



Welsh Rates of Income Tax HMRC Annual Report 2020

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PURPOSE

The Government of Wales Act 2006 enables the Senedd Cymru 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 was first used in respect of the 2019-20 tax year, and the rates remained the same as those for England and Northern Ireland (N.I.).

Welsh Rates of Income Tax (WRIT) works by reducing the UK rate by 10p in £1. WRIT is charged on top of these reduced rates, and can be lower, higher or the same as the UK rates.

HM Revenue & Customs (HMRC) administers WRIT through existing Pay As You Earn (PAYE) and Self Assessment (SA) processes, including through existing approaches to income tax compliance and communications. This ensures the correct amount of tax is collected, and in the vast majority of cases Welsh taxpayers will notice no difference in how HMRC interacts with them.

To ensure consistent quality of service to Welsh taxpayers to allow both HMRC and the Welsh Government to meet their respective WRIT responsibilities, a Service Level Agreement (SLA)¹ has been agreed. The SLA sets out requirements and performance measures for the operation of WRIT. One of the key requirements is for HMRC to report annually on its delivery of the agreed services.

This report sets out information about HMRC's administration of WRIT, covering:

- compliance activity (including address assurance),
- the collection of and accounting for WRIT revenues,
- customer service and support,
- data for WRIT rate setting and forecasting,
- data for Welsh Government cash management, and
- the costs of delivering WRIT, and recharging of HMRC costs.

¹ <https://www.gov.uk/government/publications/service-level-agreement-for-operation-of-welsh-rates-of-income-tax-by-hmrc>

SECTION 1 – IDENTIFICATION AND ASSURANCE

The SLA requires HMRC to:

- *Identify and maintain an accurate and robust record of the Welsh taxpayer population*

Welsh taxpayer identification

Ahead of the introduction of WRIT in 2019-20, HMRC ensured a robust approach to the **identification** of Welsh taxpayers, and to providing assurance that this identification was correct. This included comparing its address data with that held by third parties, and sending direct communications to taxpayers to ask them to ensure their HMRC address record was correct and up-to-date.

The identification of Welsh taxpayers is an ongoing process. Since the introduction of WRIT,, HMRC has continued to communicate with taxpayers and carried out checks for address assurance.

Welsh taxpayer identification is also supported by **compliance activity**. The exact nature of the compliance activity HMRC undertakes for any given year will depend on income tax decisions made by the UK Parliament and the Senedd. In broad terms, the greater the divergence between the two regimes, the greater the risk of a non-compliant behavioural response by customers that requires HMRC compliance activity to address. The assessment of the risk of non-compliant behaviour and compliance activity is summarised in Section 2.

Communications overview

HMRC uses the extensive existing channels of communications it has with taxpayers to reinforce key WRIT messages. Communications to customers have been through channels including online social media, and the Personal Tax Account. These communications have focused on the need for customers to update address details with HMRC when they move.

HMRC's communications to employers have been through channels including the Employer Bulletin, Agent Update, Customer Compliance Managers' engagement with large businesses and public bodies, forums for employers, payroll managers and agents, gov.uk, and online social media. These communications have focused on reminding customers of the importance of them correctly applying the 'C' codes issued to them by HMRC

HMRC will continue to work with the Welsh Government on its communications approach.

Identification and assurance activity undertaken in 2019-20

Comparison of HMRC address data with third party address data

As part of the preparations for the introduction of WRIT in 2019-20, HMRC undertook a data clash exercise which looked to match HMRC address records with third party data, such as the Electoral roll, data held by credit reference agencies, and employer records. This enabled HMRC to test whether its identification of Welsh taxpayers was corroborated by other address records. The results of this exercise provided evidence to suggest that HMRC's identification of Welsh taxpayers was correct in 98-99% of cases.

HMRC will continue to assure the accuracy of its identification of the Welsh taxpayer population, and HMRC and the Welsh Government are currently in discussions about when is best to repeat this exercise.

Quality Management checks on postcode data

Postcodes and the properties within them occasionally change to reflect new properties being built and subdivision of existing properties. HMRC receives quarterly postcode updates from the Office of National Statistics and reviews its processes for flagging Welsh residency to ensure ongoing postcode accuracy (see Annex for further details).

HMRC has also developed a scan to ensure it holds accurate postcode information. This operates in two parts:

- Identification of taxpayer records with a Welsh postcode prefix but where the postcode is not recorded on HMRC's list of live and deleted Welsh postcodes.
- Identification of taxpayer records with a blank postcode but which has a key word in the body of the address that indicates it is a Welsh postcode, e.g. Swansea.

Records are subsequently updated to ensure that they have the correct postcode and residency status.

Ensuring accuracy of 'C' codes for Welsh parliamentarians

All Welsh parliamentarians are automatically Welsh taxpayers, regardless of their residence, by virtue of section 116E Government of Wales Act 2006, and are identified on HMRC systems accordingly.

HMRC introduced an assurance programme for Welsh parliamentarians following the introduction of WRIT in 2019-20. Parliamentarians' records are reviewed at regular intervals throughout the tax year to provide extra assurance that all Welsh parliamentarians' Welsh taxpayer status is accurately reflected on HMRC systems.

SECTION 2 – COMPLIANCE

The SLA requires HMRC to:

- ***Apply 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***

Compliance strategy overview

Compliance checks into tax affairs of Welsh taxpayers

HMRC assesses compliance risks and undertakes checks into the tax affairs of UK taxpayers, including Welsh taxpayers.

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. This includes conducting enquiries into Welsh SA customers. The Welsh Government is not recharged for this activity.

Due to the interaction of PAYE, SA and tax legislation, HMRC is looking at risks over multiple years in order to take the most appropriate compliance action.

WRIT remains level with England and Northern Ireland so there is currently no risk of behavioural change in Welsh taxpayers.

Address assurance

For all individuals, whether in SA or PAYE, HMRC monitors cross-border migration trends through comparison of customer base, analysis of returns and changes to tax accounts to identify possible evidence of customer behavioural response. HMRC also validates the accuracy of reported moves and the completeness of its address data. HMRC will continue communications activity to customers, reinforcing the need to update address details with HMRC when they move.

Knowledge building

HMRC continue to undertake compliance activity into Welsh taxpayers for areas other than WRIT. If that work shows any trends in behaviour change then that will be considered in future periods.

Wealthy Individuals

HMRC continue to use the existing Customer Compliance Manager (CCM) 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/assurance

HMRC is keen to ensure that the Welsh 'C code' is being accurately and correctly applied in the PAYE regime. HMRC has therefore carried out scans to test employer application of 'C codes' issued by HMRC. Any employer not applying the correct code is sent a reminder and HMRC monitors the response to these reminders to identify employers that HMRC may need to engage further with. The initial error rate of 10.4% in June 2019 reduced to 3.3% in December 2019.

SECTION 3 – COLLECTING AND ACCOUNTING FOR WELSH RATES OF INCOME TAX REVENUES

The SLA requires HMRC to:

- *Collect and account for Welsh income tax revenues at Welsh income tax rates.*

Since the introduction of WRIT rates on 6 April 2019, HM Revenue & Customs (HMRC) has continued to administer and collect income tax from Welsh taxpayers as part of the UK tax system. It pays WRIT revenues into the UK Consolidated Fund in the same way as it does for all other tax receipts. These revenues are subsequently transferred to the Welsh Government and the Welsh Government's resource block grant will be reduced accordingly, reflecting its revenue-raising powers.

HMRC will account for the amount of WRIT collected and report this in an Extract of HMRC's Accounts to the Senedd each year, starting in 2021.

For 2019-20, the estimated amount of income tax receipts attributable to the Welsh Government budget will be estimated and disclosed in HMRC's 2019-20 accounts. A final, updated figure for WRIT receipts will be provided in the 2020-21 accounts, and a separate statistical publication.

This time lag in confirming the actual amount of WRIT collected in 2019-20 is due to the PAYE and SA processes. To administer PAYE for taxpayers, HMRC undertakes an end-of-year-reconciliation to assess whether individuals have paid the correct amount of tax in any given tax year. SA tax returns are, in some cases, not provided to HMRC until ten months after the end of the tax year to which they relate.

SECTION 4 – DATA FOR WELSH INCOME TAX RATE SETTING AND FORECASTING

The SLA requires HMRC to:

- ***Provide the Welsh Government with sufficient relevant and timely information and data for rate-setting and forecasting for WRIT.***

HMRC provides the Welsh Government with relevant data for WRIT. At a UK level, these tasks are fulfilled using the Survey of Personal Incomes (SPI).

The SPI is compiled to provide a quantified evidence base from which to cost proposed changes to tax rates, personal allowances and other tax reliefs for Treasury Ministers. It is used to inform policy decisions within HMRC and the Treasury, as well as for tax modelling and forecasting purposes¹.

The SPI is based on information held by HMRC on individuals who could be liable to UK tax. It is carried out annually by HMRC and covers income assessable to tax for each tax year. Not all of the individuals are taxpayers because the operation of personal reliefs and allowances may remove them from liability. Where income exceeds the threshold for operation of Pay-As-You-Earn (PAYE), the survey provides the most comprehensive and accurate official source of data on personal incomes.

HMRC provides the Welsh Government with an annually updated copy of the SPI data set. This year's set, relating to the 2017-18 tax year, was provided in May 2020 to the Welsh Government from which to undertake their policy costing duties. This copy was identical to that used, for similar purposes, at a UK level, with the exception of some minor aggregation of taxpayer data at the highest income levels to avoid potential breaches of taxpayer confidentiality. HMRC continues to work with the Welsh Government and the OBR to ensure the information provided meets their requirements and supports forecasting and rate setting for Wales.

This SPI data set will subsequently be published to enable researchers and academics to use it for statistical purposes.

SECTION 5 – DATA FOR WELSH GOVERNMENT CASH MANAGEMENT

The SLA requires HMRC to:

- ***Provide Welsh Government with sufficient relevant and timely information and data to discharge its duties in respect of cash management due to any change between forecast and collected amounts of WRIT.***

From 2019-20, with the introduction of WRIT, there has been a reduction in the Welsh Government's resource block grant. This is equivalent to ten percentage points from each tax rate of non-savings non-dividend income tax generated from Welsh taxpayers in 2019-20, uplifted using the mechanism set out in the fiscal framework agreed between the UK and Welsh Governments in December 2016.

Each year, both the tax receipts generated and the block grant deduction will initially be based on a forecast and then reconciled to actual receipts collected which will become known around 15 months after the end of the financial year in question.

A key requirement of the SLA is therefore for HMRC to provide the Welsh Government with sufficient data to discharge its duties in respect of cash management linked to any change between forecast and collected amounts of WRIT. To fulfil this requirement HMRC have agreed with the Welsh Government to provide WRIT figures from the Real Time Information (RTI) data received from employers. This is the best indication of trends in income tax liabilities available in real time, but is not a complete picture of income tax liabilities because it excludes tax paid through SA (and some adjustments made to PAYE liabilities) after the end of the tax year. The first WRIT outturn will not be published until summer 2021.

This data is now provided by HMRC to Welsh Government on a monthly basis.

SECTION 6 – CUSTOMER SERVICE & SUPPORT

The SLA requires HMRC to:

- ***Apply the same level of customer service, support and transparency to Welsh taxpayers as is applied to income taxpayers in the rest of the UK.***

HMRC administers WRIT as part of the UK income tax system. In the vast majority of circumstances Welsh taxpayers will therefore notice no difference in the manner in which HMRC interacts with them. This approach also ensures that the correct amount of tax is collected.

WRIT is collected through existing PAYE and SA processes, which have been adapted to reflect WRIT rates and thresholds. Welsh taxpayers are able to use HMRC's usual guidance and customer contact channels for advice and information.

In the majority of areas customer service provided to Welsh taxpayers will therefore be included and reported within HMRC's UK-wide customer service reporting.

The customer service and support for Welsh taxpayers, agents and employers that HMRC has incorporated into its existing processes includes the following:

- Providing all Welsh taxpayers and their employers with Welsh tax codes (reflecting the changed higher rate threshold decided on by the Senedd) prior to the start of the tax year.
- Updating online calculators prior to the start of the tax year with the WRIT rates/thresholds set by the Senedd to ensure they remain accurate for Welsh taxpayers.
- Guidance for payroll software providers on how to correctly incorporate Welsh rates/thresholds into their PAYE products for employers.
- Guidance on how Welsh taxpayer status is decided and what to do if you feel HMRC has wrongly identified your status.
- Encouraging customers to update their personal details, focusing on the use of Personal Tax Account.
- Issuing paper tax tables to digitally exempt employers prior to the start of the tax year reflecting Welsh rates and thresholds.

While most interactions Welsh taxpayers have with HMRC are via existing processes, and the customer service therefore reported within UK figures, some aspects of customer service are specific to WRIT, e.g. guidance on Welsh taxpayer status and ability to discuss with HMRC if you disagree with the Welsh residency status you've been given.

It is important that HMRC can demonstrate that its customer service in these areas matches what it provides across the UK as a whole. The SLA between HMRC and the Welsh Government therefore commits HMRC to collect and report on key, WRIT specific, customer contact metrics. The key metrics for 2019-20 are outlined in Annex A to this report, the Annual Business Intelligence Report.

Welsh Language Service

HMRC has a well-established Welsh language service that is more than 25 years old and delivered under the 1993 Welsh Language Act. Approximately 32 full time staff are employed for Welsh language work.

HMRC delivers the majority of its Welsh language services using two dedicated teams of Welsh speakers based in Porthmadog and Cardiff. They provide customer service support and translation services, as well as helping other areas of HMRC with Welsh language issues. There is also a designated Welsh speaking senior manager for Welsh language who is based in Cardiff and is the first point of contact for all things Welsh language in HMRC.

Welsh language customer support for WRIT is supported by both teams in various ways. HMRC also offers a Welsh language customer service option from the main Income Tax helpline. HMRC receives around 20,000 calls from Welsh language customers each year across all of our customer services.

SECTION 7 – RECHARGING OF HMRC COSTS

The SLA requires HMRC to:

- ***Provide the Welsh Government with sufficient relevant and timely information for assurance purposes and to budget effectively for any net additional administrative costs to be recharged to the Welsh Government.***

Under the Fiscal Framework Agreement between the UK and Welsh Governments, the Welsh Government will reimburse HMRC for net additional costs wholly and necessarily incurred as a result of the implementation and administration of WRIT powers.

HMRC has made changes to its systems and processes to ensure the effective and efficient collection and management of WRIT. Associated with these changes are new and ongoing administrative costs to operate WRIT processes and systems.

HMRC and the Welsh Government have jointly agreed a framework that sets out the principles that HMRC will apply when identifying the WRIT administrative costs that will be recharged to the Welsh Government.

The Framework document is kept up to date to reflect all known and anticipated administrative costs and should be read in conjunction with the Memorandum of Understanding and SLA (to which it is annexed) between HMRC and the Welsh Government.

Costs of administering WRIT

	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)
Implementation costs	0.29	5.44	1.77
Operating costs	N/A	N/A	0.23
Total cost of Welsh rates of income tax invoiced in financial year ^[1]	0.34	5.80	1.60

^[1] Figures shown may not be an exact sum of implementation and operating costs due to invoicing schedules.

ANNEX – ANNUAL BUSINESS INTELLIGENCE REPORT 2019-20

Customer contact - Telephone

HMRC introduced a Welsh income tax telephone route within the HMRC Personal Taxes helpline. This gives customers generic pre-recorded Welsh income tax messages prior to speaking to a HMRC Customer Advisor. The charts below track calls to the Welsh income tax telephone line. Please note, these figures do not represent all calls made by Welsh taxpayers.

Month	Total Calls	Answered	Average Call Time
Apr-19	0	0	
May-19	0	0	
Jun-19	0	0	
Jul-19	0	0	
Aug-19	0	0	
Sep-19	1	1	00:01:21
Oct-19	1	1	00:01:31
Nov-19	1	1	00:01:31
Dec-19	0	0	
Jan-20	0	0	
Feb-20	0	0	
Mar-20	0	0	

Complaints

HMRC track all Welsh income tax customer complaints to ensure they are processed within the HMRC customer service targets. These figures do not represent all customer complaints received from Welsh taxpayers.

Month	Complaints Received	> Tier 1 Complaint	Upheld	Partially Upheld	Not Upheld	Less than 15 days	More than 15 days	19/20 15 day target (80%)
Apr-19	0	0	0	0	0	0	0	0
May-19	1	0	0	0	0	0	0	0
Jun-19	0	0	0	0	0	0	0	0
Jul-19	0	0	0	0	0	0	0	0
Aug-19	0	0	0	0	0	0	0	0
Sep-19	0	0	0	0	0	0	0	0
Oct-19	0	0	0	0	0	0	0	0
Nov-19	0	0	0	0	0	0	0	0
Dec-19	0	0	0	0	0	0	0	0
Jan-20	0	0	0	0	0	0	0	0
Feb-20	0	0	0	0	0	0	0	0
Mar-20	0	0	0	0	0	0	0	0

Details of all customer contact are included in the HMRC Annual Report².

² <https://www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2018-to-2019>

Web-hits

HMRC have a number of Welsh income tax related webpages that are hosted on gov.uk, hits to these pages are monitored.

Month	welsh-income-tax	treth-incwm-cymru (Welsh translation of page)	hmrc-internal-manuals/welsh-taxpayer-technical-guidance	tell-hmrc-change-of-details
Apr-19	12,147	92	134	180,209
May-19	8,258	43	54	179,413
Jun-19	5,791	28	56	149,142
Jul-19	5,530	28	76	169,000
Aug-19	5,010	22	53	156,589
Sep-19	4,723	22	32	161,188
Oct-19	5,129	40	46	161,645
Nov-19	5,103	26	42	142,601
Dec-19	3,220	23	25	93,810
Jan-20	2,864	17	18	109,261
Feb-20	3,369	28	49	101,372
Mar-20	3,370	23	27	113,309