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Llywodraeth Cymru  
Welsh Government

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Jocelyn Davies AM  
Chair, Finance Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

20 June 2015

Dear Jocelyn,

Thank you for the Committee's report on its inquiry into the Collection and management of devolved taxes in Wales.

I have found this inquiry positive and constructive, and it has aligned with Welsh Government thinking about who would be best placed to collect and manage devolved taxes. The recommendations highlight a number of complexities that will need to be addressed as we continue on our devolved tax journey, in particular the need to ensure that published costs for the collection and management of devolved taxes are based on informed and robust evidence.

I broadly accept the recommendations and look forward to our continued co-operation as we move forward.

I enclose a note at Annex A which responds to each recommendation in the report.

Best wishes,  
Jane

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Wedi'i argraffu ar bapur wedi'i ailgylchu (100%)  
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**Written Response by the Welsh Government to the report of the Finance Committee entitled Collection and management of devolved taxes in Wales**

**Recommendation 1 - The Committee is disappointed that the two main tax collection bodies do not seem to have been asked to produce a business case with detailed costings in relation to collecting devolved taxes, and recommends the Welsh Government publish details of any costings information available for all options this summer alongside the Bill on the collection of taxes.**

I accept the need to be transparent about costs for the Welsh Revenue Authority (WRA) and I am committed to providing robust cost information to the National Assembly for Wales during the scrutiny process for the Tax Collection and Management (Wales) Bill. It is not possible at this stage to produce a robust estimate of the costs for the set up or operations for the WRA.

In the autumn, ahead of the Stage 1 debate on the Tax Collection and Management (Wales) Bill, I will provide the Assembly with an update on work to establish collection and management arrangements. This will be informed by detailed discussions around partnership arrangements with HMRC and NRW over the coming months, and will include initial estimates of set up and operating costs.

**Recommendation 2 - In view of the lack of costings available the Committee is unable to make a firm recommendation on who should collect taxes at this stage. However, we would recommend that the collection of taxes follows a phased approach for the first few years after the devolution of Welsh taxes. This should allow the opportunity for consistency in the first years of the new Welsh taxes, but will ensure there is scope for a change in future, either when Welsh Local Government is in a clearer position post reorganisation or the Welsh Revenue Authority has developed the skills, knowledge and expertise to effectively collect taxes with minimum disruption to the taxpayer.**

I confirm that I intend to review arrangements for the collection and management of Welsh taxes after three to five years of operation as our Welsh public service landscape is changing and there could be even further changes in the devolution settlement. This review will enable the newly established Welsh Revenue Authority (WRA) to review its current operation, the service provided to Welsh taxpayers and evaluate the potential and future possibilities ahead.

**Recommendation 3 - The Committee believes that while spending departments should be consulted on tax policies, the Minister for Finance must manage the Welsh tax system in an integrated way. The Committee recommends that the Welsh Government give consideration to reviewing tax policy crossing ministerial portfolios with responsibility for devolved taxes resting within the portfolio of the Finance Minister.**

I have overall responsibility for tax policy, to confirm consistency with the four key principles which underlie the Welsh Government's approach to tax policy. This includes the current devolved taxes, Land Transaction Tax and Landfill Disposals Tax, and I have worked and will continue to work closely with the relevant Ministers in

developing the policy associated with these. I will also have lead Ministerial responsibility for any further taxes that are devolved, and any new Welsh taxes.

**Recommendation 4 - The Committee recommends that stakeholders are represented on the board of the Welsh Revenue Authority.**

As detailed in the Welsh Government's White Paper on Collection and management of devolved taxes in Wales, options for the leadership and governance arrangements for the WRA have been considered including the models used by HMRC and Revenue Scotland. We have also looked at best practice when establishing a new Welsh Public Sector Body.

The majority of our consultation responses to the White Paper were supportive of the proposed leadership and governance arrangements for the WRA i.e. that the Chair and Board Members should be public appointments made according to Nolan principles on Standards in Public Life and consistent with Welsh best practice.

Within this, I will be seeking to ensure the appropriate mix of skills, knowledge and expertise are represented on the board.

**Recommendation 5 - The Committee recommends the tax collection approach by the Welsh Revenue Authority should not vary from the UK unless there are clear reasons why the Welsh approach should be different.**

Our approach, as outlined in the White Paper on Collection and management of devolved taxes in Wales, is that where there is no policy reason to diverge from UK tax administration legislation (for example on the grounds of effectiveness or efficiency or a focus on Welsh priorities) the arrangements in Wales will replicate the current UK operational processes and principles. This approach will help provide operational consistency for cross-border business, which is an issue that has been raised with us during our consultation and engagement with businesses and stakeholders.

**Recommendation 6 - The Committee recommends that to ensure the Welsh Revenue Authority operates the tax system in a transparent way there should be direct accountability to the Assembly with scrutiny through an Assembly Committee, This should include six monthly implementation reports leading up to 2018, beginning immediately.**

There was broad support in the White Paper on the Collection and management of devolved taxes in Wales on accountability and reporting arrangements and these will be included in the forthcoming Tax Collection and Management (Wales) Bill.

The WRA will be required to first prepare and lay a copy of a Charter of standards and values to which it will aspire when dealing with taxpayers and others in the exercise of its functions and, a Corporate Plan that includes objectives, outcomes by which objectives may be measured and details of the activities that WRA will undertake.

The WRA will be required annually to prepare and publish an Annual Report and lay a copy before the National Assembly for Wales. It will also be required to prepare accounts for the WRA and a Tax Statement of the amount of money collected by it during any financial year. The Auditor General for Wales must then examine, certify and report on the accounts and Tax Statement and lay certified copies of both and the report before the National Assembly for Wales.

I am happy to explore with the Finance Committee how I might provide reports on the progress of implementing devolved tax collection and management arrangements for Wales and to consider how these might be aligned with other linked reporting requirements, for example, reports on implementation required under section 23 of the Wales Act 2014.

**Recommendation 7 - The Committee recommends that the Welsh Government provide a further update on their consideration of recommendation 7 (considering establishing of a Welsh fiscal commission) in the Best Practice Budget Process report.**

**Recommendation 8 - The Committee recommends that a decision on whether to create a Welsh fiscal commission should allow sufficient time for it to be properly implemented by 2018.**

As noted in the response to recommendation 7 of the Best Practice Budget Process report, the Government will consider all options for validating and scrutinising the tax forecasts that contribute to its budgetary plans. Decisions about tax collection and management will have some impact on those considerations. The Government will ensure that arrangements are put in place in good time for the implementation of the new Welsh taxes in 2018. In the meantime, the Welsh Government Treasury is closely monitoring developments in Scotland in relation to its fiscal commission and continues to develop good working relationships with the Office for Budget Responsibility.

**Recommendation 9 - The Committee recommends consideration should be given to how tax devolution can be clearly communicated to practitioners in both Wales and England, and the Welsh Revenue Authority should have clear branding to ensure it has a clear identify with the public.**

I will lay the first piece of Tax Collection and Management legislation for devolved taxes shortly: this will be the first of three pieces of legislation which will raise the powers to collect a Land Transaction Tax and Landfill Disposals Tax in Wales. Good legislation is vital to conveying the clarity required to enable practitioners and tax payers to engage with the WRA. In addition, the WRA will also produce clear accompanying guidance.

I have regular meetings with my Tax Advisory Group, which includes three appointed experts, and representatives from the CBI, FSB, Law Society, Institute of Directors, TUC, Bevan Foundation, WCVA. The Welsh Government Treasury holds regular Tax Forum meetings with practitioners, and these discussions will soon move on to how the new Welsh Revenue Authority can effectively communicate with Welsh taxpayers, their agents, and wider interested stakeholders.

It will be important that the Welsh Government develops a good working relationship with HMRC to manage the transition leading up to and following April 2018. There are also plenty of lessons to learn from Scotland Government and Revenue Scotland. The views of from Scottish practitioners and taxpayers should also be noted.

**Recommendation 10 - In considering options for encouraging tax compliance and resolving tax disputes the Committee recommend the Welsh Government consider making use of local government expertise and flexibility of practices in relation to tax recovery.**

I have agreed with the WLGA to the establishment of a joint working group to enable the sharing of information and tax administration expertise across local and central governments.

I look forward to working with local authorities over the next few years and beyond, tapping into their tax knowledge and operational expertise.

**Recommendation 11 - The Committee recommends that the Alternative Disputes Resolution system is used, and should include direct contact with taxpayers before considering penalties or expensive court action.**

The WRA will be able to use Alternative Dispute Resolution (ADR) arrangements where it considers such an approach would be appropriate to help settle a dispute swiftly with a taxpayer.

Chapter 6 of the Welsh Government's White Paper on Collection and management of devolved taxes in Wales set out proposals for arrangements to resolve tax disputes. One of our key policy objectives will be to try and avoid disputes arising in the first place.

The Welsh Government will expect WRA to work on the basis of getting it right first time and fostering a culture of collaboration with taxpayers to resolve disputes where they do arise. In achieving this, WRA will need to support taxpayers by putting in place clear and accessible guidance and processes. This will include arrangements that provide unambiguous and timely explanations of decisions.

It will not always be possible to avoid a dispute and therefore the Welsh Government proposes that legislation should, in the interests of fairness and transparency, give taxpayers the right to a review (internal WRA process) and/or appeal (to an independent Tribunal) certain decisions made by WRA. A key principle will be to seek a non-confrontational solution when a dispute does arise.

Where there is disagreement about a WRA decision, it will be in the interest of all concerned to resolve matters quickly to remove uncertainty and to avoid potential expensive costs. Early resolution mechanisms will be established to include: informal discussion with the WRA decision-maker to try and resolve the dispute; an internal review where a taxpayer can request that an independent official re-considers the decision and in so doing, take account of any new information that has become available; and the use of Alternative Dispute Resolution arrangements, which has the involvement of an independent third party to help resolve a dispute.