu costau gweithredu CTIC yn gychwynol. Nid yw'n cynnwys costau gweithredu unrhyw newidiadau i CTIC yn y dyfodol. Ein hamcangyfrif cychwynol oedd £5-10 miliwn, a gwnaethom ddiwygio hwn wedyn i adlewyrchu ein hasesiad gwell o'r gost hon. Ym mis Hydref 2018, gwnaethom roi amcangyfrif diwygiedig i Ysgrifennydd Cyllid y Cabinet, sef £7.5-9.5 miliwn, ac ym mis Rhagfyr 2019 gwnaethom ddiwygio hwn ymhellach i'r amcangyfrif presennol. Bydd y costau'n cael eu cadarnhau ar ôl i'r Crynodeb Treth Blynyddol gael ei gyflwyno.

#### Rhagolygon

- 5.6 Mae rhagolwg cychwynol o'r costau blynyddol o weinyddu CTIC yn cael ei roi i Lywodraeth Cymru ar ddiwedd chwarter 3. Arwydd yn unig yw hwn gan nad yw'n cynnwys ceisiadau pwrpasol, tasgau dilynol a nodwyd, neu dasgau presennol sydd wedi dod i ben yn ystod y flwyddyn ddilynol. Caiff newidiadau a fydd yn effeithio ar flynyddoedd yn y dyfodol eu hadlewyrchu yn y rhagolwg blynyddol nesaf. Mae'r rhagolwg hwn wedyn cael ei ailadrodd wrth i gynlluniau'r flwyddyn nesaf ddod yn gliriach.
- 5.7 Yna, mae'r rhagolwg hwn yn cael ei gymharu â'r costau go iawn ym mhob mis a chwarter, ac yn cael ei ddiwygio yn ôl yr angen.

#### Ailgodi Tâl am Gostau Busnes Arferol Parhaus

- 5.8 Mae CThEM yn llunio adroddiad ar gyfer Llywodraeth Cymru bob mis, gan fanylu ar gostau'r mis diwethaf a'u cymharu â'r rhagolwg. Mae unrhyw anghysondebau rhwng y rhagolwg a'r costau go iawn yn cael eu hesbonio, ac mae CThEM a Llywodraeth Cymru yn cynnal cyfarfodydd bob mis i drafod yr adroddiadau hyn. Mae hyn yn galluogi Llywodraeth Cymru i feirniadu a herio'r ailgodiad.

- 5.9 Mae'r adroddiadau misol hyn yn bwydo mewn i adroddiad chwarterol a gaiff ei gyflwyno i Fwrdd CTIC. Mae'r anfonebau chwarterol ond yn cael eu codi unwaith bod Bwrdd CTIC wedi cadarnhau ei fod yn fodlon bod yr ailgodiad yn deg ac yn gywir.
- 5.10 Mae prosesau llywodraethu ychwanegol ar waith i roi sicrwydd cyn mynd i gostau mwy. Mae angen i gostau untro hyd at £50k gael eu cymeradwyo gan Un Man Cyswllt CThEM ar gyfer CTIC, tra bod angen i gostau dros y swm hwn gael eu cymeradwyo gan Fwrdd Rheoli Newid a Dirprwy Gyfarwyddwr.
- 5.11 Mae Byrddau Rheoli Newid yn rhoi cyfle i Lywodraeth Cymru herio CThEM ar wariant arfaethedig a'r symiau y gofynnir amdanynt. Mae cyfyngu'r broses hon i symiau dros £50k yn sicrhau nad yw'r broses ar gyfer symiau llai yn feichus yn ddiangen. Mae symiau o dan £50k yn cael eu beirniadu o hyd yn y cyfarfodydd misol a chan fwrdd CTIC.

### Edrych i'r Dyfodol

- 5.12 Bydd CThEM yn parhau i ailgodi tâl ar Lywodraeth Cymru am unrhyw gostau ychwanegol yr eir iddynt yn gyfan gwbl ac o anghenraid o ganlyniad i weinyddu CTIC. Byddwn yn gweithio'n agos gyda hi i sicrhau bod ganddi'r wybodaeth sydd ei hangen arni i gymeradwyo'r costau, a byddwn yn rhoi amcangyfrif a rhagolygon o gostau'r dyfodol.
- 5.13 Yn ddiweddar, gwnaethom roi amcangyfrif lefel uchel i Lywodraeth Cymru o gostau ar gyfer 2021-22, a byddwn yn rhoi rhagolygon cychwynol yn fuan.

## 6. Alldro CTIC

- 6.1 Mae alldro cyntaf CTIC, ar gyfer blwyddyn dreth 2019-20, i fod i gael ei gyhoeddi yn ystod haf 2021. Mae amcangyfrif dros dro cyntaf CThEM o'r ffigur hwn i fod cael ei gyhoeddi'r flwyddyn hon<sup>6</sup>.
- 6.2 Cymeradwywyd y fethodoleg arfaethedig ar gyfer cyfrifo'r alldro gan Fwrdd CTIC ym mis Awst 2020. Roedd CThEM yn gweithio'n agos gyda dadansoddwyr Llywodraeth Cymru wrth ddatblygu'r fethodoleg hon i sicrhau ei bod wedi'i hesbonio'n llawn.
- 6.3 Caiff alldro CTIC ei archwilio gan y Swyddfa Archwilio Cenedlaethol a'i gyhoeddi yn Adroddiadau a Chyfrifon Blynyddol CThEM, ar y cyd ag amcangyfrif arfaethedig o ffigur 2020-21. Rydym hefyd yn disgwyl rhyddhau ystadegau ar wahân. Bydd dyfyniad o'r cyfrifon, gan gynnwys ffigur yr alldro, yn cael ei roi i'r Pwyllgor.

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<sup>6</sup> Cyfrifoldeb y Swyddfa Cyfrifoldeb Cyllidebol yw'r rhagolygon o alldro CTIC.

## 7. Crynodeb

- 7.1 Mae CThEM wedi ymrwymo i weinyddu CTIC yn llwyddiannus, ac rydym yn hyderus bod y dull gweithredu a nodir uchod yn ein galluogi i weithio'n effeithiol tuag at hyn. Mae'r ffaith bod CTIC wedi'u rhoi ar waith yn llwyddiannus yn dangos hyn, ac rydym wedi ymrwymo i sicrhau bod y llwyddiant hwn yn parhau wrth i CTIC barhau drwy'r trefniant busnes arferol.
- 7.2 Byddwn yn blaenoriaethu gweithio'n gydweithredol ac yn adeiladol gyda Llywodraeth Cymru, a sicrhau ei bod yn gallu parhau i allu beirniadu a herio'r ffordd y mae CThEM yn gweinyddu CTIC.

# HMRC's Administration of Welsh Rates of Income Tax

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## 1. Introduction

- 1.1 The Wales Act 2014 amended the Government of Wales Act 2006 to enable the Welsh Parliament to set a Welsh basic, higher and additional rate of income tax to apply to the non-savings and non-dividend income of Welsh taxpayers. This power came into effect for the 2019-20 tax year.

- 1.2 HM Revenue and Customs (HMRC) administers Welsh Rates of Income Tax (WRIT) through existing Pay As You Earn and Self Assessment processes. HMRC works closely with the Welsh Government to ensure the successful administration of WRIT, and this document sets out some of the measures that have been taken as part of the implementation and business as usual operation of WRIT.

## 2. Governance of WRIT

- 2.1 To ensure the smooth administration of WRIT, HMRC agreed a governance approach with the Welsh Government. This is underpinned by the close working relationship between HMRC and the Welsh Government, which ensures that the Welsh Government is kept fully informed, and able to challenge HMRC on its performance in administering WRIT.
- 2.2 HMRC has appointed an Additional Accounting Officer (AAO) with overall responsibility for WRIT, who is accountable for the performance of HMRC in establishing and operating WRIT. The current AAO is Ruth Stanier, Director General of Customer Strategy & Tax Design.
- 2.3 The AAO has responsibility for all matters of governance, decision making and financial management in relation to WRIT, and is available to give evidence to Welsh Parliament committees when required.

### Agreements between HMRC and the Welsh Government

- 2.4 Ahead of the implementation of WRIT, HMRC and the Welsh Government agreed a Service Level Agreement (SLA)<sup>1</sup> for the 2019-20 tax year, which sets out the requirements, timescales and performance measures for the day-to-day operation of WRIT. This ensures a consistent quality of service to Welsh taxpayers and allows HMRC and the Welsh Government to meet their respective responsibilities in respect of operating WRIT. The SLA is reviewed annually.
- 2.5 HMRC will produce the first WRIT Annual Report in September 2020, which will report on the requirements set out in the SLA, and give assurance that these have been met. The Committee will be provided with a copy of this report.
- 2.6 The SLA is subsidiary to the Memorandum of Understanding (MoU)<sup>2</sup>, which provides the framework for inter-government work at ministerial and official level to oversee the establishment and operation of WRIT. This document is

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<sup>1</sup> HMRC and the Welsh Government's SLA for the operation of WRIT: <https://www.gov.uk/government/publications/service-level-agreement-for-operation-of-welsh-rates-of-income-tax-by-hmrc>

<sup>2</sup> HMRC and the Welsh Government's MoU for the operation of WRIT: <https://gov.wales/welsh-rate-income-tax-memorandum-understanding-html>

currently being reviewed by HMRC and the Welsh Government to ensure it remains up to date.

### The WRIT Project

- 2.7 The implementation of WRIT was managed through HMRC's WRIT Project. WRIT was successfully implemented to operate from the start of the 2019-20 tax year. Some aspects of delivery, for instance changes to Self Assessment systems and the Annual Tax Summary, were not required until later. The Self Assessment changes have since been implemented as scheduled and the Annual Tax Summary is currently in development.
- 2.8 A Programme Board of senior officials provided oversight of all HMRC's Welsh tax devolution work, whilst the WRIT Project Board managed the implementation of WRIT. Both the Project and Programme Boards included representatives from the Welsh Government to ensure they had the opportunity to scrutinise the implementation of WRIT.
- 2.9 A Critical Friend Review was carried out in February 2020 to assess the Project's effectiveness in relation to project governance, delivery capability and planning, readiness for full implementation into business as usual, and value for money. The overall findings of the review were positive. The review also made several recommendations, which were discussed by the Project Board and addressed.

### Business as Usual Governance

- 2.10 A new governance structure was put in place ahead of the transition of WRIT from the project into business as usual. As most of the implementation is complete, the WRIT Project Board was succeeded by the WRIT Board, the first meeting of which was held in February 2020. The Board meets on a quarterly basis to oversee the administration of WRIT and ensure that HMRC is fulfilling the requirements set out in the SLA. The Welsh Government is represented on the Board, and shares chairing responsibilities with HMRC.
- 2.11 HMRC and the Welsh Government have both nominated a Single Point of Contact (SPoC) for WRIT, to oversee its day-to-day management. The SPoCs meet on a regular basis, and regular meetings also take place between the signatories to the SLA and between the chairs of the WRIT Board.
- 2.12 This close working between HMRC and the Welsh Government ensures the smooth operation of WRIT, and that any issues can be identified and dealt with quickly. In the event of any disputes between HMRC and the Welsh Government, there is a disputes resolution process in place to ensure these are escalated appropriately and resolved swiftly.

## NAO Audits

- 2.13 As well as our own internal governance process, HMRC also relies on the National Audit Office (NAO) to assess our administration of WRIT.
- 2.14 The most recent audit by the NAO was published in January 2020, and considered HMRC's administration of WRIT in 2018-19<sup>3</sup>. The NAO made positive findings in a number of areas, including governance, recharging, and identification and assurance. The NAO did not make any recommendations in its report, however HMRC has considered it carefully to ensure we continue to effectively administer WRIT.
- 2.15 The NAO conducts these audits annually, and the audit of HMRC's administration of WRIT in 2019-20 will be published later this financial year.

## Looking Ahead

- 2.16 The business as usual governance approach currently in place will continue to operate. HMRC is committed to maintaining its close working relationship with the Welsh Government, to ensure that the governance of WRIT remains effective.

## 3. Identification and Assurance of Welsh Taxpayers

- 3.1 In order to effectively administer WRIT, HMRC must identify and maintain an accurate and robust record of the Welsh taxpayer population<sup>4</sup>. HMRC therefore conducts a range of activities to identify Welsh taxpayers, and provide assurance that this identification is correct.

### Initial Identification

- 3.2 Ahead of the introduction of WRIT in 2019-20, HMRC undertook a third party data clash exercise, which matched HMRC address records with third party data. This included the electoral roll, data held by credit reference agencies, and employer records. It enabled HMRC to test whether our identification of Welsh taxpayers was corroborated by other address records.
- 3.3 The results of this exercise provided evidence to suggest that HMRC's identification of Welsh taxpayers was correct in 98-99% of cases. This gives HMRC confidence that we have correctly identified the vast majority of Welsh taxpayers. The data clash was unable to corroborate the other 1-2% of cases, but these are not necessarily incorrect addresses. There is no reason to believe that the third party data used for this corroboration is more likely to be correct than HMRC's data.

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<sup>3</sup> The NAO's audit of HMRC's administration of WRIT in 2018-19: <https://www.nao.org.uk/report/the-administration-of-the-welsh-rate-of-income-tax-2018-19/>

<sup>4</sup> A summary of who is defined as a Welsh taxpayer: <https://www.gov.uk/welsh-income-tax/who-pays-the-Welsh-rates>



- 3.4 HMRC also identified postcodes that straddle the England and Wales border. Using ordnance survey data, we were able to identify whether all properties in these postcodes were in England or Wales.
- 3.5 HMRC communicated with Welsh taxpayers ahead of the introduction of WRIT to inform them of the upcoming changes to the tax system. In November 2018 a bilingual letter was sent to 2.01 million HMRC customers identified as being resident in Wales. As well as providing information about the introduction of WRIT, this letter also informed them of the need to notify HMRC of any address changes.
- 3.6 A range of communications activity supported this letter, targeting employers, software providers, pension providers, tax professionals, and others.
- 3.7 HMRC has extensive guidance in place to establish Welsh taxpayer status, including guidance on cross-border issues.

#### Ongoing Activity

- 3.8 HMRC carries out a number of scans to support the ongoing identification of Welsh taxpayers. This includes scans of blank and invalid postcodes in records where we identify indicators in the remainder of the address that it is Welsh. Records identified in these scans are updated to ensure they have the correct postcode and residency status.
- 3.9 HMRC also uses data provided by the Office of National Statistics to reflect new properties being built and subdivision of existing properties on our systems.
- 3.10 We continue to use the extensive existing channels of communication with taxpayers to reinforce key WRIT messages, including channels such as online social media and the Personal Tax Account. These communications have focused on the need for customers to update their address details with HMRC when they move.

#### Looking Ahead

- 3.11 The identification of Welsh taxpayers, and assurance that this identification is correct, is an ongoing process. HMRC will continue to carry out a range of activities to support this, and we will work closely with the Welsh Government to further refine our approach. We are currently discussing with the Welsh Government when the next third party data clash should be carried out.

## 4. Compliance Approach

- 4.1 HMRC continues to assess risk and undertake compliance activity into the tax affairs of Welsh taxpayers in the same manner we have always done, as part

of the administration of the UK income tax system as a whole. HMRC applies risk-based compliance activity to the collection of WRIT in the same way as is applied to the collection of income tax from taxpayers in the rest of the UK. The cost of this activity is not recharged to the Welsh Government.

- 4.2 HMRC also considers any compliance risk specific to WRIT. Risk attributable to Welsh taxpayers is dependent on the divergence of WRIT from the rest of the UK. This risk, and any activity carried out by HMRC as a result, is summarised in the WRIT Compliance Plan, which is produced annually. The first WRIT Compliance Plan was provided to the Welsh Government in July 2020.

### Current Risk and Activity

- 4.3 WRIT remains level with UK rates, so there is currently no risk of behavioural change in Welsh taxpayers. However, for all individuals, whether in Self Assessment or Pay As You Earn, HMRC monitors cross-border migration trends and validates the accuracy of reported moves and the completeness of its address data.
- 4.4 For wealthy individuals, HMRC uses the existing Customer Compliance Manager model and other interactions with wealthy customers to raise awareness, educate customers of their WRIT obligations and assess compliance risk related to misrepresentation of Welsh taxpayer status or understatement of income liable to WRIT.

### Employer Compliance

- 4.5 HMRC has also worked to ensure that employers fulfil their responsibilities. In June 2019, we identified that 10.4% of employers were not correctly applying the 'C' codes issued to them by HMRC, which denote customers as Welsh taxpayers.
- 4.6 This was in part due to issues with the payroll software used by some employers, and HMRC worked with employers and software providers to resolve these.
- 4.7 HMRC continues to monitor this, conducting regular scans and re-issuing codes to employers. We also communicate with employers, highlighting the importance of correctly applying the codes issued by HMRC.
- 4.8 The most recent scan, carried out in June 2020, showed that the percentage of employers failing to correctly apply the 'C' codes had reduced to 2.9%. This demonstrates continued improvement, and shows that the vast majority of employers are correctly applying the 'C' codes issued to them by HMRC.

- 4.9 The failure of employers to correctly apply the ‘C’ codes issued by HMRC does not impact the identification of Welsh taxpayers by HMRC. Where tax codes are not applied correctly by employers, end of year reconciliation ensures that customers pay the right amount of tax and that this is allocated to the correct government.

### Looking Ahead

- 4.10 HMRC will continue to monitor the risk of non-compliant behaviour by Welsh taxpayers, and to support employers in applying ‘C’ codes correctly.
- 4.11 The compliance activity undertaken for Welsh taxpayers as part of the broader administration of the UK tax system will also be used to inform HMRC’s approach for future years. If this activity shows any trends in behavioural change, this will be considered in future periods.

## 5. Management of Costs and Recharging

- 5.1 The Fiscal Framework agreed between the UK and Welsh Governments in 2016 sets out the funding arrangements for the implementation of the Wales Act 2014<sup>5</sup>. Under this agreement, the Welsh Government is required to reimburse the UK government for net additional costs wholly and necessarily incurred as a result of the administration of Welsh income tax powers.

### The Principles of Recharging

- 5.2 It is HMRC’s responsibility to ensure that the recharge to the Welsh Government is fair and accurate, and we have agreed an approach with the Welsh Government to ensure they have the opportunity to scrutinise this. The Operation of Welsh Rates of Income Tax Rechargeable Costs Framework, annexed to the SLA, describes this process.
- 5.3 HMRC recharges the Welsh Government using the net additional costs principle. This means we recharge costs of elements that relate specifically to the administration of WRIT, and not every cost related to the administration of the income tax system for Welsh taxpayers. This ensures that the costs recharged are all additional costs incurred by HMRC as a result of WRIT, and there is no cost benefit to HMRC.

### Implementation Costs

- 5.4 The WRIT Project Board, with oversight from the Welsh Programme Board, was responsible for approving the costs of implementing WRIT, and the project team also scrutinised and challenged these costs. Implementation

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<sup>5</sup> Fiscal Framework between the UK and Welsh Governments:  
<https://gov.wales/sites/default/files/publications/2018-11/agreement-on-welsh-government-fiscal-framework.pdf>

costs include the IT, business and staff costs relating to the introduction of WRIT.

- 5.5 HMRC's current estimate of the cost of implementing WRIT is £8-9 million, which covers the initial implementation of WRIT and not the implementation of any future changes to WRIT. Our initial estimate was £5-10 million, and we subsequently revised this to reflect our improved assessment of this cost. In October 2018, we provided a revised estimate to the Cabinet Secretary for Finance of £7.5-9.5 million, and in December 2019 we further revised this to the current estimate. The costs will be finalised following the delivery of the Annual Tax Summary.

### Forecasting

- 5.6 An initial forecast of the annual cost of administering WRIT is provided to the Welsh Government at the end of quarter 3. This is an indication only as it does not include any bespoke requests, subsequent tasks identified, or cessation of existing tasks during the course of the following year. Changes that will affect future years will be reflected in the next annual forecast. This forecast is then iterated as plans for the next year become clearer.
- 5.7 This forecast is then compared to the actuals in each month and quarter, and revised as necessary.

### Recharging of Ongoing BAU Costs

- 5.8 HMRC produces a report for the Welsh Government each month, detailing the previous month's costs and comparing these to the forecast. Any discrepancies between the forecast and the actuals is explained, and HMRC and the Welsh Government hold monthly meetings to discuss these reports. This enables the Welsh Government to scrutinise and challenge the recharge.
- 5.9 These monthly reports feed into a quarterly report, which is presented to the WRIT Board. The quarterly invoices are raised only once the WRIT Board has confirmed it is content that the recharge is fair and accurate.
- 5.10 Additional governance is in place to provide assurance over larger costs before they are incurred. One-off costs up to £50k require approval by the HMRC SPoC for WRIT, whilst costs over this amount require approval by a Change Control Board and a Deputy Director.
- 5.11 Change Control Boards provide the Welsh Government with the opportunity to challenge HMRC on proposed expenditure and the amounts requested. Restricting this process to amounts over £50k ensures that the process is not unnecessarily onerous for smaller amounts. Amounts under £50k are still subject to scrutiny in the monthly meetings and by the WRIT Board.

## Looking Ahead

- 5.12 HMRC will continue to recharge the Welsh Government for costs wholly and necessarily incurred as a result of WRIT. We will work closely with them to ensure they have the information they need to approve the costs, and will provide estimates and forecasts of future costs.
- 5.13 We recently provided the Welsh Government with a high-level estimate of the costs for 2021-22, and will soon provide an initial forecast.

## 6. The WRIT Outturn

- 6.1 The first WRIT outturn, covering the 2019-20 tax year, is due to be published in summer 2021. HMRC's first provisional estimate of this figure is due to be published this year<sup>6</sup>.
- 6.2 The proposed methodology for calculating the outturn was approved by the WRIT Board in August 2020. HMRC worked closely with Welsh Government analysts during the development of this methodology to ensure it was fully explained.
- 6.3 The WRIT outturn will be audited by the NAO and published in HMRC's Annual Reports and Accounts, alongside the provisional estimate of the 2020-21 figure. We also expect to release a separate statistical publication. An extract of the accounts, including the outturn figure, will be provided to the Committee.

## 7. Summary

- 7.1 HMRC is committed to the successful administration of WRIT, and we are confident that the approach set out above enables us to work effectively towards this. The successful implementation of WRIT demonstrates this, and we are committed to ensuring that this success continues throughout the business as usual running.
- 7.2 We will prioritise working collaboratively and constructively with the Welsh Government, and ensure they remain able to scrutinise and challenge HMRC's administration of WRIT.

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<sup>6</sup> The forecast of the WRIT outturn is the responsibility of the Office for Budget Responsibility.

## **1 Introduction**

1.1 The Chartered Institute of Taxation (CIOT) and its Low Incomes Tax Reform Group (LITRG) set out below their joint response to the Finance Committee of the Senedd Cymru's inquiry into the implementation of the Wales Act 2014 and the operation of the Fiscal Framework.

1.2 The terms of reference of the inquiry, published on 1 July 2020, are:

### Taxation

- The Welsh Government's tax principles, whether these have been met and whether the current tax regime and proposed new taxes align with these principles;
- How successful the administration of Welsh Taxes and the Welsh Rates of Income Tax has been;
- What possible future tax changes could look like and what scope there is for a different approach to taxation in Wales;
- How the mechanism for devolving powers for new Welsh taxes has been performing.

### The Fiscal Framework

- Consider the fiscal framework processes and how funding is allocated to the Welsh block grant;
- Examine the application of the Barnett Formula and the criteria for excluding specific funding from the formula;
- Consider the block grant adjustment mechanism and the effectiveness of the adjustment model;
- Review the suitability of the budget management tools such as the Wales Reserve, and the ability to borrow;

- Evaluate the treatment of spill-over effects and the mechanism for agreeing these effects;
- Draw comparisons between Wales and other international fiscal frameworks.

The questions relating to the Fiscal Framework are largely outside our remit and therefore the focus of our response is under the Taxation heading. However, we welcome the Framework review as it is clearly important the framework remains fit for purpose as more powers over tax and social security are devolved.

- 1.3 Under the Wales Act 2014 and subsequent Welsh legislation, two devolved taxes are collected in Wales by the Welsh Revenue Authority (WRA) – Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT).
- 1.4 Following the passing of the Wales Act 2017, Welsh Rates of Income Tax (WRIT) apply from 6 April 2019 but are collected by HM Revenue & Customs (HMRC). The UK Government reduced each of the three rates of income tax (basic, higher and additional rate) paid by Welsh taxpayers by ten pence. The three Welsh rates confirmed by the National Assembly are then added to the reduced UK rates. The combination of reduced UK rates plus the Welsh rates determine the overall rate of income tax paid by Welsh taxpayers. The WRIT rates in 2019-20 have been set such that the tax rate paid by Welsh taxpayers is the same as that paid by taxpayers in England and Northern Ireland. The Welsh Government has committed to not increasing Income Tax rates during this National Assembly term.

There is no power to create, amend or remove income tax bands nor amend any income tax reliefs or allowances.

## **2 About us**

- 2.1 The Chartered Institute of Taxation is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties.
- 2.2 The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can

most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

- 2.3 The CIOT's 19,000 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.
- 2.4 The Low Incomes Tax Reform Group is an initiative of the Chartered Institute of Taxation to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.
- 2.5 LITRG works extensively with HM Revenue and Customs and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.

### **3 Executive summary**

- 3.1 Both Land Transaction Tax and Landfill Disposals Tax were developed through highly collaborative processes involving extensive informal and formal consultation the results of which are reflected in their final design, successful implementation and administration.
- 3.2 Changes to the devolved taxes are to some extent driven by changes made by the UK government to the predecessor taxes as a consequence of the effect of such changes on the Welsh government's tax revenues through block grant adjustments. The need to make consequential changes may impinge on both stability and the ability of the Welsh government to consider change through collaboration and involvement of stakeholders particularly where changes are announced with little notice and an immediate adjustment is required to preserve revenue.
- 3.3 Wales has not introduced a Disclosure of Tax Avoidance Schemes regime therefore the WRA's awareness of potential threats to the devolved tax base due to avoidance is more dependent on robust



strategies for assessing tax risk and from exchanges of information between HMRC and the WRA.

- 3.4 It is too early in the development and assessment stage to evaluate whether the proposed new taxes will, if taken forward, adhere to the Welsh Government's tax principles.
- 3.5 We commend the current approach of promoting a positive case for taxation by illustrating the link between taxes and spend on public services in Wales and building knowledge and awareness of Welsh taxes across Wales. However, we are concerned that, anecdotally, awareness and understanding of the Welsh Rates of Income Tax by the public in Wales remains fairly low despite efforts to engage the public via the WRIT Communications Plan. We acknowledge the difficulty in generating interest when effective rates are unchanged.
- 3.6 The fact that income tax is only partially devolved with allowances, base and reliefs all decided at a UK level means that the scope for a fundamentally different approach to taxation and future tax changes has some limitations.
- 3.7 We consider that robust research is needed to establish Welsh taxpayer attitude to paying more or less tax in return for greater or less social funding, and how much increases in income tax rates would in fact increase the tax take taking into account behavioural effects such as migration across the porous Wales/England border.

#### **4 Taxation: the Welsh Government's tax principles, whether these have been met and whether the current tax regime and proposed new taxes align with these principles.**

- 4.1 The Welsh Government's tax principles, as set out in The Tax Policy Framework (published in June 2017 and re-affirmed in recent Tax Policy work plans) indicate that 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.
- 4.2 Both Land Transaction Tax and Landfill Disposals Tax were developed through highly collaborative processes involving extensive informal

and formal consultation the results of which are reflected in their final design and successful implementation.

- 4.3 A key message resulting from the consultations was that LTT should be consistent, wherever possible, with Stamp Duty Land Tax (SDLT) legislation such that business and practitioners would be familiar with the concepts and operation of the new tax thereby promoting stability and clarity. SDLT, and therefore, LTT have elements of complexity, particularly the partnership provisions and the sections dealing with pre-completion transactions and freestanding transfers. However, these provisions, although complex, are now reasonably well-understood by professional practitioners who advise and operate LTT on behalf of their clients and therefore consistency with SDLT aligns with the principles.
- 4.4 Changes to the devolved taxes are to some extent driven by changes made by the UK Government to the predecessor taxes as a consequence of the effect of such changes on the Welsh Government's tax revenues through block grant adjustments. The need to make consequential changes<sup>1</sup> may impinge on both stability and the ability of the Welsh government to consider change through collaboration and involvement of stakeholders particularly where changes are announced with little notice and an immediate adjustment is required to preserve revenue.
- 4.5 Raising revenue to fund public services implicitly requires the Welsh Government to monitor threats to the tax base through evasion and avoidance. The Land Transaction Tax and Anti-Avoidance of Devolved Taxes (Wales) Act 2017 includes a targeted anti-avoidance rule (TAAR) that applies to any relief which can be claimed in relation to LTT. A general anti-avoidance rule (GAAR) in The Tax Collection and Management (Wales) Act 2016 applies to both LTT and LDT. Wales has not introduced a Disclosure of Tax Avoidance Schemes regime therefore the WRA's awareness of potential loss of devolved taxes through avoidance is more dependent on robust strategies for assessing tax risk and from exchanges of information between HMRC and the WRA.<sup>2</sup> We are aware that the WRA attends the quarterly meetings of the SDLT Working Together Steering Group as part of their extensive liaison with HMRC. Although it is too early in the lifecycles of the devolved taxes to assess levels of avoidance or evasion that may

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<sup>1</sup> The Welsh Government is consulting on enabling changes to the Welsh Tax Acts see Tax Devolution in Wales – Enabling changes to the Welsh Tax Acts. <https://gov.wales/sites/default/files/consultations/2020-07/enabling-changes-to-welsh-tax-legislation-consultation-document.pdf>

<sup>2</sup> See the WRA's Corporate Plan 2019-2022 p13. [https://gov.wales/sites/default/files/publications/2019-05/welsh-revenue-authority-corporate-plan-2019-2022\\_0.pdf](https://gov.wales/sites/default/files/publications/2019-05/welsh-revenue-authority-corporate-plan-2019-2022_0.pdf)

threaten the devolved tax base, it will be necessary to evaluate emerging data in the context of the WRA's specific Welsh approach to delivering the devolved tax system in Wales ('Our Approach' enshrined in the Charter) that involves working in partnership with taxpayers, their representatives and the public.

- 4.6 The Welsh government is exploring four new taxes; a vacant land tax, a social care levy, a disposable plastics tax and a tourism tax<sup>3</sup>. Two of these taxes address local issues and aim broadly to contribute to local development (vacant land tax and a tourism tax), one is to influence consumer behaviour (single use plastic) whilst a social care levy would need to link to the taxpayer's status and eligibility to claim benefits. The Welsh government is seeking new tax powers for a potential vacant land tax under the Wales Act mechanism by which new tax powers can be devolved. Once the powers have been devolved, it is understood that consultation with stakeholders will form part of the work to be undertaken.

It is too early in the development and assessment stage to evaluate whether the proposed new taxes will, if taken forward, adhere to the Welsh government's tax principles. Given the different policy intent underpinning the proposed new taxes, it will be necessary to evaluate them not only as individual taxes as they are developed but also holistically, whether overall the devolved tax system adheres to the tax principles.

- 4.7 Preliminary work has been undertaken in relation to a vacant land tax with research on stalled sites in Wales. The broad objective is to increase the cost of holding vacant land to encourage the building of new homes and increase commercial development. At this early stage, we note only the practical challenges in implementing a vacant land tax in a way that is both clear and simple. Definitional issues include defining the target sites that are not being developed including land that potentially straddles different planning authorities or the Welsh/English border, and what is meant by a 'vacant' site. The basis of the charge is likely to require a valuation process that may prove challenging to both the taxpayer and the taxing authority. Stability may be affected by potential unintended consequences such as adversely influencing developers to choose to develop sites outside Wales because of the imposition of vacant land tax. The introduction of exemptions or reliefs (eg for public sector held land) would inevitably compromise simplicity to some degree.

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<sup>3</sup> <https://gov.wales/developing-new-welsh-taxes>

4.8 Although a vacant land tax is likely to be behavioural rather than primarily revenue raising, an effective and efficient system of collection and compliance comes at a cost (again, to both the taxpayer and the taxing authority), that cost recovery will need to be built into the vacant land tax charging scheme.

## **5 Taxation: How successful the administration of Welsh taxes and the Welsh Rates of Income Tax has been**

5.1 Welsh rates of income tax are paid through PAYE for employees, or are deducted by the pension provider in respect of pensions. HMRC add a 'C' to the start of tax codes to identify a Welsh taxpayer<sup>4</sup>. In theory Welsh taxpayers will have therefore noticed little change in how HMRC collects their income tax, other than to their tax code which should now begin with a 'C'. Welsh taxpayers generally have not needed to take any action unless they need to advise HMRC of a change of address. However, it is important that individual taxpayers have sufficient awareness and understanding about their PAYE code such that they realise it is their responsibility to contact HMRC if it is incorrect. Although at present while rates remain aligned correct coding has little practical effect for an individual taxpayer, it does affect the Welsh Government's revenue stream. We are concerned that, anecdotally, awareness and understanding of the WRIT by the public in Wales remains fairly low despite efforts to engage the public via the WRIT Communications Plan. We acknowledge the difficulty in generating interest when effective rates are unchanged.

5.2 In terms of employers, in practice, we have seen some evidence of employers (and payroll operators) contacting HMRC and employees in relation to Welsh taxpayer status issues, for example if they think an employee should have a C code, but they do not. We also note that as part of the preparation of the 2019/20 PAYE Settlement Agreement (PSA)<sup>5</sup> calculations, employers have had to prepare a separate calculation in respect of employees who are Welsh taxpayers for the first time. The method for doing this relies on identifying those Welsh tax payers using their PAYE tax code (those with a C prefix). Employers and advisers have placed reliance on the accuracy of the tax codes that have been supplied to them by HMRC in preparing these computations and apportioning out amounts that relate to Welsh tax payers. If the Welsh income tax rates or bands are changed, then employers will likely continue to rely on the accuracy of the tax codes they hold for

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<sup>4</sup> Section 116E of the Government of Wales Act 2006 defines who is a Welsh taxpayer

<sup>5</sup> A PAYE Settlement Agreement (PSA) allows employers to make one annual payment to cover all the tax and National Insurance due on minor, irregular or impracticable expenses or benefits for employees.

each employee in order to correctly calculate their PSA liabilities in future tax years (as they have been in similar circumstances for Scottish tax payers this year).

- 5.3 Our members indicate the administration of LTT and LDT is robust and successful. The WRA has developed effective guidance and digital systems. The WRA's guidance is well-developed with regular updates and includes meaningful examples and illustrations. The CIOT has recently commented on the WRA's guidance building on an earlier submission<sup>6</sup>. Members report the LTT tax opinion service is working well to provide certainty of tax treatment for practitioners.
- 5.4 Systems and processes for the administration of devolved taxes have proved resilient in the face of unexpected disruption. As the WRA's IT systems are fully cloud-based, administration appears to have been largely unaffected by both the recent flooding of the WRA offices and by the coronavirus pandemic forcing staff to work from home - subject to their internet connection.

## **6 Taxation: What possible future tax changes could look like and what scope there is for a different approach to taxation in Wales.**

- 6.1 We do not provide views on the future required level of taxation, nor do we offer comment on where the burden of taxation should fall as these are outside our remit. We commend the current approach of promoting a positive case for taxation by illustrating the link between taxes and spend on public services in Wales and building knowledge and awareness of Welsh taxes across Wales.
- 6.2 The fact that income tax is only partially devolved with allowances, base and reliefs all decided at a UK level means that the scope for a fundamentally different approach to taxation and future tax changes has some limitations. For example the power to vary income tax rates in Wales applies only to non-savings and non-dividend income,<sup>7</sup> ie 'earned' income, leaving Wales particularly exposed to behavioural effects such as potential increases in tax-motivated incorporation or choosing to extract more income that is not liable to WRIT such as investment income or realising capital gains to meet their 'income' needs. Partial devolution also presents challenges in design of new taxes such as the social care levy.

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<sup>6</sup> <https://www.tax.org.uk/sites/default/files/200417%20Welsh%20Revenue%20Authority%20guidance%20-%20CIOT%20comments.pdf>

<sup>7</sup> Non-savings and non-dividend income includes employment income, self-employment profits, rental profits and pension income (including the state pension).

- 6.3 Devolution in this partial manner, which is also the case for Scotland, creates considerable complexity and compliance burdens not just on the individuals but also on their employers and pension providers. In terms of complexity it is notable that many Scottish taxpayers cannot easily work out their own tax liability as a result of the Scottish income tax rates.
- 6.4 As we noted in our response<sup>8</sup> to the Finance Committee's Inquiry into the impact of variations in national and sub-national income tax, we consider that research is needed to establish Welsh taxpayer attitudes to paying more or less tax in return for greater or less social funding, and how much increases in income tax rates would in fact increase the tax take taking into account behavioural effects such as migration across the porous Wales/England border to escape a future social care levy and migrating back to benefit from better social care in later life.
- 6.5 As reflected in the 2019 Welsh Tax Policy Report a programme of work is in train to review and reform the local government finance system, including one of its key component parts - non-domestic rates. One of the alternative approaches being explored is the idea of a local land value tax as a potential replacement to council tax (residential property) and non-domestic rates (non-residential property). We recognise that policy development is at a relatively early stage and largely focused on research. However, we make some observations on the features of council tax/ non-domestic rates and a land tax below at 6.6 and 6.7.
- 6.6 Council tax tends to be unpopular in part because it is a 'dry' tax charge, that is, it is levied when no monies are generated with which to meet the liability, and in part because of its visibility; it is administered by regular demands for payment in contrast to less obtrusive income or national insurance taxes. The same would be to some extent true of a local land tax although there may be alternative means of collection for both council tax or a local land tax that could be considered, such as the approach in Ireland of providing an option to have local property tax withheld from pay or pensions.<sup>9</sup>
- 6.7 Non-domestic rates are distinguishable from a land value tax (which is widely promoted by economists and others as an intrinsically sounder system) by certain key features that include the following:

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<sup>8</sup> <https://www.tax.org.uk/policy-technical/submissions/impact-variations-national-and-sub-national-income-tax>

<sup>9</sup> <https://www.revenue.ie/en/property/local-property-tax/paying-your-lpt/can-you-pay-lpt-from-your-salary-or-pension.aspx>.

- there are exemptions from non-domestic rates, notably for agricultural land and in the case of occupiers who are charities (whereas the arguments on which land value tax are based would tend to suggest there should be few if any exemptions),
- Non-domestic rates are based on rateable values, its annual rental value, so any building or improvement which increases the rent-earning capacity of the property is penalised by leading to a higher rateable value. In contrast the base for calculation of land value tax is the notional value of the land alone. There is however the practical issue of identifying the unimproved site value of land separately from non-land elements of value.
- Non-domestic rates are charged on the occupier rather than the landowner. This last feature is of considerable importance, but maybe not as much as first appears. Whenever a business takes a lease of a property on which it will pay rent, the non-domestic rate cost that will also be taken on in consequence, is known within a much greater range of certainty than many other costs and benefits of taking out the lease of that property in that location. It seems reasonable to suppose that there is a strong inverse relationship between rental and non-domestic rates levels, such that much of the effective economic cost falls on the landowner. This is often forgotten in calls by hard pressed business sectors for non-domestic rates relief.

Alternative approaches to taxing non-residential property that have the advantage of removing distortions in economic behaviour also present clear political challenges in design to avoid perceived inequities and practical matters, such as the way in which values would be assessed. The technical difficulty of how to value unimproved land, while not insurmountable, is generally regarded as one of the more significant challenges.

6.8 Finally, it is also worth noting that the coronavirus pandemic has highlighted the fact that in order to ensure the tax system and the devolution settlement are as effective as they can be in terms of future changes, there needs to be proactive co-operation between the Welsh and UK governments.

## **7 Acknowledgement of submission**

7.1 We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation and

the Low Incomes Tax Reform Group are included in the List of Respondents when any outcome of the consultation is published.