



Welsh Government

# Welsh Tax Policy Report



Autumn 2017  
**gov.wales**

## Content

	Page
<b>Foreword</b>	1
<b>Welsh tax policy</b>	3
<b>Tax Policy Work plan 2017</b>	6
1) By October 2017, announce the rates and bands for land transaction tax (LTT), including the higher rates surcharge and the rates for landfill disposals tax (LDT).	6
2) Three items feature in this work plan relating to local tax policy:	11
2) Review small business rates relief (SBRR) with a view to developing permanent arrangements from 2018.	
7) Work with local government to review council tax to make it fairer.	
12) Explore whether different approaches to the taxation of non-domestic property, such as land value taxation, might benefit Wales.	
3) Continue to press the case for the devolution of air passenger duty (APD) and further develop the evidence base to support the case.	
4) Explore whether the devolved tax system could incentivise the development of more energy-efficient homes.	20
5) Consider the case for introducing new taxes in Wales, exploring the policy; administrative elements and the mechanism for change.	22
6) In 2017 and 2018, work with the UK Government to support the successful introduction of the soft drinks industry levy in Wales.	24
7) Once the Welsh Revenue Authority (WRA) holds sufficient data, it will analyse LTT data in relation to the higher rate surcharge on a local authority basis. This could be used to inform discussions with local authorities about the operation of the higher rate.	27
8) During 2017, consult on the use of criminal powers by the WRA as part of the approach to the enforcement of Welsh taxes.	29
9) Develop analytical tools to support the development of income tax policy in Wales.	31
10) Review the evidence for determining the balance of taxation between income and property.	35
<b>Conclusion</b>	37
<b>Annex: Rates and bands technical paper</b>	38
Introduction	38
Land transaction tax	39
Landfill Disposals Tax	54

## Foreword

A few short months ago, the Welsh Government's tax policy framework and the accompanying work plan for this year were published. This document provides an initial report on progress to date. The work is at an early stage but it is my intention this programme of research will, over time, become a valuable resource for informing taxation policy in Wales – and perhaps further afield. Its publication alongside the draft Budget is intended to be a step towards better alignment of tax policy and spending – a process which will develop further in future years.

Taxes are the entry fee to a civilised society, enabling us to achieve collectively what we cannot accomplish alone. They underpin the policies which governments are elected to deliver – they are not an end in themselves.

The aim of Welsh taxes is to:

- 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 Wellbeing of Future Generations Act goal of creating a more equal Wales.

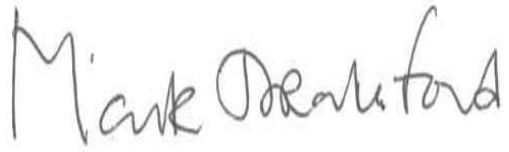
The next 18 months will see the introduction of land transaction tax and landfill disposals tax – from April 2018 – and Welsh rates of income tax, from April 2019.

During the development of land transaction tax and landfill disposals tax, stakeholders were clear they wanted to see continuity with the current England and Wales tax regime wherever possible. I also want a transparent and evidence-based approach to change to create a stable taxation system, which will evolve steadily and rationally. As we look ahead to how Welsh taxes might develop over time, we must recognise that the Welsh tax system exists against a background of UK and international taxation which must be taken into consideration.

The evidence gathered via this work plan will inform the Welsh Government but I hope it will also provide businesses and other organisations, communities and citizens with a useful resource about how we could use taxes to support the wider ambitions of government in Wales. This will be a transparent process and public engagement will be an integral part of the Welsh Government's work on understanding how our taxes can contribute to a better Wales. I hope people from all walks of life – from tax experts to those who have not previously considered the role of taxes – will contribute their views about what we are considering and let us know how they feel the tax system could be improved in Wales.

Over the next few months, we will assess what we have learned so far and firm up the workplan for 2018; drawing on the expertise of the Tax Advisory Group, which is made up of tax experts and representatives from business, local government and third sector organisations. An outline of our plans is provided at the end of this report.

I hope this first report provides some useful insights into the potential to use tax to enhance Welsh society.

A handwritten signature in black ink that reads "Mark Drakeford". The signature is written in a cursive, slightly slanted style.

Mark Drakeford  
Cabinet Secretary for Finance and Local Government

## Welsh tax policy

1. From April 2019, £5bn of devolved and local tax revenue will be collected in Wales to spend on Welsh public services. This will come from the new devolved Welsh taxes – land transaction tax (LTT) and landfill disposals tax (LDT) – Welsh rates of income tax and local taxes (council tax and non-domestic rates).
2. The devolution of tax powers provides the Welsh Government with an opportunity to work with the National Assembly for Wales, local government, businesses, tax professionals, taxpayers and other stakeholders to develop a distinctive Welsh approach to taxation. It enables the Welsh Ministers to set out how they intend to use their tax powers and what they expect to achieve.
3. The first step in this process was the publication by the Cabinet Secretary for Finance and Local Government of the Welsh Government's tax policy framework and supporting tax policy work plan.

### Tax policy framework

4. The tax policy framework confirmed the Welsh Government's strategic tax objectives:
  - Welsh Ministers believe the range of devolved tax powers from April 2019 enables the political parties at the National Assembly to offer people in Wales a choice about the level of taxes paid and the corresponding quality and quantity of devolved public services;
  - It is important the level of taxation is appropriate to the prevailing economic conditions. The Welsh Government has committed to not increase Welsh rates of income tax during this Assembly term and will carefully consider tax rates and their impacts for the other Welsh taxes to ensure they continue to generate sufficient revenue to fund public services while remaining fair and supporting economic growth;
  - The Welsh Government will look at the Welsh tax system as a whole and in the context of the UK system, to consider the impact of changes on households and individuals in Wales. The Welsh Government is committed to developing a fairer society in Wales and will use the tax system to promote fairness and economic growth;
  - There is a role for taxation in influencing behaviour and the Welsh Government will consider whether new Welsh taxes could be introduced in an efficient way to operate alongside existing or new policy tools;
  - The Welsh Government will continue to review Welsh taxes in the context of our legislative powers to ensure they are aligned to our priorities;
  - The Welsh Government expects the Welsh Revenue Authority (WRA) to work in partnership with local authorities and other UK tax authorities, to build a more comprehensive picture of the delivery of tax services; of compliance and of tax policy development and to join up activity, where possible, for the benefit of taxpayers.

5. The tax policy framework confirmed the tax policy principles which will be used in considering tax policy proposals.

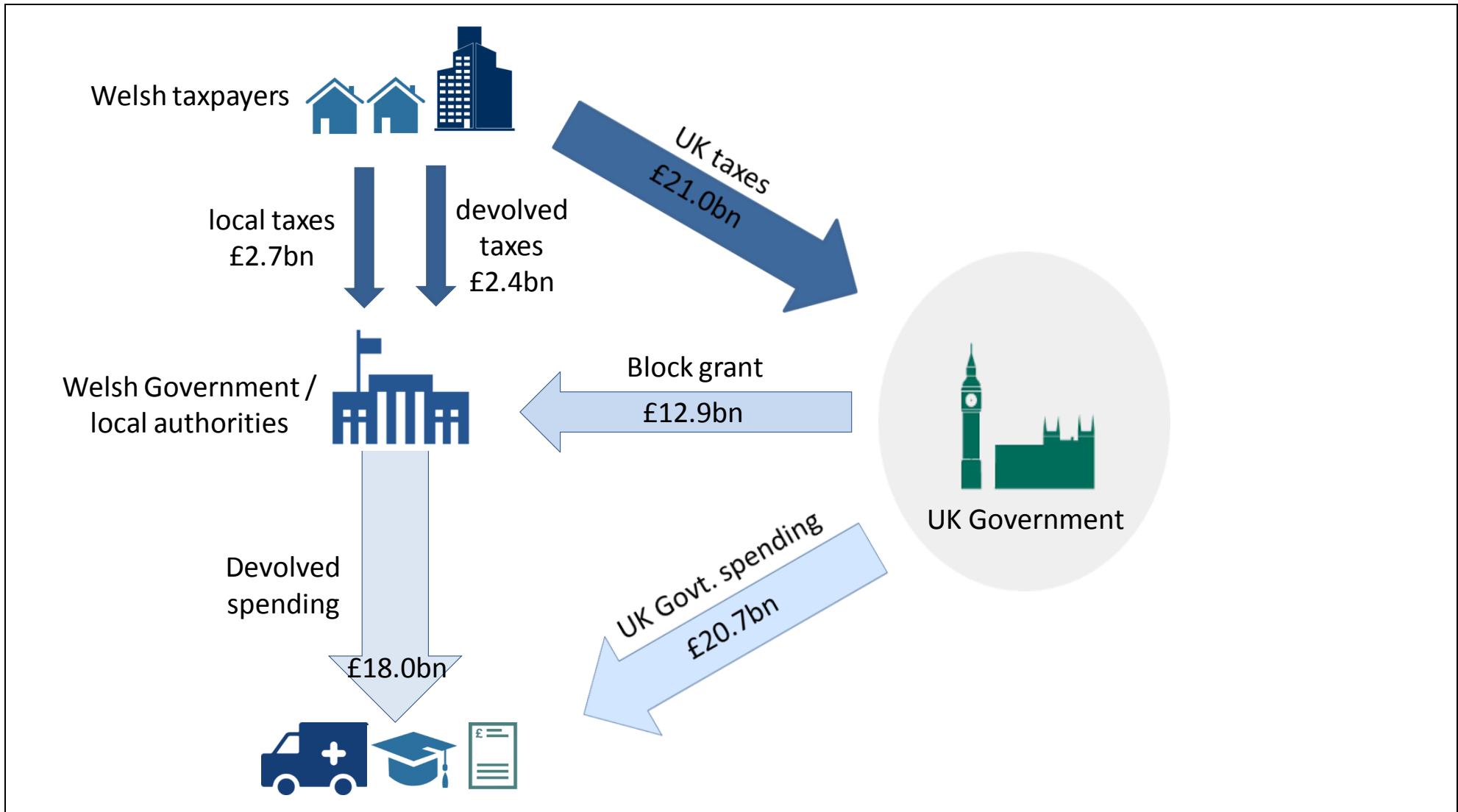
### **Tax policy work plan**

6. Published alongside the tax policy framework in June 2017, the tax policy work plan identified 13 areas which the Welsh Government is investigating to inform thinking about tax policy and to deliver the objectives set out in the framework. Some of these actions will be completed in 2017 but others will require longer-term consideration.
7. The analysis set out in this document provides an update about the government's current tax policy thinking and progress. By issuing this alongside the Welsh Government's draft Budget for 2018-19, we are taking the first step towards better aligning tax policy and the Budget; a process which will continue in future years.
8. This tax policy report, which is intended to be the first in an annual series, provides updates on 12 of the areas (the 13<sup>th</sup> is being developed with the Public Policy Institute for Wales and will be a longer-term item for 2017-18 and 2018-19<sup>1</sup>). By providing the background to each of these; reviewing the emerging evidence and, where applicable, summarising any early outcomes, the Welsh Government hopes to stimulate debate and encourage further engagement.
9. The 12 items are listed in the contents page. For convenience, three areas which address aspects of local taxation have been presented together. Changes to local tax policy are being developed as part of a broader reform of the funding arrangements supporting local services. More detailed information about the Welsh Government's reform of local government finance will be provided alongside the 2018-19 local government settlement on 10 October 2017.

---

<sup>1</sup> '13. From October, work with the Public Policy Institute for Wales to review the socio-economic factors and trends which may impact on the Welsh tax base, and the factors which could help grow the tax base in Wales'.

Figure one: How public services in Wales will be funded in 2019-20



Figures relate to projections for 2019-20. Devolved spending only includes spending financed by tax revenues and the block grant.

## **Progress report on the tax policy work plan 2017**

- 1) By October 2017, announce the rates and bands for land transaction tax, including the higher rates surcharge, and the rates for landfill disposals tax**

### **Background**

10. The Wales Act 2014 provided for the devolution of the first Welsh taxes in almost 800 years. The first taxes to be devolved to Wales will be land transaction tax (LTT) and landfill disposal tax (LDT). The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 and the Landfill Disposals Tax (Wales) Act 2017 provide for LTT and LDT to replace stamp duty land tax and landfill tax, respectively, in Wales from April 2018.
11. It is important to ensure the overall level of tax paid by individuals and businesses is appropriate to prevailing economic conditions. The tax rates will therefore be set by regulations closer to April 2018. In setting the first rates of Welsh taxes, it is important to provide certainty for taxpayers. Announcing the rates and bands balances the need to reflect economic conditions at the time the taxes will come into effect, with the need to provide certainty for taxpayers.
12. The revenues from the two new devolved taxes will be used to directly fund public services in Wales, replacing part of the funding the Welsh Government receives from the UK Government. Announcing the tax rates alongside the draft Budget allows for tax and funding decisions to be scrutinised together.
13. The Welsh Government has committed to a fair and transparent approach to taxation. The paper at annex one provides further details about the issues considered in setting the tax rates and further analysis about the impact for taxpayers and revenues.

### **Evidence and analysis**

14. As devolved taxes will help to fund public services within Wales, the revenue the taxes will raise is an important consideration in setting the tax rates. The funding provided by the UK Government to the Welsh Government will be reduced by approximately the amount stamp duty land tax and landfill tax generate in Wales at the time of devolution and what these taxes are forecast to generate for future years. The revenues from LTT and LDT will directly fund the Welsh Government budget and these tax rates will help to determine whether the Welsh Government has less, more or the same overall funding. In the context of reducing Welsh Government budgets in real terms as a result of the UK Government's ongoing policy of austerity, the approach to setting the tax rates has been guided by the principle that there should be no less funding available for public services as a result of tax devolution.
15. Providing stability and certainty is a key aim in transitioning to the new taxes. This has meant the predecessor tax rates have been a relevant factor in setting the devolved tax rates. To provide stability, the approach taken has been that any changes to the rates of the predecessor taxes should not be more than is necessary to reflect Welsh circumstances and priorities.



16. In setting the tax rates it is also important to consider the context in which the taxes operate. The two devolved taxes – LTT and LDT – operate within different contexts and therefore the issues which need to be considered are different for each tax.
17. For LTT, the residential and non-residential property markets provide the context in which the tax operates. Both the number of transactions and property prices has helped to inform the rates for Wales, as well as the impact the rates will have on the market. The level of integration with the wider UK economy and property markets has also informed the approach to setting tax rates. The legislation requires LTT to be a progressive tax, therefore tax rates will be higher for higher-priced properties than for lower-priced properties; the level of progressivity is also an important consideration and the approach taken has been to increase progressivity.
18. LDT is an environmental tax, which seeks to influence positive environmental behaviours. It aims to ensure that disposal of waste to landfill is properly priced to reflect its environmental cost and promote a more sustainable approach to waste management by encouraging greater prevention, re-use, recycling and recovery of waste. Wales is at the forefront of waste policy and LDT is a useful additional lever to support Welsh Government waste policies and achieve our ambitious goal of a zero waste Wales. In setting the rates, the objective of reducing landfill disposals in Wales has been a key consideration, along with providing consistency, certainty and stability for businesses.
19. In addition, the Landfill Disposals Tax (Wales) Act 2017 enables the Welsh Revenue Authority (WRA) to charge tax on taxable disposals made at places other than authorised landfill sites (unauthorised disposals). This is intended to provide a financial deterrent and make unauthorised disposals of waste more financially risky, thereby making them a less attractive option for those tempted to ignore their environmental obligations and evade tax.
20. The paper at annex one provides further details about the considerations made in setting the tax rates.

### **Outcome and next steps**

21. Taking into account the factors outlined in paragraph 16, LTT rates and bands will be as follows.
22. Residential rates:

<b>Price threshold</b>	<b>Main residential rates</b>
£0 - £150,000	0%
£150,000 - £250,000	2.5%
£250,000 - £400,000	5.0%
£400,000 - £750,000	7.5%
£750,000 - £1.5m	10.0%
£1.5m-plus	12.0%

23. To increase the progressivity of the residential rates, the property price at which the tax becomes payable is higher for LTT than for stamp duty land tax. Adjusting the rates and bands for higher-priced transactions maintains revenues. To support a smooth transition to the new tax, the degree of difference between LTT rates and the current stamp duty land tax rates has been kept relatively small.
24. With these main residential rates, it is forecast that 45% of transactions will not be liable for LTT – an increase from stamp duty land tax regime. The average first-time buyer will pay no tax and the average buyer will pay less tax than under stamp duty land tax. All buyers of residential properties which cost up to £400,000 will pay the same or less tax than under stamp duty land tax. Around 90% of residential transactions which would have been taxed under stamp duty land tax will pay the same or less tax with LTT.
25. For additional residential properties, the higher rate of tax payable will be an additional 3% on top of the main residential rate in each band – this is the same as the current stamp duty land tax regime. As the higher rate was only introduced recently, there is limited evidence on its impact in Wales, therefore consistency with stamp duty land tax has been maintained.

Non-residential rates

Price threshold	Rates
£0 - £150,000	0%
£150,000 - £250,000	1%
£250,000 - £1m	5%
£1m-plus	6%

26. Adopting a lower tax rate than stamp duty land tax for the first band for non-residential properties where tax is payable, increases the progressivity of the LTT non-residential rates. To maintain revenues, a new top band has been added. Reflecting the integration of the Welsh economy with the rest of the UK economy and to support a smooth transition to the new tax, the degree of difference between LTT rates and stamp duty land tax rates is relatively small.

Non-residential lease rates:

Net present value threshold	Rates
£0 - £150,000	0%
£150,000 - £2m	1%
£2m-plus	2%

27. To reflect the property market in Wales, the top LTT rate will apply from a lower net present value threshold than the top stamp duty land tax rate. As the non-residential lease rate applies to a fairly small number of transactions overall and generally lease rates are lower in Wales than in parts of England, such as London, very few

transactions would pay the top rate of tax in Wales if it was consistent with stamp duty land tax.

28. For freehold purchases and transactions with lease premiums, it is forecast that 60% of taxable transactions will pay no tax. For freehold purchases and transactions with lease premiums, buyers will pay less tax on all non-residential freehold or leasehold premium transactions where the price is less than £1.1m.

#### Landfill Disposals Tax rates

29. Taking into account the factors outlined at paragraph 17 and 18 above, LDT rates will be as follows.

<b>Rate</b>	<b>2018-19</b>	<b>2019-20</b> <i>Assumed rate</i>
Standard	£88.95	£91.70
Lower	£2.80	£2.90
Unauthorised disposals	£133.45	£137.55

30. It is intended that the standard and lower rates will remain consistent with the tax rates for landfill tax for the first two years of LDT. This provides consistency, certainty and stability for businesses and reduces the risk of waste moving across the Wales-England border.
31. The unauthorised disposals rate is set at 150% of the standard rate. This reflects the increased negative impact on the environment of unauthorised disposals. It provides a financial deterrent and helps create a level playing field for legitimate waste businesses. It reflects that penalties and interest, which would have been applied in normal circumstances for a registered landfill site operator, will have been avoided and recognises the compliance and enforcement costs of the WRA.
32. The UK Government is yet to announce its rates for landfill tax in 2019-20. Therefore an assumed rate is given in the above table, which increases the 2018-19 tax rates by the Office for Budget Responsibility's forecast for RPI. This is in line with the UK Government's stated policy on setting landfill tax rates.
33. A determining factor in setting the tax rates for both LTT and LDT has been the principle that there should be no less funding available for public services as a result of tax devolution. The funding the Welsh Government receives from the UK Government will be reduced to account for the new tax revenues the Welsh Government will receive. The method for determining this reduction has been agreed but the size of the reduction will be set at the time of the UK Government Autumn Budget. If the UK Government alters stamp duty land tax or landfill tax policy in a way which affects tax revenues, the size of the block grant adjustment will change and the Welsh Government's net resources will also change. If this happens, the Welsh Government will need to consider whether the above tax rates remain appropriate and, if necessary, the rates may be changed.
34. Following the UK Government's Autumn Budget 2017, the Welsh Government will lay regulations to bring the tax rates into effect from April 2018. These regulations will be scrutinised and determined by the National Assembly. From April 2018, LTT

and LDT will replace stamp duty land tax and landfill tax in Wales; the new tax rates set in the regulations will apply.

## 2) Reforming local government finance

35. Council tax and non-domestic rates are the two local taxes which help to fund the delivery of public services to local communities in Wales. Evolving local tax policy is an integral part of a phased reform of the wider funding framework for local government. A more detailed discussion paper *An Update on the Reform of Local Government Finance*, will be published alongside the annual local government settlement on 10 October 2017.

### Background

36. A multi-billion pound finance framework underpins all forms of local government – a complex mix of county councils, the police service, fire and rescue authorities, town and community councils, national park authorities and smaller bodies. These are autonomous from the Welsh Government; democratically elected and directly accountable to their local populations. The funding arrangements reflect this, in an interconnected system of government grants, locally-raised revenues (including local taxes), capital funding, borrowing and investment.
37. Figure 2 illustrates the wider context within which local taxes sit. Together, council tax and non-domestic rates raise around £2.4bn annually, representing about 27% of annual revenue spending on local services, including education, social care, local transport, housing provision, leisure and waste management.
38. Changes to one component of the finance system have a direct impact on other parts of the framework. Therefore, there is a need to ensure that any package of reforms to local government finance is holistic and maintain clear accountability for service performance. On 31 January 2017, we outlined our approach to reforming the way local government operates<sup>2</sup>. Alongside this document, we made a statement about our intention to approach changes to local government finance in a phased and managed way, developing a system that meets future needs.

### Evidence and analysis

39. In March 2016, the Independent Commission on Local Government Finance Wales<sup>3</sup> published its conclusions about possible ways to reform the finance system for local government. Prior to this, the Scottish Commission on Local Tax Reform<sup>4</sup> considered radical changes to the design and operation of local taxes as important elements of the available funding for local services. We are considering all the available evidence to explore reforms for Wales. The challenge for the Welsh Government is the need to reconcile the many different stakeholder viewpoints in a package of reforms that places the needs of citizens at its heart. We also need to balance the aspirations with the costs and risks of making changes, ensuring we do not ignore the strengths of the current arrangements.

---

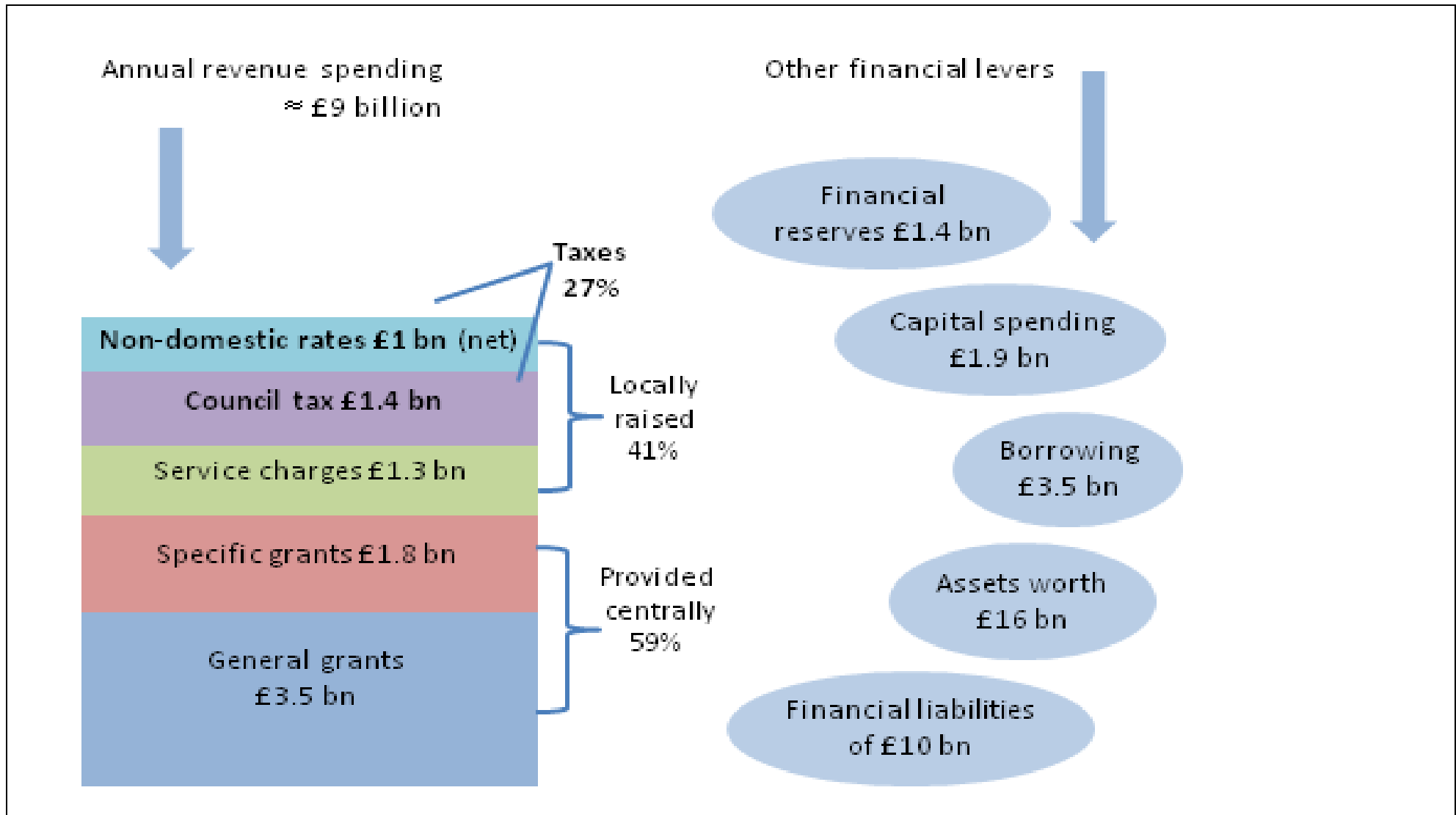
<sup>2</sup> *Reforming Local Government: Resilient and Renewed* published January 2017.

<https://consultations.gov.wales/consultations/reforming-local-government-resilient-and-renewed>

<sup>3</sup> *Ambition for Change – Aiming Higher* published March 2016. <http://www.cipfa.org/partners/independent-commission-on-local-government-finance-wales/final-report>

<sup>4</sup> *Just Change: A New Approach to Local Taxation* published December 2015. <http://localtaxcommission.scot/download-our-final-report/>

Figure two: The funding arrangements for local services



Source: Local government annual returns, StatsWales

## Making council tax fairer

40. The Welsh Government's Programme for Government, *Taking Wales Forward*, and tax policy work plan include a commitment to work with local government to review council tax and identify how it could be made fairer. This involves examining how the tax is designed and how it operates. Our main aim is to increase the progressivity of the current system by looking at changes which would benefit those households which are less able to pay their council tax bills.
41. A number of options are being examined, including changes to the tax relativities charged between the nine council tax bands; exploring ways to improve the council tax reduction scheme and renewing efforts to ensure those who are eligible for the scheme are benefitting from it. Property valuations for the purposes of council tax in Wales are based on values set at 1 April 2003. While this is more recent than in England and Scotland (where council tax is charged on the basis of property values set in 1991), this has a bearing on our ability to improve and maintain fairness. We are exploring property valuation more generally from the perspective of fairness but also in relation to practical operation and future revenue stability.
42. Our commitment to improve fairness also extends to reviewing the procedures through which council tax is administered and managed. We undertook research earlier in the year to consider what can be done to improve collection and arrears management<sup>5</sup>.

## A more effective non-domestic rates system

43. The Valuation Office Agency (VOA) carried out a property revaluation exercise for non-domestic rates in 2015. Regular revaluation exercises are undertaken to redistribute the amount of tax payable across the tax-base, reflecting changes in property market conditions since the previous exercise in 2010.
44. It is right that ratepayers are able to challenge the rateable value of their property if they have reason to believe it may be inaccurate. Currently, more than 40% of ratepayers appeal their property valuation, but two-thirds of these challenges result in no change to rateable values. A significant proportion of appeals are thought to be speculative, which result in a costly and resource-intensive process. The UK Government has introduced the Check, Challenge, Appeal process, which it believes will enable the VOA to better manage the flow of appeals in England; improve data accuracy and encourage ratepayers to take informed decisions about proceeding through the different stages of an appeal. The Welsh Government is considering whether a similar approach or other reforms to the appeals process would better serve Welsh ratepayers.
45. The Welsh Government is also committed to helping authorities tackle fraud and avoidance in relation to non-domestic rates. Ensuring the correct rates are paid provides stability and certainty to ratepayers by reducing the potential for backdated liabilities. The extent of avoidance in Wales, whether unintended or deliberate, is

---

<sup>5</sup> Government Social Research 'Research into local authorities' approach to council tax collection in Wales', published 28 September 2017. <http://gov.wales/statistics-and-research/local-authorities-approaches-council-tax-debt-recovery/?lang=en>

not currently known and requires further investigation. Supporting compliance, and taking a robust approach to avoidance and is a key strategic policy for the Welsh Government for tax administrations across all five Welsh taxes.

### Better targeted support for small businesses

46. Our Programme for Government and tax policy work plan included a commitment to review small business rates relief (SBBR), and develop permanent arrangements from 2018. The aim is to deliver a scheme which targets support towards those businesses that would benefit most. Relief from non-domestic rates should also support the delivery of wider Welsh Government objectives, while protecting the tax-base and the revenue raised to fund local services. In developing a new scheme, we are seeking to minimise the administrative burden on ratepayers and billing authorities, while limiting as far as possible avenues for abuse.

### Local tax administration

47. The Welsh Government continually considers the range of procedures involved in tax administration. There will be administrative implications resulting from reforms to council tax, council tax reduction, non-domestic rates and SBBR. Improved information-sharing is key to effective tax administration.

### Supporting local government reform

48. In *Taking Wales Forward*, we committed to reviewing the local government finance framework to help councils become more sustainable and self-sufficient. The proposals for reform and our collective work to drive forward city and growth deals will contribute to economic growth, financial resilience and improved services. As a result of the developing city and growth deals, the Independent Commission on Local Government Finance Wales and some local authorities have called for a different approach to the way non-domestic rates revenue is distributed.
49. Changes to local tax policy have a direct impact on the distribution of core funding through the annual local government settlements. A greater focus on regional working in future years could also change spending patterns in local authorities. The funding formula for the annual settlements for local authorities and police has become more complex since its inception and there is merit in exploring the scope for simplification or changes to methodology to aid transparency and operation. The distribution subgroup, a subgroup of the Partnership Council for Wales, is engaged in the development of the funding methodology.

## **Outcome and next steps**

### A fairer council tax

50. During autumn 2017, the Welsh Government will continue to improve the evidence base and assess the impact of proposals before making changes, working with stakeholders through the various consultative forums and through an expert-led working group. It is intended to consult on initial proposals to make council tax fairer in early 2018.



### A more effective non-domestic rates system

51. A set of updated rateable values took effect across Wales and England from 1 April 2017. The VOA engaged with its stakeholders and businesses regarding the revaluation. The Welsh Government is providing transitional rate relief and high street rate relief to eligible businesses to aid the transition as part of its £210m package of annual relief.
52. The Welsh Government has introduced initial changes to the operation of the Valuation Tribunal for Wales and will be launching a consultation on proposals to make changes to the appeals system, designed to improve efficiency and ensure it is easier for ratepayers to navigate.
53. In relation to non-domestic rates avoidance, a working group of local government stakeholders and tax experts has been established to share experiences of avoidance activity and explore the barriers to investigating it successfully. The Welsh Government will consult in autumn 2017 on a package of measures including powers of property inspection and changes to the eligibility criteria for reliefs and exemptions.

### Better targeted support for small businesses

54. A consultation about the Welsh Government's proposals for a permanent SBRR scheme will close on 13 October<sup>6</sup>. It discusses a number of possible reforms including:
  - Restricting the amount of relief available to businesses that occupy multiple small properties, for example, large national chains;
  - Exceptions from SBRR for business activity that does not align with Welsh Government objectives;
  - Reverting the existing enhanced relief for retail premises to a standard level;
  - Re-investing the revenue released from the above proposals to provide more generous relief to small businesses through amending the eligibility criteria, for example rateable value thresholds;
  - Targeting support to certain sectors that help to meet Welsh Government objectives, for example, our commitment to deliver 30 hours of free childcare for working-age parents of three to four-year-olds.
55. The Welsh Government is working with its partners to test the practical implications of the proposals. Following initial changes in 2018, the permanent scheme will continue to be developed as there are a number of potential reforms outlined in the consultation that will take longer to explore and assess. Those ideas include time-limited relief as growing businesses become self-sustaining, and potentially doing

---

<sup>6</sup>Delivering a tax cut for small businesses: A new small business rates relief scheme for Wales. Published 21 July 2017. <https://consultations.gov.wales/consultations/delivering-tax-cut-small-businesses-new-small-business-rates-relief-scheme-wales>

more to help businesses that support the Welsh Government's social, economic or environmental priorities.

#### Local tax administration

56. To ensure the changes resulting from reforms to council tax do not risk the effectiveness of a tax that has enjoyed good collection rates for two decades, the Welsh Government will explore the implications of the changes for tax administration through a consultation in 2018 and by working with stakeholder groups.
57. A new information-sharing gateway between local authorities and the VOA was established in April 2017 with the aim of reducing administrative burden for taxpayers having to provide similar information to different organisations. The gateway will also aid collection and fraud investigation by billing authorities.

#### Supporting local government reform

58. The Welsh Government is working with local government to assess the merits of a share-gain arrangement that could allow authorities working on a regional basis to retain a portion of additional non-domestic rates collected where there is genuine economic growth as a result of their collaborative actions. As an initial step, we have invited local government to prepare proposals that work for all regions while ensuring the risks and volatility of the funding stream are managed.
59. As we take forward reforms that have implications for the distribution of the annual local government settlement, we will discuss and agree any potential changes required to the methodology with local government through the distribution subgroup.

#### Exploring the potential for longer term reforms

60. There have been a number of wide-ranging reviews of how local government should be funded. The Welsh Government is exploring whether different approaches to the taxation of non-domestic property, such as some form of tax based on land value, may benefit Wales. There is theoretical research suggesting other approaches to raising income from property may be economically more efficient and more progressive. However, the administrative implications of different tax designs have in the past presented barriers to change. The first stage in 2018 will involve exploring the feasibility of a land value tax as a replacement for raising non-domestic rates revenue in Wales.
61. Working with the consultative groups, the Welsh Government intends to assess the possibilities so a number of tested scenarios can be presented in readiness for the next National Assembly elections.

### 3) Continue to press the case for the devolution of Air Passenger Duty, and further develop the evidence base to support the case

#### Background

62. Air passenger duty (APD) is an excise duty, which is levied on the carriage, from a UK airport, of chargeable passengers on chargeable aircraft<sup>7</sup>. APD is paid by the operator of an aircraft and the amount of tax is dependent on the final destination and class of travel of the chargeable passenger<sup>8</sup>. Table one summarises the current UK rates. It is estimated that APD raises £10m in Wales, including approximately £1m from direct long haul (destinations of more than 2,000 miles from London).

**Table 1: Air passenger duty rates**

Destination bands and distance from London	Reduced rate (lowest class of travel on aircraft)	Standard rate (all other classes of travel)	Higher rate (for travel in aircraft with fewer than 19 passengers)
Band A (1-2,000 miles) 'short haul'	£13	£26	£76
Band B (2,000-plus miles) 'long haul'	£76	£150	£450

63. In 2010 the Holtham Commission recommended devolution of APD to Wales and in 2012 the UK Government's Silk Commission recommended APD should be devolved for direct long-haul flights initially, followed by full devolution as part of the UK Government's future work on aviation taxation.
64. To date, the UK Government has rejected devolution of APD to Wales. The UK Government rejected the Silk Commission's recommendation stating: "Having now given this recommendation careful consideration, the government is not convinced by the case for devolving APD to Wales. In particular, HMRC published a report in autumn 2012 highlighting that different rates either side of the Wales-England border would be likely to redistribute passengers between airports rather than significantly increasing the overall demand within the UK."
65. This was despite the Silk Commission reviewing the evidence about the potential competitive impact and concluding: "If APD were to be devolved and then reduced in Wales this would lower the price that passengers from Welsh airports pay. This could be regarded as an economic distortion creating an uneven playing field. However, international evidence on the factors that influence airport choice in multi-airport locations shows that non-price factors such as airport access times, airport delay and flight frequency are important factors in determining airport choice with airport access times being the dominant factor. Price, while important, does not appear to be a decisive factor in determining airport choice."

---

<sup>7</sup> Definitions are available from Gov.uk:  
<https://www.gov.uk/guidance/air-passenger-duty>

<sup>8</sup> While the duty is paid by the airlines this is passed on to consumers in the price they pay for the ticket.

66. In the meantime, the UK Government has agreed to devolve APD to Scotland and Northern Ireland. APD will be a fully devolved tax in Scotland from April 2018<sup>9</sup> and APD is devolved in Northern Ireland for direct long-haul flights. The Welsh Government's position remains that there is no reason why Wales should be treated differently to the other Devolved Administrations. At the very least, and in line with the position in Northern Ireland, APD should be devolved for direct long-haul flights from airports in Wales.
67. In Scotland, APD will be replaced with air departure tax (ADT) in April 2018. The rates and bands for the new tax will be announced in autumn 2017, however the Scottish Government has indicated it is seeking a 50% reduction in ADT on the basis this would encourage the establishment of new routes; enhance business connectivity and help generate sustainable growth.

## Evidence and analysis

68. The Welsh Government continues to make the case for devolving APD to Wales, submitting evidence to HM Treasury's latest review of APD in summer 2015<sup>10</sup>. Contrary to the position of the UK Government, the Welsh Government believes the devolution of APD would benefit individuals and businesses in Wales and support greater access to international markets in England, particularly in the South West. This is supported by the same HMRC analysis<sup>11</sup> the UK Government highlighted in its response to the Silk Commission. This analysis shows that a price reduction for flights from Cardiff Airport equivalent to the prevailing rate of APD would increase combined passenger numbers from Cardiff and Bristol airports by 46%.
69. It is well established that the presence of an airport which offers access to key global markets provides significant economic benefits across the economy<sup>12</sup>. Businesses value ready access to international transport links and therefore choose to locate in areas where that access is available. Aviation also plays a crucial role in contributing to the growth of the wider economy through facilitating the movements of goods and services, workers and tourists, investment and ideas<sup>13</sup>.
70. The presence of a well-connected airport attracts foreign direct investment and generates positive spill-over impacts, which improve an economy's productive capacity. As such, thriving airports contribute to the development of economically-successful cities by supporting agglomeration effects, which provide increasingly important benefits for cities and wider regions. Connections to other agglomerations can help to deepen labour and capital markets, as well as increasing competition and innovation.

---

<sup>9</sup> The devolution of APD was first recommended by the Calman Commission and then again by the Smith Commission.

<sup>10</sup> HM Treasury discussion paper on the options for supporting English regional airports from the impacts of air passenger duty devolution:

<https://www.gov.uk/government/publications/discussion-paper-on-options-for-supporting-english-regional-airports-from-the-impacts-of-air-passenger-duty-devolution>

<sup>11</sup> HMRC, Modelling the impact of price differentials at UK Airports

<https://www.gov.uk/government/publications/modelling-the-effects-of-price-differentials-at-uk-airports>

<sup>12</sup> For example, see Oxera (2009) *What is the Contribution of Aviation to the UK economy?* and Oxford Economics (2011) *Economic Benefits from Air Transport in the UK*.

<sup>13</sup> Airports Commission, Discussion Paper 02 Aviation Connectivity and the Economy

71. The Welsh Government's tax policy framework is clear that devolved tax policies should deliver Welsh Government policy objectives, in particular supporting jobs and growth. The devolution of APD would align with the Welsh Government's responsibility for economic development. At a time when the Welsh (and UK) Government is looking to foster stronger economic links with world markets, the UK Government's decision not to devolve APD will impact on the Welsh Government's efforts to attract new inward investment and support Welsh exports.
72. To help inform the debate, the Welsh Government has commissioned independent evidence into the potential impact of devolving APD to Wales. The aim of this research is to re-examine the potential market, competitive and economic implications of devolving APD. This will be published later in the autumn.

### **Outcome and next steps**

73. The Welsh Government continues to argue for APD to be devolved and is working with Cardiff Airport and stakeholders to further develop the evidence base to present to the UK Government. In the UK Government's summary of the responses to its discussion paper on the options for supporting regional airports in England from the impacts of APD devolution<sup>14</sup> it committed to "continue to work closely with local stakeholders to discuss any relevant further evidence or analysis". The Welsh Government wants to work with the UK Government to consider the independent evidence available.
74. There are no strong reasons for not devolving APD to Wales when it has already been devolved to Scotland and for direct long-haul flights to Northern Ireland. The devolution of APD does not require new primary legislation from the UK Government. Devolution can be achieved through secondary legislation<sup>15</sup> and we will be encouraging the UK Government to introduce secondary legislation to devolve APD for long-haul flights to Wales as soon as possible.

---

<sup>14</sup> HM Treasury discussion paper on the options for supporting English regional airports from the impacts of air passenger duty devolution: Summary of responses  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/576225/air\\_passenger\\_duty\\_devolution\\_responses\\_web.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/576225/air_passenger_duty_devolution_responses_web.pdf)

<sup>15</sup> The Command Paper for the Wales Act 2014 states that the power could be used for two purposes: Enabling the Welsh Government to introduce specific new taxes in Wales, with the agreement of each House of Parliament and the Assembly; or allowing the UK Government to devolve further existing or new UK taxes, again with the agreement of each House of Parliament and the National Assembly.

#### **4) Explore whether the devolved tax system could help to incentivise more energy efficient homes**

##### **Background**

75. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 establishes a new tax on land transactions to replace stamp duty land tax from April 2018. The Act includes a regulation making power that enables the creation of new reliefs. During the passage of the Bill, the Cabinet Secretary for Finance and Local Government made a commitment to further explore whether the devolved tax system could help to incentivise energy efficient homes.
76. The tax policy framework stated that the introduction of any new relief for devolved taxes needs to be carefully considered to ensure it achieves the desired policy objectives of the Welsh Government. It should also be affordable and not create opportunities for avoidance. The policy approach to changing reliefs or introducing new reliefs in the future will replicate the Welsh Government's approach to considering new taxes. This involves a clear process and evidence-gathering stage, which includes ensuring potential new taxes should be aligned with the Welsh Government's policy aims; are cost-effective and reach their intended policy target.
77. There are already levers and schemes in Wales to incentivise energy efficiency in homes however, these are predominantly aimed at low-income households. These include:
- A statutory duty to eradicate fuel poverty, as far as is reasonably practicable, in all households in Wales by 2018;
  - The flagship Welsh Government Warm Homes programme, which focuses on improving the energy efficiency of vulnerable low-income households at risk of fuel poverty;
  - Addressing energy efficiency in social housing through the Welsh Quality Housing Standard, with a requirement for all existing social homes to be brought up to an energy rating of EPC D or above;
  - Home Improvement Loans are a 15-year UK scheme delivered by local authorities in Wales, which can be used to install home energy efficiency improvements.
78. Energy efficiency in the residential sector also needs to be considered in the context of supporting the transition to a low carbon society. The Welsh Government has introduced a statutory framework through the Environment (Wales) Act 2016 to reduce emissions from Wales by 80% in 2050 compared to the baseline.

##### **Evidence and analysis**

79. The Welsh Government has explored whether there is a need for tax-based intervention to complement existing levers to incentivise energy efficient homes. This work has involved contributors from across the sectors and has focused on understanding the existing evidence base and identifying whether there is a case for change. Analysis has also been undertaken of existing or historic schemes within the UK and internationally where taxation has been used as a lever to incentivise energy efficient homes.

## **Outcome and next steps**

80. The Welsh Government provides significant financial support to the residential sector to support and enable energy efficiency improvements – this is largely targeted at low-income households.
81. The initial evidence gathered has indicated that there is a case for further action to drive residential energy efficiency improvements, particularly in the able-to-pay sector. However, it was concluded that more targeted grants and improved government communication would be the priority to ensure a co-ordinated approach that creates long term change, and that more detailed analysis in this area is needed.
82. More detailed analysis of existing evidence in this complex area will continue. This will include continued analysis of the effectiveness of new and existing schemes in the UK and internationally. This evidence-gathering will need to be set in the context of supporting the transition to a low carbon society.
83. We will continue to analyse all levers available to promote more energy efficient use of housing, including taxation. This will be taken forward in the context of the commitment made by the Cabinet Secretary for Environment and Rural Affairs in June to set out proposals in the autumn to increase activity in home energy efficiency. This work will explore how to broaden and accelerate investment for energy efficiency across Wales. The proposals will also look at all opportunities for innovation, both in energy efficiency products and in financial models which can help support the uptake of energy efficiency improvements by able-to-pay households and low-income households.

**5) Consider the case for introducing new taxes in Wales, exploring the policy and administrative elements and the mechanism for change**

**Background**

84. In addition to being an important source of revenue to support public services, taxation can be a powerful lever for behavioural change and an opportunity to stimulate economic growth.
85. Part 4A of the Government of Wales Act 2006 (as amended by the Wales Act 2014) allows additional devolved taxes to be specified by Order in Council. This requires the approval of the National Assembly for Wales and of each House of Parliament. Once a new devolved tax is specified, the National Assembly will have the competence to legislate in the usual way.
86. The devolution of tax powers provides the Welsh Government with an opportunity to engage with the National Assembly for Wales, local government, businesses and other stakeholders to develop a distinctive Welsh approach to taxation. It also provides the opportunity to build capability and expertise within the Welsh Treasury.
87. The publication of the tax policy framework and work plan in June set the standard for how the Welsh Government would undertake public engagement and debate, with the intention of following international best practice. The Welsh Government will continue to engage with tax experts, ensuring they are involved in highly-technical tax issues, but it has also been important to engage with member organisations and the public on how taxes can be used to achieve policy objectives.
88. The Welsh Government has a clear set of tax policy principles for the development of new taxes. To test the mechanism, the Welsh Government expects to provide information to the UK Government on whether a new tax is within the competence of the National Assembly for Wales; whether a policy case exists for such a tax and whether it has harmful effects for UK macro-economic or fiscal policy.

**Evidence and analysis**

89. Ideas for new taxes in Wales have been put forward by a number of individuals and organisations since the Wales Act 2014 achieved Royal Assent. The Bevan Foundation's 2016 report - *Tax for Good* – highlighted eight possible new Welsh taxes, from public health taxes, such as a sunbed tax and a takeaway packaging tax to taxes aimed at stimulating economic growth, such as a land value tax and innovation tax credits.
90. The Welsh Government has taken the Bevan Foundation's report as a starting point for analysing potential new taxes and has researched international innovations.
91. As with all areas of tax policy, the Welsh Government's approach to the development of new taxes is to be as consultative as possible. Transparency can lead to more robust policy making, a better understanding of the taxpayers' needs, and improved trust and collaboration between the public and the Government.
92. The Cabinet Secretary for Finance and Local Government led a debate in the National Assembly about new taxes on 4 July. The Welsh Government received a



considerable public response to the call for ideas about proposals for new taxes – 45 direct letters and emails and more than 260 tweets and news story comments. The discussion has been widely welcomed from all areas and suggestions have been varied, with more than 60 new tax ideas and policy challenges being proposed.

## **Outcome and next steps**

93. The public responses to the debate have been used to identify the areas where a tax can be further explored to meet policy priorities. The Welsh Government has looked at the extent to which proposals address the priority areas in the Prosperity for All national strategy, analysed how they might meet our framework criteria, and conducted initial engagement with the relevant departments to select the new taxes with the most potential. The result of this work is the following shortlist:
94. **Longer-term challenges to finance social care:** exploring potential financial levers including taxation to support social care provision in Wales.
95. **A national tax on vacant land:** exploring the efficiency of a tax to deliver the Welsh Government's policy objective to bring land identified as suitable for development into productive use.
96. **A tax on disposable plastic to meet environmental objectives:** exploring options for a tax or levy on disposable plastic to help the Welsh Government to achieve its waste reduction and recycling targets.
97. **A tourism tax to support local businesses:** exploring provisions for permissive powers for local government taxation.
98. The Welsh Government will continue to develop these ideas throughout the autumn, with a view to writing to the UK Treasury next year. Our work in 2018 will include ongoing consultation with the public, extended analysis of the consequences of any new tax, and an exploration of the administrative implications.
99. This is an ongoing process and we will continue to consider uses of fiscal levers across government priority areas. In future the Welsh Government may return to exploring a tax idea that has been suggested in the past or look at new ideas beyond those mentioned to date.

**6) In 2017 and 2018, work with the UK Government to help support the successful introduction of the Soft Drinks Industry Levy in Wales**

**Background**

100. The UK currently has one of the highest obesity rates amongst developed countries<sup>16</sup>. The evidence shows sugar consumption is a major factor in childhood obesity and sugar-sweetened soft drinks are now the single biggest source of dietary sugar for children and teenagers<sup>17</sup>.
101. In the 2016 Budget, the UK Government announced the introduction of a soft drinks industry levy. The levy will come into effect from April 2018 and will operate on a UK basis. The levy is not a policy of the Welsh Government.
102. The UK levy will apply to the production and importation of soft drinks containing added sugar. The UK Government's policy intention is to encourage producers of added sugar soft drinks to:
- Reformulate their products to reduce the sugar content;
  - Reduce portion sizes for added-sugar drinks and import reformulated drinks with reduced added sugar to encourage consumers of soft drinks to move to healthier choices.
103. The levy will have a main rate of 18p per litre, which will apply to added sugar drinks with a total sugar content of 5g or more per 100ml and a higher rate of 24p per litre for drinks with 8g or more per 100ml. It will not apply to any drink where no sugar is added. Milk-based drinks with a milk content of 75% or more and milk substitute drinks will not be subject to the levy. While alcoholic drinks with an ABV of up to 1.2% are within scope of the levy, the UK Government is making provision to exclude certain drinks that fall within this category. There will be an exemption for small producers. A small producer is defined as one that produces less than one million litres of produce in the given year.
104. The Welsh Government has long called on the UK Government to take stronger action on sugar consumption at a UK level. In principle, the Welsh Government supports the introduction of the soft drinks industry levy, although it is important the levy does not have any unintended consequences and the impact on the soft drinks industry is proportionate. Prior to the UK Government's announcement introducing the soft drinks industry levy, the Welsh Government supported a motion in the National Assembly for Wales which called on the Welsh Government to bring forward proposals to introduce a levy on sugary drinks.
105. The Bevan Foundation, which had earlier proposed a sugar tax, concluded there remained a case for a Welsh sugar tax to operate alongside the soft drinks industry levy, covering a wider range of products than soft drinks.
106. As highlighted by the Bevan Foundation, the Command Paper published alongside the Wales Bill in 2014 stated: "If the UK Government intends to introduce a new tax

---

<sup>16</sup> *Healthy Weight, Healthy Lives: A toolkit for developing local strategies*, Dr Kerry Swanton for the National Heart Forum/Cross Government Obesity Unit/Faculty of Public Health, 2008.

<sup>17</sup> *Sugar Reduction: the Evidence for Action*, Public Health England, October 2015

that has a degree of alignment with areas of devolved responsibility, it will consult with the Welsh Government about the scope for that tax to be devolved.”

107. The soft drinks industry levy is clearly a tax with a close degree of alignment with areas of devolved responsibility. The UK Government did not consult the Welsh Government about the scope for the soft drinks industry levy. Following the announcement to introduce the soft drinks industry levy the previous Minister for Finance and Government Business wrote to the Chancellor of the Exchequer raising concerns that this consultation did not happen.
108. The tax policy framework recognises that Welsh taxes sit within the wider UK tax context and one of our main principles is that Welsh taxes should be “simple, clear and stable”. The introduction of the soft drinks industry levy is a major change for the industry and represents a new approach at the UK level to influence the consumption of sugar. Given this, we do not believe a new Welsh tax on sugar would be clear or simple for producers and consumers. Our priority at this stage is to work with the UK Government to implement the soft drinks industry levy in Wales and continue to support individuals to lead healthier lifestyles<sup>18</sup>.

## Evidence and analysis

109. At this stage, it is not possible to estimate the health benefits from the levy and it will only be through the realisation of these benefits that the success can be measured. According to research by Oxford University's Nuffield Department of Primary Care Health Sciences<sup>19</sup> the levy is expected to have a positive impact on health outcomes.
110. The Welsh Government supports action to encourage healthier diets. However, it is important that the levy does not have any unintended consequences and the impact on the soft drinks industry is proportionate.
111. The Welsh drinks industry has seen a period of strong growth and supports valuable economic activity across Wales. While data on the number of businesses which will be affected by the levy is not available due to disclosure rules associated with the small number of individual enterprises, there are 19 water and soft drinks enterprises in Wales<sup>20</sup>.
112. According to industry research<sup>21</sup> the soft drinks industry levy will have a differential impact across the sector with the energy and still drinks market most likely to be affected (see figure four).

---

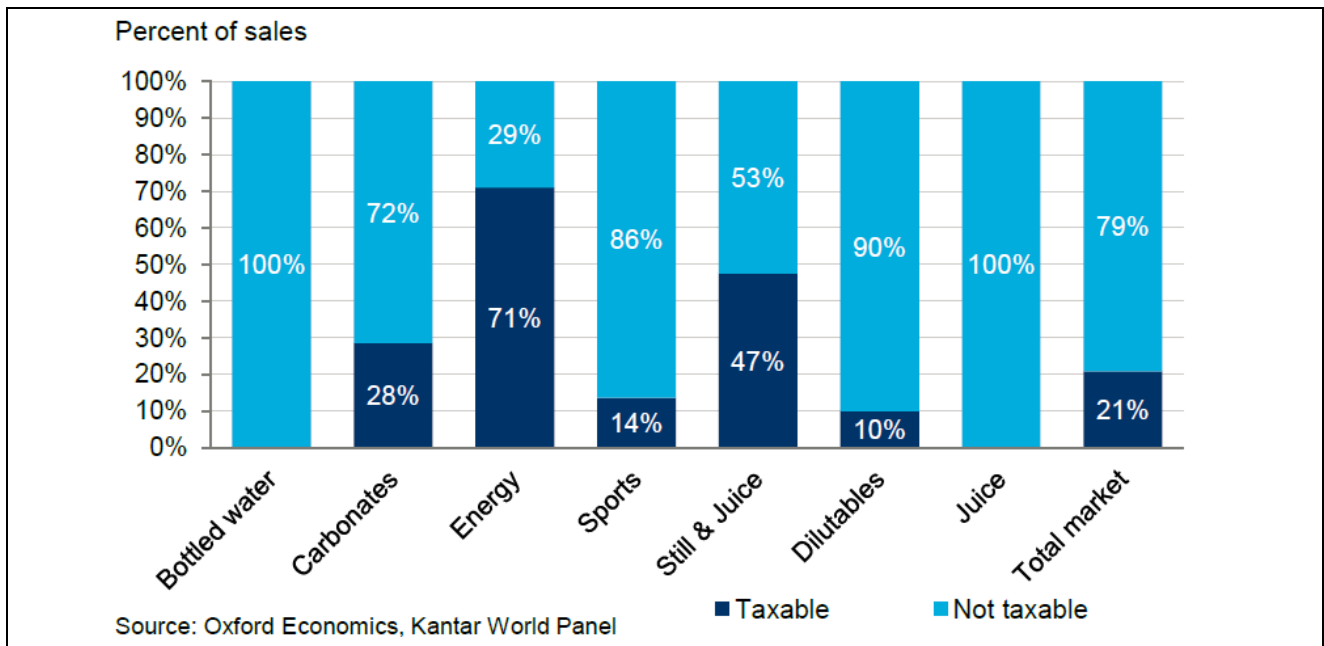
<sup>18</sup> For example, through its All Wales Obesity Pathway 2010, the Welsh Government has provided a framework of expected services to be delivered by Health Boards and other key stakeholders in this area. The pathway focuses on rebalancing services towards early interventions to tackle obesity. Public Health Wales is also taking forward work on its 10 steps programme to address childhood obesity, focusing on fostering healthy habits in parents and children at an early stage.

<sup>19</sup> Health impact assessment of the UK soft drinks industry levy: a comparative risk assessment modelling study. Briggs, Adam D M et al. *The Lancet Public Health*, Volume 2, Issue 1, e15 - e22

<sup>20</sup> Analysis and overview of the Welsh drinks industry March 2017, Brookdale Consulting

<sup>21</sup> Published in Analysis and overview of the Welsh drinks industry March 2017, Brookdale Consulting

**Figure four: Taxable sales volume by category of drink**



- 113. Discussions with the soft drinks industry in Wales suggest many producers were already reformulating their products to reduce sugar content prior to the introduction of the soft drinks industry levy. This is in response to consumers changing their purchasing decisions due to the growing public debate about obesity and diet.
- 114. At this early stage the view of the soft drinks industry in Wales is that the soft drinks industry levy will accelerate the reformulation of products already underway. However, it is not possible at this stage to estimate the impact of the levy on consumption patterns.

**Outcome and next steps**

- 115. Following the introduction of the levy in April 2018, the Welsh Government will continue to work with the health sector and the soft drinks industry in Wales to better understand the impact of the levy in Wales.

- 7) **Once the WRA holds sufficient data, it will analyse land transaction tax data in relation to the higher rate surcharge on a local authority basis. This could be used to inform discussions with local authorities about the operation of the higher rate.**

## **Background**

116. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 provides for LTT to replace stamp duty land tax from April 2018. The Act provides for a higher rate surcharge on additional residential properties bought by individuals who already own a residential property – for example, second homes, buy-to-let properties – and on the purchase of any residential property where the buyer is not an individual, such as a company.
117. The higher rate of tax on additional properties was introduced for stamp duty land tax in April 2016 and since its introduction revenues have increased. When LTT replaces stamp duty land tax the block grant provided to the Welsh Government from the UK Government will be reduced by approximately the amount of revenue which will no longer be collected from stamp duty land tax. The higher rate has therefore been replicated for LTT in order to protect revenues to fund public services in Wales.
118. During scrutiny of the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017, it was raised that local authorities should be able to make representations to Welsh Ministers about the higher rate surcharge to help to meet the needs of different communities in Wales. Local authorities may already make representations to Welsh Ministers and the Cabinet Secretary for Finance and Local Government has written to the leaders of all local authorities in Wales inviting their engagement about the operation of the higher rate surcharge in their area once sufficient data is available to inform these discussions.

## **Evidence and analysis**

119. Beyond revenue implications, the higher rate may also have an impact on the availability of housing. For example, the higher rate may mean that fewer second homes and buy-to-let properties are purchased, which may mean there are more properties available for those who want to buy their first home. However, fewer buy-to-let purchases may also lead to reduced availability of rented accommodation. The effects might be different in different areas. Even where the effects are the same, it may be a positive effect in some communities and a negative effect in other communities, depending on housing availability and housing needs in that area.
120. As outlined in the tax policy framework, our approach to tax policy requires careful consideration of the effects on policy objectives and affordability, informed by evidence. To begin to consider the impact of the higher rate in different parts of Wales it will be important to have data about the operation of the higher rate, which can be analysed by local authority area.

## **Outcome and next steps**

121. The main element of the work will commence once the WRA has collected sufficient data. From April 2018, the WRA will start to collect LTT data, including that relating to the higher rate surcharge. A full year of data will have been collected after March 2019, which may provide sufficient information to begin to analyse the operation of the higher rate surcharge on a local authority basis.
122. Ahead of April 2018, preparatory work by the Welsh Treasury and WRA is already underway. This includes ensuring the WRA's data and collection systems will be able to accommodate this requirement. The WRA will only share information where doing so meets legal obligations regarding taxpayer confidentiality.
123. Beyond understanding the impact of the higher rates of LTT on additional residential properties, there are important wider considerations about data sharing and evidence. We will further consider how the WRA can use its powers to effectively support Welsh Ministers in making robust tax policy decisions, in discussion with the WRA and others.

**8) During 2017, consult on the use of criminal powers by the Welsh Revenue Authority as part of the approach to the enforcement of Welsh tax**

**Background**

124. The Tax Collection and Management (Wales) Act 2016 (TCMA) received Royal Assent in 2016. TCMA sets out the governance framework for the effective and efficient collection of devolved taxes, establishing the WRA and making provisions for the collection and management of devolved taxes. It also establishes a Welsh tax regime to support and enable taxpayer compliance.
125. In the majority of cases, the Welsh Government expects taxpayers to pay the right amount of tax at the right time. There will be occasions however, when additional measures will be necessary to ensure compliance, such as undertaking civil investigations and imposing penalties.
126. TCMA provides the WRA with a comprehensive range of civil investigation and enforcement powers. These include civil powers to:
  - Require taxpayers and certain third parties to provide specified information and documents;
  - Inspect premises to check a person's tax position;
  - Impose penalties for non-cooperation with a tax investigation.
127. The civil powers already provided by TCMA will probably be sufficient to deal with the majority of cases of non-compliance in Wales, however, based on HMRC's experience and that of other Welsh public bodies, there are likely to be some cases where the existing powers will not be sufficient to encourage compliance.
128. HMRC currently operates in Wales and has access to a wide range of criminal powers to tackle tax crime connected with stamp duty land tax, landfill tax and other taxes. These powers have been used in a number of cases and the Welsh Government considers there is a strong case that some of these powers will be needed to enable the WRA to investigate tax offences such as fraud or cheating the revenue, when they are devolved in April 2018. HMRC has a clearly-defined set of safeguards to ensure that these powers are used proportionately and appropriately which Wales would also have in place. Landfill tax is susceptible to tax evasion. Evidence shows that this is partly due to the high rate of tax and the significant difference between the current lower rate (£2.65) and the current higher rate (£84.40).
129. If LDT retains the same difference between the rates, we can assume the same incentive to evade the tax will exist and people will attempt to do so. In 2016, the estimated tax gap – the amount of tax that was collected compared to what should have been collected – totalled approximately £150m, with the equivalent in Wales approximately £3.24m.
130. Land transactions do not lend themselves as readily as disposal of waste to tax evasion. Professionals are usually heavily involved in the transaction representing the buyer. Cases have been known however, whereby the professional has assisted in falsifying a return by adjusting the property value to evade paying the correct level of tax. There have also been cases where the legal representative has taken the payment of tax but not forwarded it to HMRC (by fraudulently claiming a

relief or understating the consideration given for their clients purchase), thereby defrauding the purchaser of the tax paid.

### **Evidence and analysis**

131. A consultation was undertaken over the summer: *Welsh Revenue Authority access to criminal powers*<sup>22</sup>. It asked respondents to provide views on the benefits and dis-benefits of the WRA having access to certain criminal powers.

### **Outcome and next steps**

132. The Welsh Government will respond to the consultation later this month and a decision will be taken about whether to lay regulations to provide the WRA with access to certain criminal powers.
133. If the regulations are laid and if the National Assembly decides to confer these powers on the WRA, clear policies and procedures will need to be put in place to safeguard against abuse of the legislation. For example, in relation to surveillance powers under the Regulation of Investigatory Powers Act, the WRA will be subject to audit and inspection by the UK Surveillance Commissioner.

---

<sup>22</sup> <https://consultations.gov.wales/consultations/welsh-revenue-authority-powers-tackle-tax-crime>

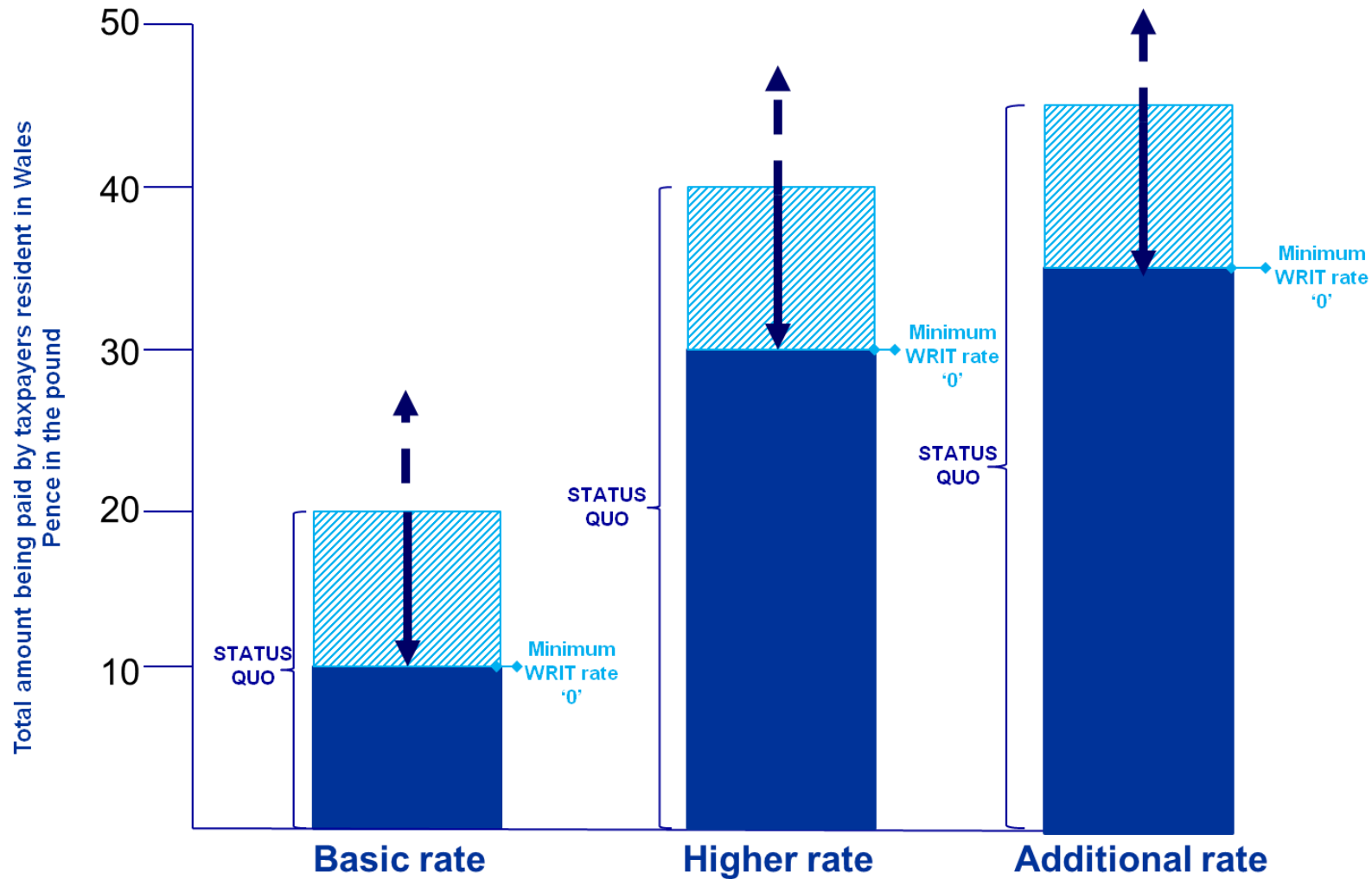


## **9) Develop analytical tools to support the development of income tax policy in Wales**

### **Background**

134. Welsh rates of income tax are due to be introduced from April 2019. The UK rates of tax on non-savings non-dividend income will each be reduced by 10p and the Welsh Government will set its own rates in the standard, higher and additional bands. If it were to set a rate of 10p in each band, the overall income tax rate faced by Welsh taxpayers would be unchanged (see figure five).
135. The Welsh Government will receive the revenues from its own tax rates and there will be a corresponding reduction in the block grant from the UK Government. The initial size of this reduction will reflect the UK Government's loss of revenue from reducing tax rates in each band in Wales. Thereafter the block grant adjustments for each band will increase with the growth in equivalent revenues elsewhere in the UK.
136. HMRC will retain responsibility for the administration of the income tax system, including the Welsh rates, and will be assisted in its preparations for the partial devolution of income tax by the lessons it has learned in Scotland.
137. As a first step, HMRC will need to identify Welsh taxpayers as defined in the Wales Act 2014. The Welsh Government will support HMRC in this task, identifying data sources that could be used to cross-match HMRC records.
138. The Welsh Government has begun work on a number of analytical areas to prepare for the introduction of Welsh rates of income tax. It has started to develop modelling and forecasting tools to inform tax policy development and the wider budgetary process. It is also working to ensure that these tools are informed by the best possible data sources and that its budgetary adjustments properly reflect the fiscal framework agreement reached between the Welsh and UK governments in December 2016. The next few paragraphs describe the availability of data on Welsh income tax payers and how this might be improved.
139. HMRC compiles a dataset for analytical purposes called the Survey of Personal Incomes (SPI) covering each tax year. It is generated from a sample of pay-as-you earn, self assessment and claims system tax records. The SPI provides a rich source of information about income tax payers in the UK. It forms the basis of HMRC's policy simulation model and is used in the UK forecasting process.
140. The SPI is based on a sample of around 560,000 income tax payers in the UK and around 20,000 in Wales. The Welsh Government has access to a version of the SPI known as the public use tape, which is published at the UK Data Archive hosted by Essex University. This has the same sample size as HMRC's internal version but includes less detailed information about taxpayers. For example, it does not include any geographical information below UK country and English region. It also includes composite records for certain very high income taxpayers which are shared across countries and regions. (These restrictions are in place to ensure that individual taxpayers cannot be identified from the data.)

Figure five: What does Welsh rates of income tax (WRIT) mean for our rate setting capability from 2019-20?



141. The public-use version of the SPI is published over two years after the end of the reference period. For example, the 2014-15 data set was published in July 2017. The Welsh Government, together with the Scottish Government and the Scottish Fiscal Commission, is engaging with HMRC to see whether it can improve the timeliness of access to the SPI and whether more detailed information might be made available.

## **Evidence and analysis**

142. The Welsh Government is developing a forecasting and costing tool for income tax using the income distribution of taxpayers in Wales from the SPI. Because of the time lag in the availability of the SPI, the distribution is updated for subsequent years using data on employment and earnings growth. OBR forecasts of employment and earnings are then used to produce projected income distributions for future years. The appropriate income tax parameters for each year are applied to this distribution to estimate revenues from both the Welsh and UK income tax rates.
143. Further work will be carried out to determine whether there are any other data sources which could be used to update the income distribution. The Scottish Government has developed a model which forecasts revenues separately for the public and private sectors and for different age groups. The Scottish Fiscal Commission is likely to adopt the same approach as it takes over the forecasting function. The Welsh Government will investigate whether a similar approach would be worthwhile in Wales. It will also develop the model further to take account of behavioural effects on the revenue estimates where appropriate.
144. The Welsh Government is also developing the capacity to analyse the impact of taxes and benefits on households in Wales. This distributional analysis makes use of micro-simulation techniques to investigate how taxes and benefits affect different types of households across the income distribution. It enables the analysis of income tax changes in conjunction with other taxes and with the UK benefit system. This supports the tax policy framework objective of raising revenue as fairly as possible by using new models to analyse data effectively and identify any issues.
145. The distributional analysis is carried out using *Euromod*, designed to model the effects of taxes and benefits on household incomes for each country of the EU, including the UK. The model was created and is maintained by the Institute for Social and Economic Research (ISER) at the University of Essex.
146. The Welsh Government is working with the Office for Budget Responsibility and HMRC to ensure the forecasts used to estimate the block grant adjustments for future years are well founded and reflect the approach set out in the fiscal framework agreement. This requires forecasts of revenues in England and Northern Ireland separately for each income tax band. These are not readily available from the current forecasting methodology so work is underway to implement the necessary analytical developments.

## **Outcome and next steps**

147. In autumn 2018, the Welsh Government will set the first Welsh rates of income tax. The analytical tools described above will be developed to inform the decision on tax rates and ensure that partial income tax devolution is integrated smoothly into the budgetary process in Wales.

## 10) Review the evidence on the case for shifting the balance of taxation between income and property

### Background

148. LTT will be introduced in April 2018 and Welsh rates of income tax will follow in April 2019. Together with taxes raised to fund local services (council tax and non-domestic rates), more than £2.5bn of tax revenue based partly or wholly on property value will be managed by central or local government in Wales. For the first time there will be an opportunity to consider the balance of Welsh taxes between income and property.

### Evidence and analysis

149. There is an emerging body of evidence to suggest a more efficient and effective tax system – conducive to economic growth – could be achieved by shifting the burden of taxation away from income and towards property. The most frequently-cited study on this subject, published by the OECD<sup>23</sup>, ranks different tax instruments with respect to their relationship to economic growth. The results suggest that income taxes are generally associated with lower economic growth than taxes on consumption and property. Tax reforms towards property taxes are therefore likely to enhance the prospects for economic growth.

150. There may be a case for shifting the balance of taxation from income toward property. This could align with our principle to deliver Welsh government policy objectives, in particular, supporting jobs and growth.

151. However, the Welsh Government is also committed to ensuring Welsh taxes help create a more equal Wales. The current UK income tax system is highly progressive with a tax free allowance currently set at £11,500 and income tax rates that increase with higher income tax bands. The Welsh Government is committed to making council tax fairer, recognising the scope to make the current system more progressive.

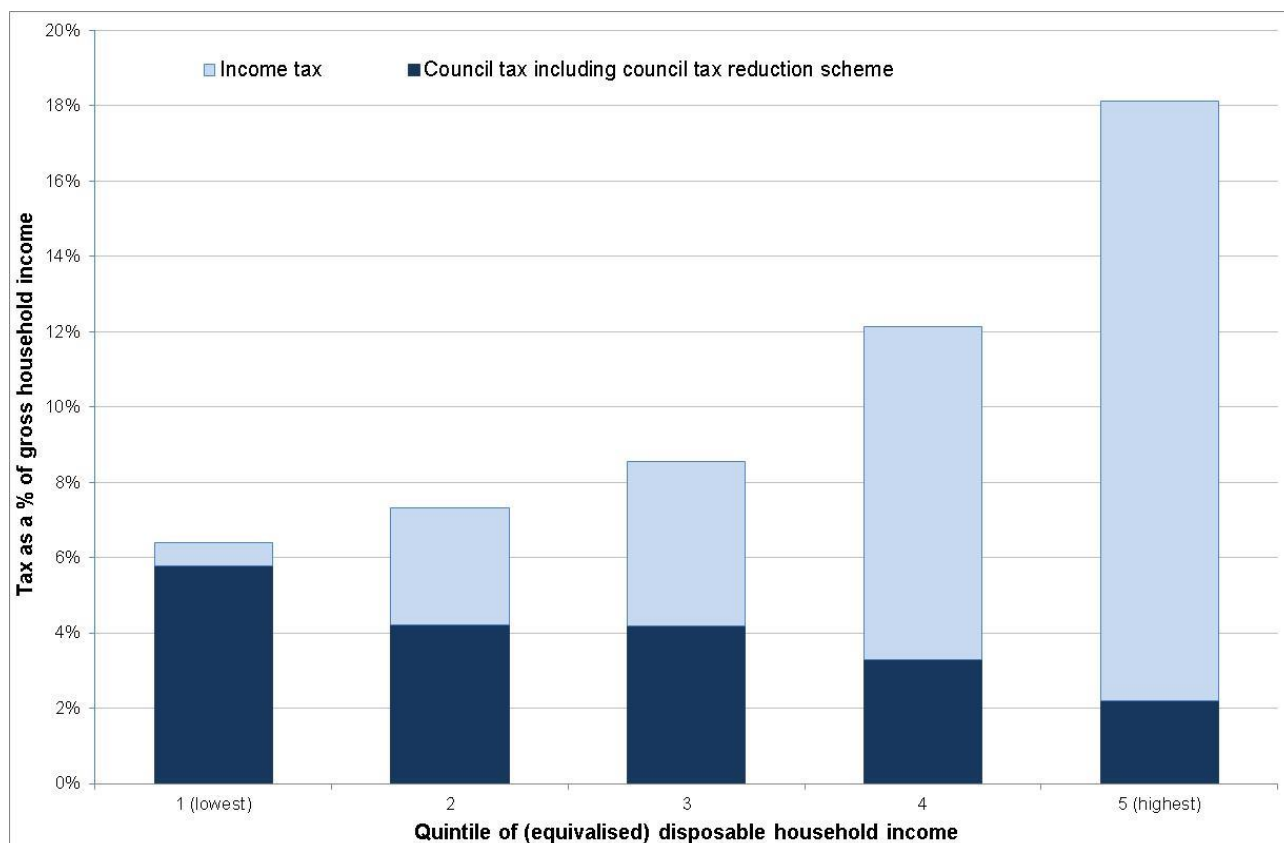
152. Figure six shows the current tax burden for UK income tax and council tax in Wales across households grouped by income quintiles. The analysis for council tax includes the council tax reduction scheme, which provides financial support with council tax bills for those who need it most. However, we also know that there is only partial take-up of the scheme<sup>24</sup>. Figure six shows income tax represents an increasing share of gross household income as people move into higher income groups. The opposite is true for council tax, even after including the council tax reduction scheme.

---

<sup>23</sup> J. Arnold, *Do tax structures affect aggregate economic growth? Empirical evidence from a panel of OECD countries* OECD Economics Department Working Paper 643, 2008  
[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=eco/wkp\(2008\)51](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=eco/wkp(2008)51)

<sup>24</sup> As discussed in the section on local taxes, the Welsh Government is committed to ensuring those who are eligible for the council tax reduction scheme benefit from it.

**Figure six: Income tax and council tax in Wales as a percentage of income by quintile, 2016-17**



Source: FRS 2013-14 and modelled using EUROMOD version G4.0

NB Council tax is shown net of council tax reduction scheme, with partial take-up applied.

### Outcome and next steps

153. There are a range of issues, which need to be explored when considering the balance of taxation between income and property in Wales. While the theoretical evidence would support a shift from income to property taxation to support economic growth, the impact of such reform would need to be considered in the Welsh context. The current Welsh property taxes are integral to the current system of financing local government and local authorities are accountable to their local electorate for the rates set for council tax. In addition, the property sector is also a significant contributor towards economic growth in Wales. Shifting the balance of taxation between income and property is also likely to have implications on the progressivity of the Welsh tax system.
154. With the range of Welsh taxes under control of central or local government in Wales it is appropriate to consider the balance of taxation between income and property. This is a longer term piece of research that will require a detailed consideration of the issues including the impact of any reform against the policy objectives of the Welsh Government.

## Conclusion

155. The Welsh Government will continue to draw on all its levers to support delivery of the five priority areas in Prosperity for All:
  - Early years
  - Housing
  - Social care
  - Mental health
  - Skills and employability.
156. We will develop capacity and capability in our own organisation and with our partners to enable us to better align taxation with Welsh Government strategic and policy objectives, looking at how Welsh taxation can be made more progressive and fair while supporting jobs and growth.
157. We will collaborate and engage transparently to ensure our tax policy proposals are robust and meet our tax policy principles, recognising the wider UK and international context.
158. We will look to develop and publish evidence and data to support our decisions and potential trade-offs in meeting our objectives.
159. We intend to publish a new work plan in early 2018, which will set out the key elements to progress towards our Welsh tax policy objectives. It will include the next steps from the existing work plan as set out in this report. The emerging themes include:
  - a. Setting rates and bands including the first rates for the Welsh rates of income tax;
  - b. Delivering policy objectives, including promoting fairness and economic growth; through Welsh tax levers;
  - c. Progressing the local government tax agenda;
  - d. Improving tax administration for the benefit of taxpayers and citizens in Wales.

# Annex: Devolved Taxes Rates and Bands

## Introduction

- A1. From April 2018, land transaction tax (LTT) and landfill disposals tax (LDT) will replace stamp duty land tax and landfill tax, respectively in Wales. This paper outlines the key issues considered in setting the tax rates for LTT and LDT and provides information about the impact of adopting the rates for taxpayers and the revenue the rates are forecast to raise.
- A2. The devolution of tax powers provides a range of opportunities for the Welsh Government to develop a Welsh approach to taxation to meet the needs and preferences of citizens in Wales. The Welsh Government's tax policy framework<sup>25</sup> outlines our strategic approach to Welsh taxes. The framework and its tax principles have guided the development of the tax rates and bands.
- A3. In developing the new taxes, a primary objective has been to provide stability for taxpayers. The tax rates of the predecessor taxes are therefore relevant considerations in setting the rates of the devolved taxes. In order to provide stability, the approach taken to setting the rates has been that the devolved tax rates should only diverge from those of the predecessor tax rates as much as is necessary to reflect Welsh circumstances and priorities.
- A4. It is important to recognise devolved taxes will help to fund public services within Wales. Accordingly, decisions about tax rates and bands need to be made with this in mind, considering the revenue impact of any proposal. The revenues from LTT and LDT will form part of the Welsh Government's overall budget from 2018-19. At the same time, the funding the Welsh Government receives from the UK Government will be reduced to account for the tax revenues the UK Government will forego as a result of devolving stamp duty land tax and landfill tax to Wales. Therefore, the overall effect of LTT and LDT on the Welsh Government's budget is the difference between the tax revenues and the block grant adjustment.
- A5. The block grant adjustment method was agreed between the UK and Welsh governments in December 2016 as part of the fiscal framework. For the first year of devolution, this will be estimated by using a forecast of stamp duty land tax and landfill tax revenues in Wales for 2017-18 increased by forecast growth in the two tax revenues in the rest of the UK between 2017-18 and 2018-19. The forecasts used will be those published by the Office for Budget Responsibility (OBR) at the time of the UK Government's Autumn Budget 2017.
- A6. For the Welsh Government's draft Budget 2018-19, the latest OBR (March 2017) forecast of revenues has been used to estimate the block grant adjustment. It is anticipated these forecasts will be revised for the Autumn Budget on 22 November and there could be a substantial change if the UK Government alters stamp duty land tax or landfill tax policy in a way which affects revenues – for example by altering the tax rates. Such a change would alter the block grant adjustment and therefore the Welsh Government's net resources. In the event the block grant adjustment is substantially changed, it would be appropriate to look again at the tax

---

<sup>25</sup> <http://gov.wales/docs/caecd/publications/170612-framework-en.pdf>



rates for LTT and LDT. The Welsh Government would reassess how taxpayers will be affected by the transition to LTT and LDT rates and look at how the tax change affects its overall resources. After considering these issues, the Welsh Government will then determine if and how the devolved tax rates should change.

- A7. This is what happened ahead of stamp duty land tax devolution in Scotland. The Scottish Government announced land and building transactions tax (LBTT) rates ahead of the UK Government's 2014 Autumn Statement, which altered stamp duty land tax rates. The Scottish Government then changed LBTT rates in January 2015, ahead of LBTT replacing stamp duty land tax in April 2015.
- A8. Other than revenue to fund public services, the relevant considerations in setting tax rates are influenced by the context in which the tax operates. Therefore, the following sections provide further information about each tax in turn, outlining the issues considered in setting tax rates appropriate for Wales and the impact of adopting the rates specified for taxpayers and revenues.
- A9. Following the UK Government's Autumn Budget, the Welsh Government will lay regulations to set the rates and bands, which will be scrutinised and determined by the National Assembly. The rates and bands in this paper are those which the Welsh Government intends to set by regulations, subject to no changes being necessary following the UK Government's Autumn Budget; National Assembly approval of the Welsh Government's budget and National Assembly approval of the regulations.

## **Land transaction tax**

- A10. Land transaction tax (LTT) is a tax on land and property transactions which is payable when a person or company:
- Buys a freehold property;
  - Buys a new or existing non-residential leasehold; or
  - Transfers land or property in exchange for payment (for example, buying a share in a house).
- A11. It will replace stamp duty land tax when it is devolved to Wales in April 2018 to enable public services in Wales to continue to receive the benefit of the revenues raised by the tax. As with stamp duty land tax, there are separate rates for residential and non-residential transactions. For residential transactions there is a main rate and a higher rate for purchases of a residential property where the buyer already owns one or more residential properties. For non-residential transactions, there is a main rate for freehold transactions and lease premiums and a separate rate for lease rents.
- A12. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 requires LTT to be a progressive tax. For each set of rates, there must be a zero rate band and the tax rate for each band above the zero rate band must be higher than for the band below it. This means the tax rates must be higher for high-priced properties than for low-priced properties. In setting the rates, there is an opportunity to extend the progressivity of LTT compared to stamp duty land tax.

- A13. In September 2016, the Welsh Government published the Treasury paper *Land Transaction Tax: setting rates and bands*, which outlined key issues and set the framework for our approach to setting rates and bands appropriate for Wales.<sup>26</sup>
- A14. The approach to setting the rates and bands for LTT has been guided by three overarching concerns relative to stamp duty land tax. These are:
- LTT rates should reflect Welsh circumstances and priorities,
  - Overall revenues should be maintained to continue to fund public services;
  - LTT should be more progressive, where possible.
- A15. The approach to setting tax rates was explored with stakeholders as part of the 2015 consultation, *Tax Devolution in Wales - Land Transaction Tax*, and in further engagement events during the development of the tax. Stakeholder views were also captured during the passage of the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017. There was general consensus that setting the rates is a matter for the Welsh Government but that consideration should be given to the nature of the property market in Wales and the potential impact of any changes to tax rates.

### **Residential rates and higher rates on additional residential properties**

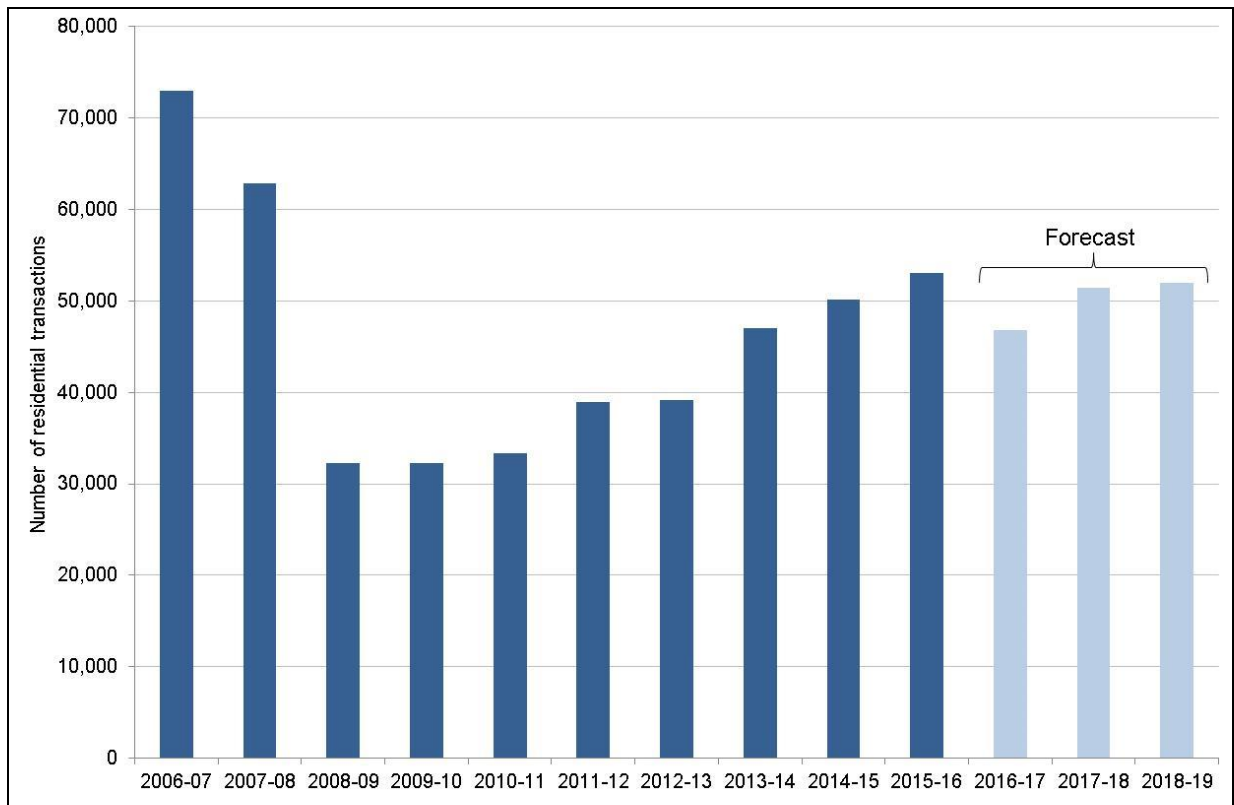
- A16. As LTT is a tax on land and property transactions, the important aspects of the tax base are the number of transactions and their prices. These are also important considerations in setting the appropriate rates and then estimating the resulting revenue from these rates.
- A17. Figure one shows the latest data and forecasts for the number of residential transactions in Wales. In 2015-16, there were 53,000 transactions. At the time of the tax devolution in 2018-19, the forecast number of transactions is slightly lower at 52,000. This represents a marked recovery since the financial crisis of 2008-09 but is still substantially lower than 2006-07<sup>27</sup> when there were more than 70,000 residential transactions in Wales. During this period there have also been some effects from changes to tax rates within stamp duty land tax; the adoption of LTT tax rates is forecast to have some effect on the number of transactions. This is discussed in more detail below.

---

<sup>26</sup> Available at <http://gov.wales/docs/caecd/publications/160915-ltt-bands-en.pdf>

<sup>27</sup> The first year for which data is available from HMRC.

**Figure A1: Residential transactions in Wales 2006-07 to 2018-19**

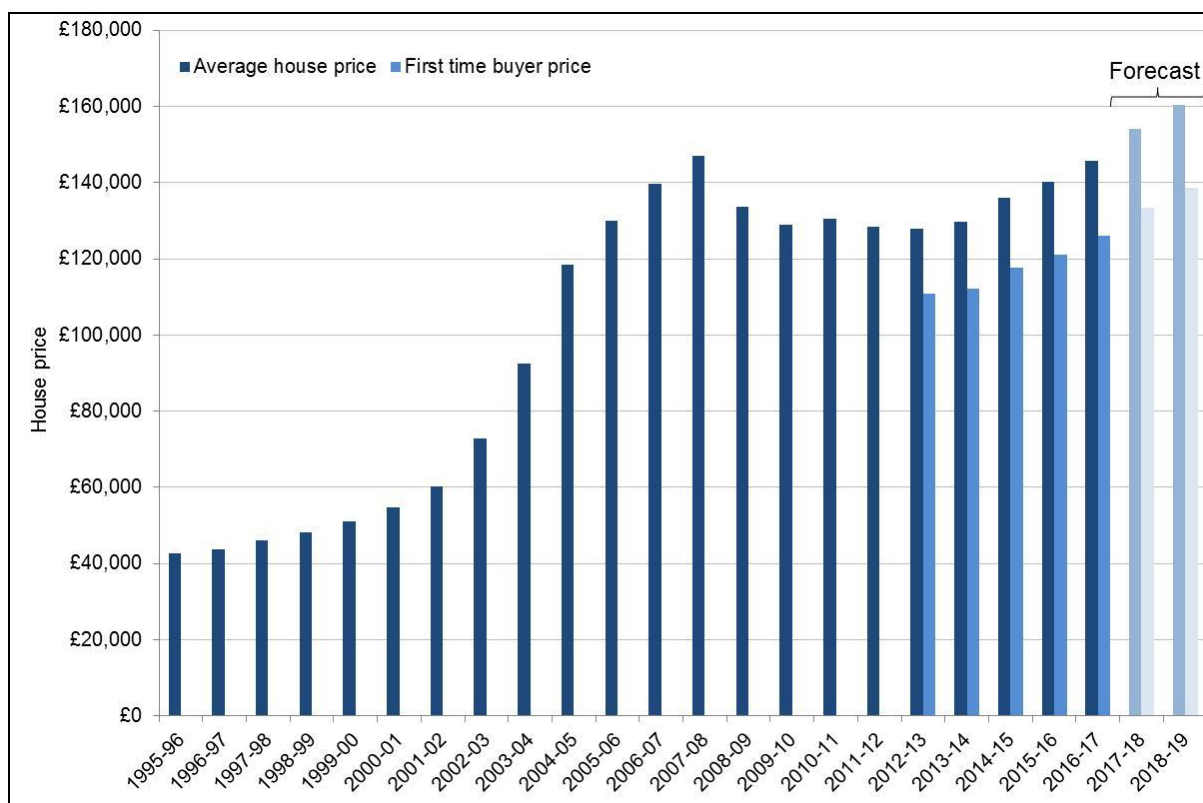


Source: HMRC Annual Stamp Tax Statistics, 2007 to 2016.

Forecast of transactions 2016-17 to 2018-19 based on OBR's UK residential growth, see Table 4.1 from OBR (2017) available at <http://budgetresponsibility.org.uk/download/march-2017-economic-and-fiscal-outlook-charts-and-tables-fiscal/>

- A18. The other important determinant for LTT rates is residential property prices. House prices have risen considerably from around £42,000 in 1995-96 to £146,000 in 2016-17, according to data from the ONS House Price Index for Wales. The average price in 2016-17 was just below the peak of 2007-08. The near recovery in the average property price (in nominal terms) contrasts with transactions which are still well below their pre-recession levels. UK house prices are forecast to continue to grow by the OBR. Applying this rate to Wales increases the average house price to around £160,000 by 2018-19 – beyond the peak nominal price in 2007-08.

**Figure A2: Average house price in Wales 1995-6 to 2018-19**

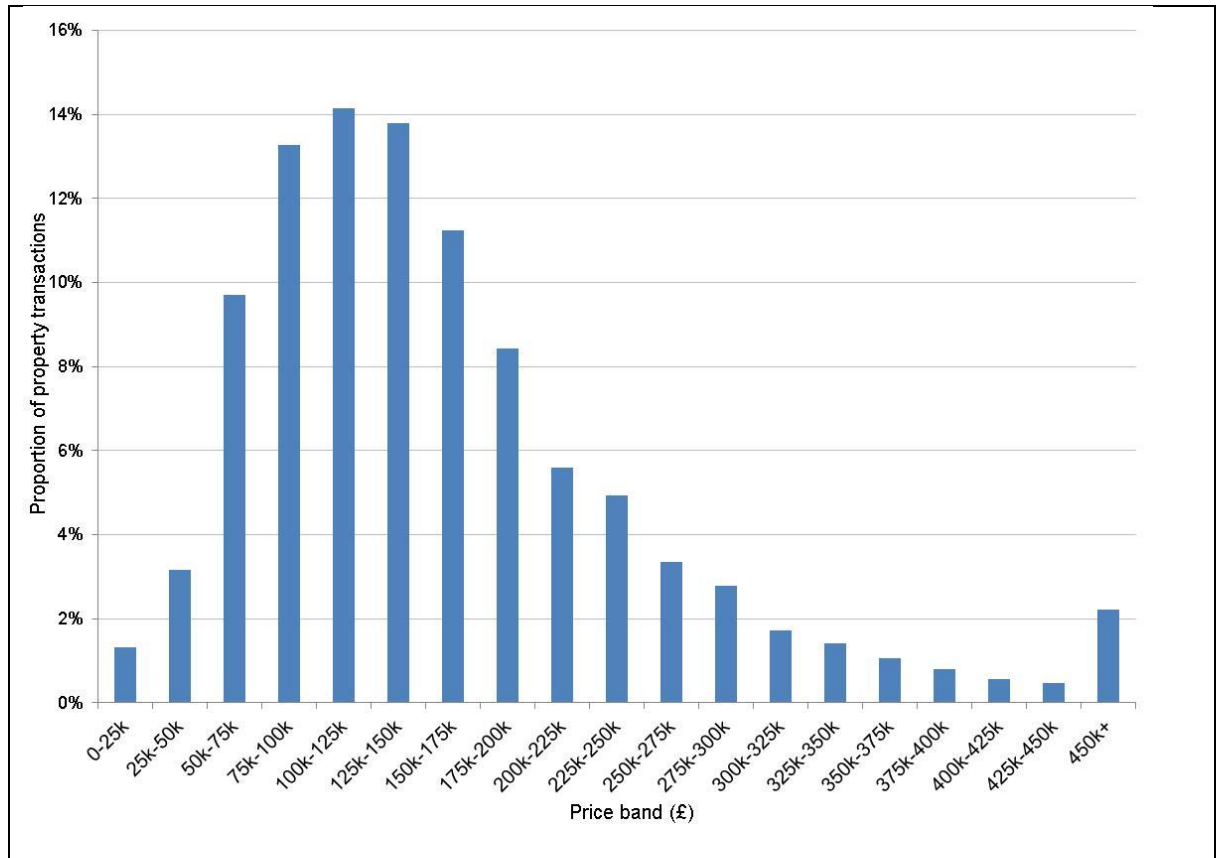


Source: ONS House price index, data available at <http://landregistry.data.gov.uk/app/ukhpi>  
 Forecast of house prices 2017-18 to 2018-19 based on OBR's UK residential growth, see Table 4.1 from OBR (2017) available at <http://budgetresponsibility.org.uk/download/march-2017-economic-and-fiscal-outlook-charts-and-tables-fiscal/>

- A19. As house prices continue to rise, there is significant interest in the affordability for people to buy their first home. The latest annual data from the ONS's house price index shows the average first-time buyer price was £126,000 in 2016-17 in Wales, up from around £110,000 in 2012-13 (earliest data available). Using the OBR's general UK house price forecast (March 2017) this is estimated to rise to £139,000 in 2018-19.
- A20. Figures one and two show that both transactions and prices have moved sharply over recent years, indicating the potential for revenue volatility, making forecasting tax revenue challenging.
- A21. In addition to the average house price, the spread of transactions across the price distribution is also important. This is especially so for progressive tax systems – such as stamp duty land tax and LTT – where tax rates are higher for high-priced properties than for low-priced properties: the proportion of high-priced transactions has a greater impact on revenues.
- A22. Figure three shows the distribution of prices for residential transactions in Wales in 2015-16 (latest data available). This shows that just over 75% of transactions were below £200,000; therefore most transactions were in the lower end of the price distribution. However, there was a long tail of high priced transactions, with fewer than 10% of transactions above £300,000 and just over 2% priced £450,000 or more.

A23. With price growth forecast over the next few years, these percentages will change as more properties move into the higher price bands. However, the overall profile of residential property transactions in Wales is unlikely to alter much over the next few years.

**Figure A3: Residential property price distribution in Wales, 2015-16**



Source: Calculations based on HMRC administrative datasets

A24. The tax rates for residential LTT have been set to take into account the features of the Welsh residential property market, as outlined above. We have used the principle that tax should be levied more progressively with respect to house prices and the prevailing stamp duty land tax rates. The tax rates for the main rates of residential transactions are shown in table A1, below.

**Table A1: LTT residential tax rates**

<b>Price threshold</b>	<b>LTT rate</b>
£0-£150k	0%
£150k-£250k	2.5%
£250k-£400k	5.0%
£400k-£750k	7.5%
£750k-£1.5m	10.0%
£1.5m-plus	12.0%

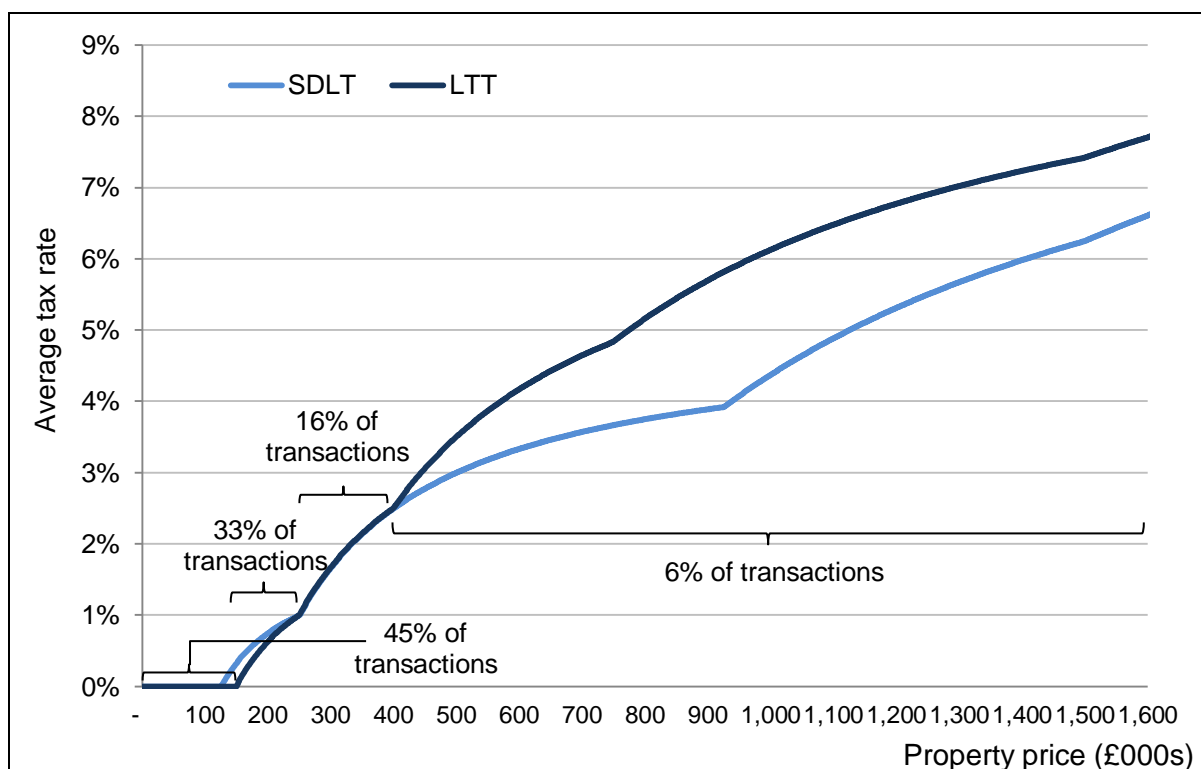
- A25. As LTT is replacing stamp duty land tax, the impact of adopting these rates is most clearly articulated by comparison to the current stamp duty land tax rates, which are shown for reference in table 2 below.

**Table A2: stamp duty land tax residential tax rates**

<b>Price threshold</b>	<b>SDLT rate</b>
£0-£125k	0%
£125k-£250k	2%
£250k-£925k	5%
£925k-£1.5m	10%
£1.5m-plus	12%

- A26. To increase the progressivity of the residential rates, the property price at which the tax becomes payable is higher for LTT than for stamp duty land tax. Adjusting the rates and bands for higher-priced transactions maintains revenue. To help support a smooth transition to the new tax, the difference between LTT rates and the current stamp duty land tax rates has been kept relatively small.
- A27. As both stamp duty land tax and LTT use marginal tax rates – where the relevant tax rate only applies to the value of the property which is within the band – it is not straightforward to compare tax systems by looking at the marginal rates.
- A28. An alternative way to compare tax rates is by property price and the average tax rate. The average tax rate is the total amount of tax divided by the property price. This is shown in the below figure.

**Figure A4: Average tax rates of residential SDLT and LTT**



- A29. The figure shows both stamp duty land tax and LTT have a zero average tax rate below £125,000, as the zero rate thresholds for both taxes applies here. In Wales, it is forecast that around 30% of transactions will be in this band in 2018-19 when LTT rates will first apply.
- A30. For purchase prices between £125,000 and £150,000, stamp duty land tax would be liable up to a maximum of £500. With LTT, no tax will be liable. As the average first time buyer price in Wales is forecast to be £139,000 in 2018-19, no LTT will be payable at the average first time buyer price, whereas £280 would be payable under stamp duty land tax.
- A31. From £150,000, LTT becomes liable. In 2018-19, it is forecast that 45% of residential transactions will not be liable for LTT. This means that the number of transactions paying no tax will increase by around 7,000 or 50% compared to stamp duty land tax.
- A32. For residential transactions between £150,000 and £250,000, the tax liable under LTT will be lower than stamp duty land tax, despite the higher tax rate of 2.5%. This is because the tax rate is only applicable on the value above £150,000. For example, at the forecast average house price of £160,000 the LTT payable will be less than stamp duty land tax. The LTT due will be £250 (2.5% of the difference between £150,000 and £160,000), whereas stamp duty land tax would be £700 (2% of the difference between £125,000 and £160,000).
- A33. For all transactions between £250,000 and £400,000 the tax liability will be the same for LTT and stamp duty land tax. For example, for a transaction of £250,000 the tax due would be £2,500 for both LTT and stamp duty land tax. Similarly, a purchase of £400,000 would be taxed at £10,000 in both cases.

- A34. For transactions from £400,000 upwards, the tax liability will be higher under LTT than stamp duty land tax. In 2018-19 this is forecast to affect the top 6% of transactions. For a transaction at £500,000, the tax liability under LTT will be £17,500 compared to £15,000 under stamp duty land tax. Transactions from £500,000 upwards are expected to account for 3% of all transactions in 2018-19.
- A35. The top 1% of transactions is forecast to be priced at £650,000 and above. At £650,000 the LTT due will be £28,750 compared to £22,500 under stamp duty land tax. From £925,000 upwards, the difference between stamp duty land tax and LTT is £17,500.
- A36. Overall in 2018-19 it is estimated that 69% of transactions which would have been taxed under stamp duty land tax (25,000 transactions) will pay less tax under LTT and 8% (3,000 transactions) will pay more.
- A37. Changes in tax rates are expected to affect both prices and transactions. The impact will be counter to the change in the tax liability between stamp duty land tax and LTT. For example, if LTT is lower than stamp duty land tax, then both prices and transactions are expected to be higher than they otherwise would have been, and vice versa.
- A38. The effect on prices and transactions of the change in tax rates from stamp duty land tax to LTT is calculated using OBR estimates. These are based on the behavioural impact of the reforms and changes to the stamp duty land tax rates in December 2015.<sup>28</sup> The effect of the tax change is calculated at each £5,000 interval across the whole residential price distribution as it varies across the price distribution.
- A39. Between £125,000 and £250,000, where LTT is lower than stamp duty land tax, the LTT rates are expected to increase prices and transactions. The estimated effect is small for both prices and transactions and the overall impact on revenue is less than £0.5m. There is no effect on prices and transactions between £250,000 and £400,000 as the tax due is the same with LTT and stamp duty land tax.
- A40. From £400,000 upwards, LTT is higher than stamp duty land tax. As a result the effect is to slightly reduce the number of transactions and prices. The reduction in transactions is estimated to be less than 0.1% of the total number of transactions in 2018-19. However, unlike low-value transactions, these transactions generate a significant proportion of tax so the combined transaction and price effect is estimated to reduce revenues by approximately £3m. Overall the net effect of increasing the tax rates for properties worth more than £400,000 is to increase revenues by around £10m, even once the negative effects on transactions and prices are included.
- A41. Overall in 2018-19, the residential LTT rates are expected to generate revenues of £145m before considering behavioural effects. Those effects reduce this total by £3m.

---

<sup>28</sup> See OBR (2015) <http://budgetresponsibility.org.uk/download/stamp-duty-land-tax-policy-costing-elasticities-december-2014/>



- A42. There is anticipated to be some forestalling as a result of announcing the rates and bands ahead of April 2018. This form of behavioural change should only affect 2018-19, as transactions are expected to be brought forward into 2017-18 in order to apply the stamp duty land tax rates and use the familiar HMRC administration system. This effect is expected to be neutral in budgetary terms as the reduction in LTT revenues will be offset by extra stamp duty land tax revenue in 2017-18. It is assumed that the UK Government will reimburse the Welsh Government with these additional stamp duty land tax revenues resulting from forestalling.
- A43. Taking all these factors into account, the net revenue from the residential main rates is forecast to be £142m in 2018-19 (table A3).

**Table A3: LTT residential main rates revenue estimate for 2018-19**

<b>Element</b>	<b>£m</b>
Before behavioural effects	145
Behavioural effect on transactions and prices	-3
<b>Net</b>	<b>142</b>

### **Higher tax rates for additional residential properties**

- A44. Under both stamp duty land tax and LTT, a higher rate will apply when someone purchases an additional residential property. The higher rates for stamp duty land tax were introduced in April 2016 – there is therefore currently limited evidence about the effect of the higher rates in Wales. The LTT higher rate will be an additional 3% on top of the prevailing main residential tax rates – the same as the current higher rate for stamp duty land tax. However, the total tax paid on additional residential properties will be different to that paid under the stamp duty land tax regime as the higher rates are in addition to the main rates of tax, which are different under the new LTT regime from those applied under stamp duty land tax (see tables A1 and A2 above).
- A45. For additional residential property transactions up to £400,000, the LTT due will be the same or less than stamp duty land tax and for transactions at £400,000 and above, the LTT due will be higher than stamp duty land tax.
- A46. For example, for an additional residential property transaction liable for the higher rates at £160,000 the LTT due will be £5,050, compared to £5,500 under stamp duty land tax. For an additional residential property transaction at £500,000, the LTT due will be £32,500 compared to stamp duty land tax of £30,000.
- A47. In 2018-19, the higher rates are estimated to generate revenues of £63m, taking account of some small behavioural effects but before considering refunds.
- A48. The additional tax paid under the higher rates can be refunded if the purchaser sells what was their main residence and the property which the higher rates relate to becomes their main residence within 36 months of purchasing the property (the same as with stamp duty land tax). It is estimated that 15% of each year's revenues from the higher rates will be refunded over the following 36 months. Therefore, of the revenue collected in 2018-19, it is estimated that £9m will be refunded over the following three years. This is accounted for in 2018-19 as it relates to the

transactions which occurred in that year. The overall net revenue from the higher rates is therefore estimated to be £53m in 2018-19 (table A4).

**Table A4: LTT residential higher rates revenue estimate for 2018-19**

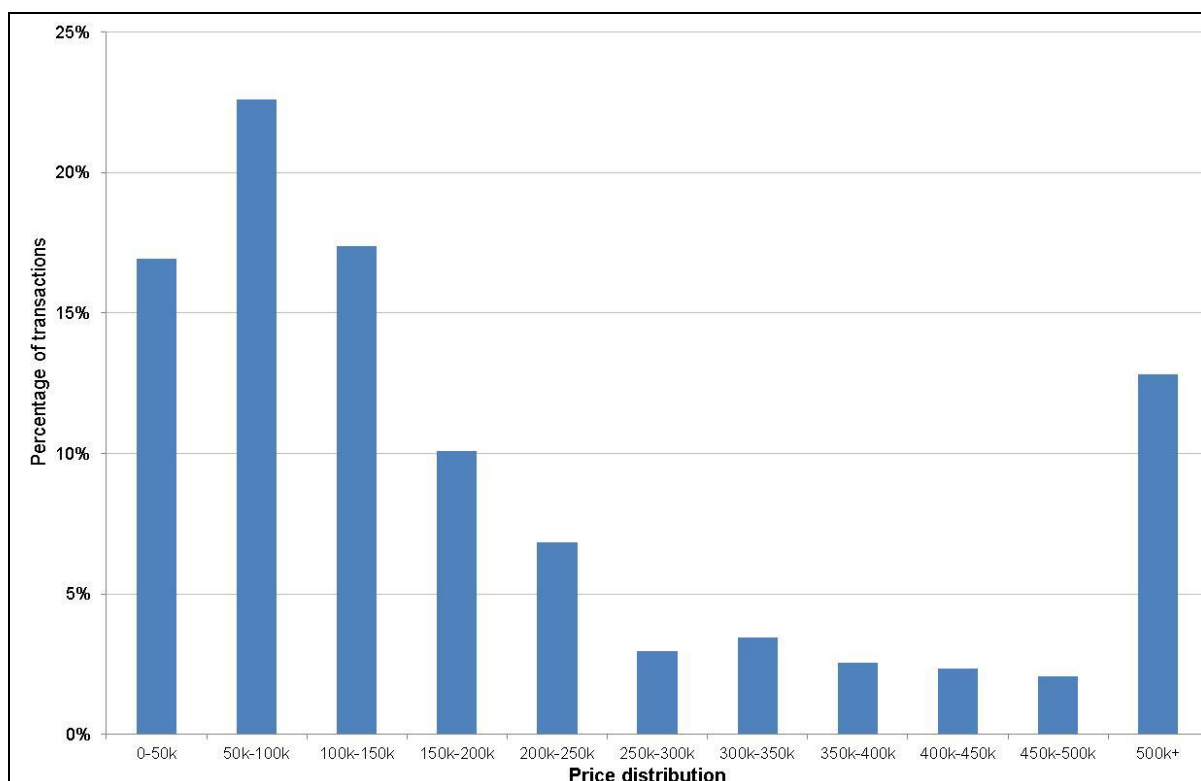
<b>Element</b>	<b>£m</b>
Revenue before refunds	63
Refunded revenue	-9
<b>Net revenue</b>	<b>53</b>

(May not sum due to rounding)

### **Non-residential rates**

- A49. There is a high degree of uncertainty in the economic outlook for commercial activity, which is likely to reduce business investment, including the transfer of property and land. This is a UK-wide issue but needs to be borne in mind when considering tax rates in Wales, especially those which apply to the acquisition and leasing of property and land.
- A50. As with residential rates, the number of transactions and property prices are important considerations for setting non-residential LTT rates. There are two further considerations which are of particular importance – the price distribution of non-residential transactions and the level of integration the Welsh economy has with the rest of the UK.
- A51. The price distribution of non-residential transactions has two distinct features. There is a large share of relatively low-priced transactions, most of which are below the stamp duty land tax threshold of £150,000. This in part reflects the composition of transactions, many of which will be new leasehold properties with some payment or premium paid upfront, in addition to the regular lease rent payment. In most instances, the premium is likely to be relatively low in value. This large share of relatively low-value transactions will also reflect the fact that a large proportion of businesses are small and medium-sized and tend to operate from relatively small properties.
- A52. The second distinct feature is the large share of transactions which are priced at £500,000 or more. Of those priced £150,000 or more – the current stamp duty land tax non-residential tax threshold – 30% of transactions in Wales in 2015-16 were priced at £500,000 or more. Therefore, very high-priced property transactions represent a significant share of the market and will also represent a large share of tax revenue. This is different to residential transactions in Wales, where the vast majority of transactions are at the lower end of the price distribution.

**Figure A5: Price distribution of non-residential transactions in Wales, 2015-16**



Source: Calculations based on HMRC administrative datasets

NB Transactions exclude new leasehold transactions where only tax is paid on leasehold rents

A53. The Welsh economy is highly-integrated with the rest of the UK's economy, which means businesses investing in the UK can be more mobile and geographically indifferent to which UK nation or English region they are located in. Therefore, significant changes to taxes in one area could act as a disincentive to investment, with businesses choosing to locate in a similar or neighbouring area which levies a lower tax. This implies there are limits to which LTT and stamp duty land tax rates can diverge for non-residential transactions without having a significant impact on the market, revenues and the wider economy.

A54. The tax rates for non-residential LTT take into account the features of the Welsh economy and the principle that the tax should be levied progressively with respect to property values and considering the prevailing stamp duty land tax rates. The main rates for non-residential LTT are shown below.

**Table A6: LTT non-residential property main rates**

Price threshold	LTT rate
£0-£150k	0%
£150k-£250k	1%
£250k-£1m	5%
£1m-plus	6%

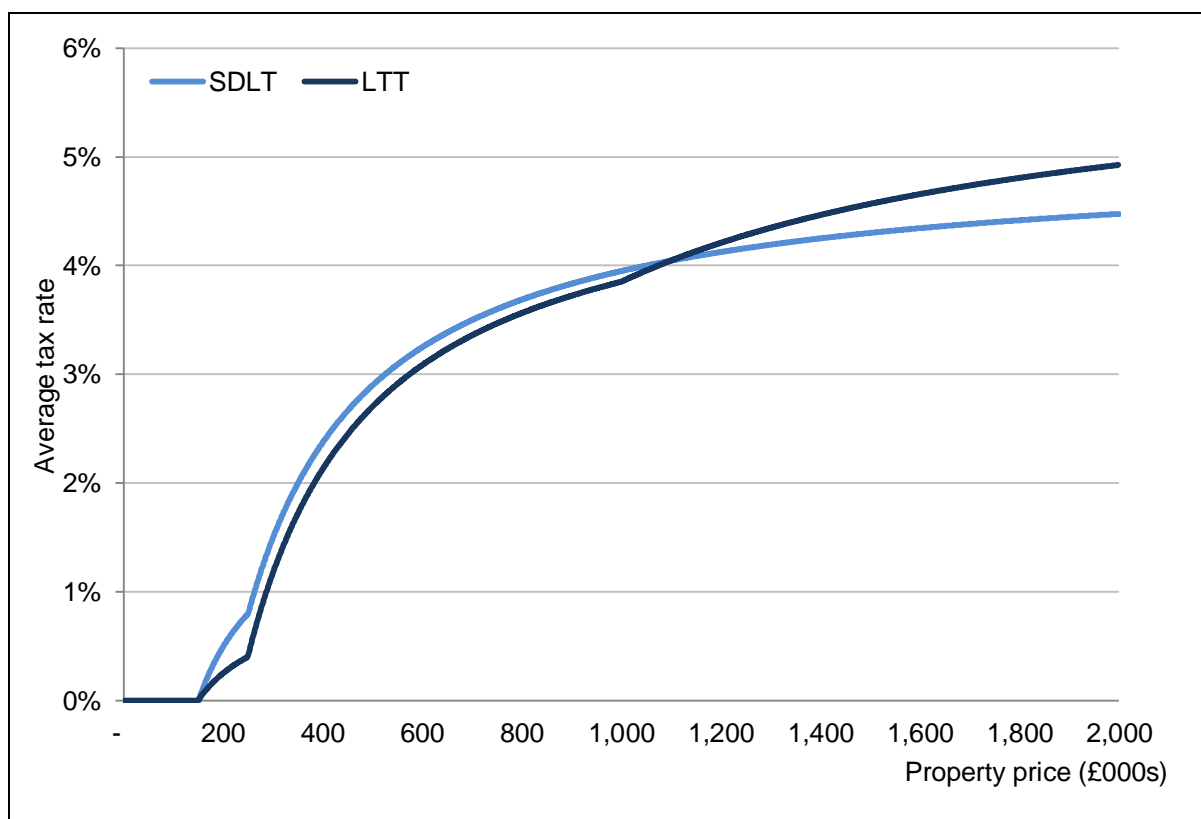
A55. The main rates for non-residential stamp duty land tax, for comparison, are below:

**Table A7: Stamp duty land tax non-residential property main rates**

<b>Price threshold</b>	<b>SDLT rate</b>
£0-£150k	0%
£150k-£250k	2%
£250k-plus	5%

- A56. Adopting a lower tax rate than stamp duty land tax for the first band where tax is payable increases the progressivity of the LTT non-residential rates. To maintain revenue, a new top band has been added. Reflecting the integration of the Welsh economy with the rest of the UK economy and to support a smooth transition to the new tax, the degree of difference between non-residential LTT rates and the stamp duty land tax rates is relatively small. The tax changes also achieve consistency with the starting threshold for residential transactions and the starting rate and threshold for non-residential lease rents.
- A57. To assist in comparing the LTT tax rates with the relevant stamp duty land tax rates, the figure below shows the average tax rate paid by property price.

**Figure A8: Average tax rates of residential stamp duty land tax and LTT**



- A58. Under both stamp duty land tax and LTT, no tax is paid on non-residential freehold, assignment transfers or leasehold premium transactions under £150,000. It is estimated around 60% of taxable non-residential transactions will be below the £150,000 threshold in 2018-19.
- A59. As LTT starts with a lower tax rate, all transactions from £150,000 up to £1.1m will pay less tax – by up to £1,000 – compared to stamp duty land tax. Therefore around 30% of taxable transactions will pay less under LTT than stamp duty land tax. For example a £250,000 transaction would have a tax liability of £2,000 under stamp duty land tax but will only be taxed £1,000 under LTT and a £500,000 transaction will see its tax liability fall from £14,500 under stamp duty land tax to £13,500 under LTT.
- A60. From £1.1m, LTT will be higher than stamp duty land tax. It is estimated that less than 10% of non-residential transactions in 2018-19 in Wales will be paying more tax compared to stamp duty land tax. For example, a £2m transaction would have a tax liability of £89,450 under stamp duty land tax and will pay £98,440 under LTT; and a £5m transaction would see its tax liability rise from £239,500 under stamp duty land tax to £278,500 under LTT.
- A61. As with changes to the residential tax rates, increases in tax rates from stamp duty land tax to LTT will reduce both prices and the number of non-residential transactions, or vice versa where tax rates decrease.

- A62. The size of these effects is estimated using the OBR's behavioural effects<sup>29</sup> along with an estimate of the tax change across the non-residential price distribution.
- A63. For transactions where there is a tax decrease from stamp duty land tax to LTT (between £150,000 and £1.1m) both the price and number of these transactions will increase. However, the estimated effects are very small for both prices and transactions and the overall effect on revenue is less than £0.1m.
- A64. For transactions where there is an increase in tax, the effects work in the opposite direction, reducing prices and the frequency of transactions. Although there are relatively few transactions which will have increased tax, because they are high value, the tax liabilities will also be relatively high so the impact on revenues of fewer transactions is likely to be greater. It is estimated the combined transaction and price effect will reduce revenues by around £7m. Overall, the net effect of increasing the tax rates for property worth more than £1.1m is to increase revenues by around £5m even once the negative effects on transactions and prices are included.
- A65. Overall in 2018-19, the non-residential LTT rates are expected to generate revenues of £71m before considering behavioural effects. The effect of the change in tax between stamp duty land tax and LTT on both prices and transactions is estimated to decrease this revenue by £7m.
- A66. There is expected to be some forestalling as a result of announcing the rates and bands ahead of April 2018. This form of behavioural change is expected to be limited to 2018-19, as transactions are brought forward into 2017-18 to apply the stamp duty land tax rates and use the HMRC administration system. This effect is expected to be neutral in budgetary terms as it is assumed the UK Government will reimburse the Welsh Government with the extra revenues in Wales it receives in 2017-18 as a result of the forestalling.
- A67. The overall net revenue from the non-residential main rates is forecast to be £64m in 2018-19 (table A9).

**Table A9: LTT non-residential revenue estimate for 2018-19**

Element	£m
Before behavioural effects	71
Behavioural effect on transactions and prices	-7
<b>Net</b>	<b>64</b>

### **Non-residential lease rent**

- A68. A separate rate applies to lease rents. The value of lease rents is assessed by adding the value over the duration of the lease, discounting future years to derive a net present value on which the tax is charged.
- A69. The lease rent is the smallest element of the LTT tax, with around 2,500 transactions (excluding relieved transactions) estimated for 2018-19. This element

---

<sup>29</sup> See OBR (2017) [http://budgetresponsibility.org.uk/docs/dlm\\_uploads/SDLT-elasticities.pdf](http://budgetresponsibility.org.uk/docs/dlm_uploads/SDLT-elasticities.pdf)

of stamp duty land tax has generated revenue of between £5m and £10m in Wales over the recent years.

A70. The LTT rates for non-residential lease rent net present value (NPV) are:

**Table A10: LTT non-residential property lease rent NPV rates**

NPV threshold	LTT rate
£0-£150k	0%
£150k-£2m	1%
£2m-plus	2%

A71. The stamp duty land tax rates for comparison are:

**Table A11: SDLT non-residential property lease rent NPV rates**

NPV threshold	SDLT rate
£0-£150k	0%
£150k-£5m	1%
£5m-plus	2%

A72. To reflect the property market in Wales, the top LTT rate will apply to a lower NPV than the top stamp duty land tax rate. As the non-residential lease rate applies to a fairly small number of transactions overall and lease rates are generally lower in Wales than in parts of England, such as London, very few transactions would pay the top rate of tax in Wales if it remained at the same value as stamp duty land tax.

A73. Like stamp duty land tax, no tax will be paid on transactions below £150,000. It is estimated in 2018-19 around half of transactions will be below £150,000 and not liable for tax.

A74. Between £150,000 and £2m, the tax liability is the same for LTT and stamp duty land tax. From £2m, the tax due will be higher under LTT than under stamp duty land tax. It is estimated there will be fewer than 100 transactions in Wales with an NPV of £2m or more in 2018-19.

A75. The effects on the market are estimated using the OBR's behavioural effects<sup>30</sup> along with an estimate of the tax change across the non-residential price distribution. The combined effect on transactions and prices is estimated to be very small. As the tax change is very modest, this is expected to reduce revenues by £0.1m, mainly through the small negative effect on the number of very high-priced leasehold transactions.

A76. The revenue forecast from the LTT non-residential lease rents is estimated to be £7m before consideration of any behavioural effects. The behavioural effects for this

---

<sup>30</sup> See OBR (2017) [http://budgetresponsibility.org.uk/docs/dlm\\_uploads/SDLT-elasticities.pdf](http://budgetresponsibility.org.uk/docs/dlm_uploads/SDLT-elasticities.pdf)

element of the tax – in terms of prices, transactions and forestalling – are all expected to be very small due to the very few transactions which are liable to a different amount of tax under LTT compared to stamp duty land tax. The overall revenue in 2018-19 is therefore unchanged, at an estimated £7m.

**Table A12: LTT non-residential revenue estimate for 2018-19**

Element	£m
Before behavioural effects	7
Behavioural effect on transactions and prices	<-1
<b>Net</b>	<b>7</b>

(May not sum due to rounding)

## Profile of revenue

A77. Forecasts of LTT revenues for the next three years are shown in the table below. This is estimated using the latest OBR (March 2017) UK determinants for residential and non-residential prices and transactions over the forecast period, net of forestalling and other behavioural effects and on an accrual basis.

**Table A13: Land transaction tax revenue forecast**

	2018-19	2019-20
<b>Residential main rates (£m)</b>	142	161
<b>Residential higher rates (£m)</b>	53	56
<b>Non-residential (£m)</b>	71	74
<b>Total (£m)</b>	<b>266</b>	<b>291</b>

NB Non-residential includes revenue from lease rent rates.

- A78. For more details about the forecast please see the accompanying draft Budget documents by the Welsh Government's independent assurer of the tax revenue forecast.
- A79. The forecasts and impacts of LTT have been estimated relative to the current stamp duty land tax rates. If stamp duty land tax rates change ahead of April 2018, the impact of LTT; the revenue generated and the block grant adjustment are also likely to change. This may require a change to LTT tax rates before April 2018.

## Landfill Disposals Tax

- A80. Landfill disposals tax (LDT) is a tax on the disposal of waste to landfill, charged by weight. It is payable by landfill site operators, who pass on these costs to waste operators through their gate fees.
- A81. It will replace landfill tax in Wales in April 2018, enabling public services in Wales to continue to receive the benefit of the revenues raised by the tax. In common with landfill tax, it aims to ensure the landfill disposal method is properly priced to reflect its environmental cost and to promote a more sustainable approach to waste management. Its devolution offers a further lever with which to support Welsh



Government priorities and policies, including the ambitious goal of zero waste<sup>31</sup> and our efforts to reduce carbon emissions and tackle climate change.

- A82. Remaining consistent with the UK and Scotland, there will be a lower and a standard rate of tax, which will apply to disposals at authorised landfill sites. The lower rate will apply to qualifying materials as defined in the Landfill Disposals Tax (Wales) Act 2017 and the standard rate will apply to all other materials. In addition, the Landfill Disposals Tax (Wales) Act 2017 introduced a third rate of tax for waste disposed of at places other than authorised landfill sites – the unauthorised disposals tax rate.
- A83. The approach to setting tax rates has been guided by the principles in the tax policy framework<sup>32</sup> and the objective to reduce landfill disposals in Wales, as required by section 91 of the Landfill Disposals Tax (Wales) Act 2017. Delivering stability and certainty for taxpayers and the wider waste industry, noting the desire of business to be able to plan ahead and make investments has also been a key factor in setting the rates. The principle that there should be no less revenue available to fund public services has also been applied.
- A84. The approach to setting tax rates was explored with stakeholders as part of the 2015 consultation *Developing a landfill disposals tax* and in further engagement events. These events involved landfill site operators, Natural Resources Wales, the Welsh Local Government Association and the LDT Technical Experts Group, which has representation from tax professionals and the wider waste industry. Stakeholder views were also captured during the passage of the Landfill Disposals Tax (Wales) Act 2017.

### **Lower and standard tax rates**

- A85. Since the introduction of landfill tax in 1996, the standard tax rate has risen from £7 per tonne to £86.10 per tonne in 2017-18. The lower tax rate has remained broadly constant - it was £2 per tonne when the tax was introduced and it is currently £2.70 per tonne. In 2014, the UK Government confirmed the standard and lower tax rates would be maintained in real terms (by the rate of inflation as measured by the Retail Price Index). This approach is expected to continue until at least 2018-19. The Scottish Government has kept its landfill tax rates consistent with the UK Government's landfill tax since its introduction in 2015.
- A86. The amount of waste disposed of at landfill sites in Wales has fallen significantly over the last decade as re-use, recycling, composting and incineration has increased. As figure A14 shows; the decrease has been particularly significant for waste subject to the standard rate of tax, which provides the vast majority of landfill tax revenues. Qualifying material, which is subject to the lower tax rate, has fallen much more slowly<sup>33</sup>.

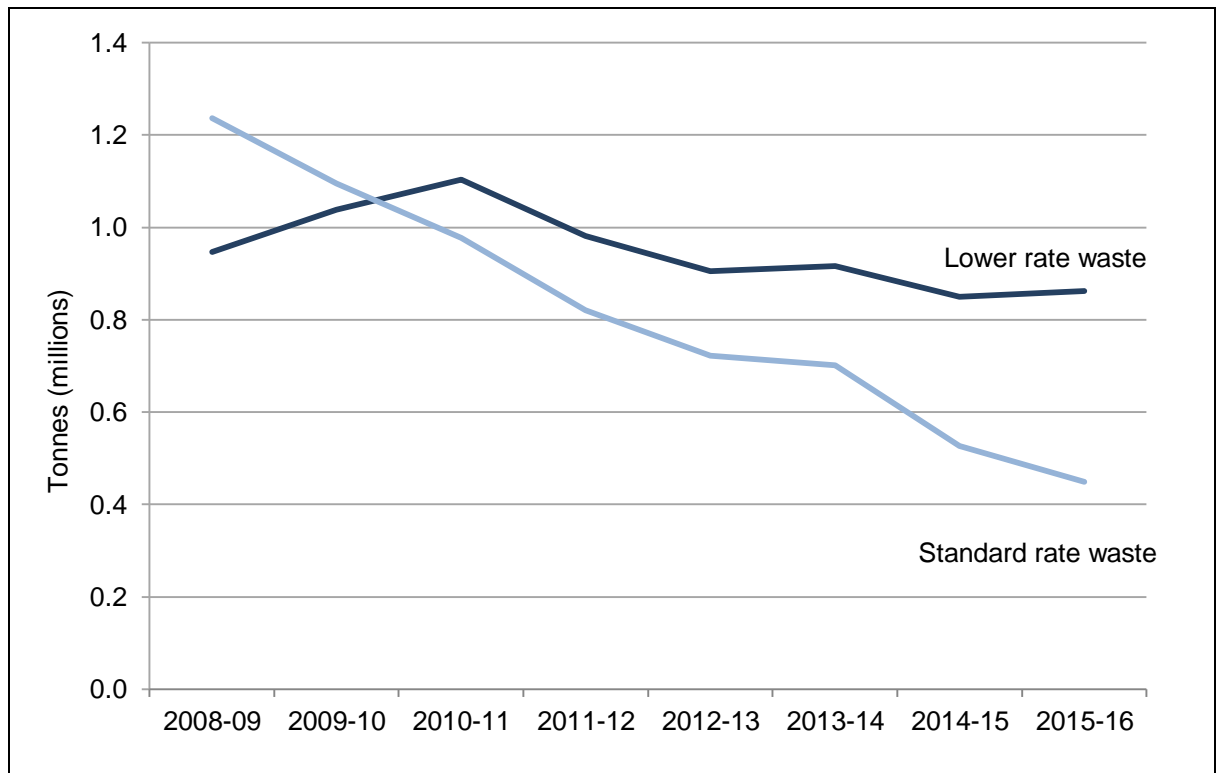
---

<sup>31</sup> <http://gov.wales/docs/desh/publications/100621wastetowardszeroen.pdf>

<sup>32</sup> Available at <http://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

<sup>33</sup> Landfill site operators do not submit tax returns which separately identify waste disposed of in Wales. Therefore the split in standard and lower rate waste has been estimated using data from Natural Resources Wales.

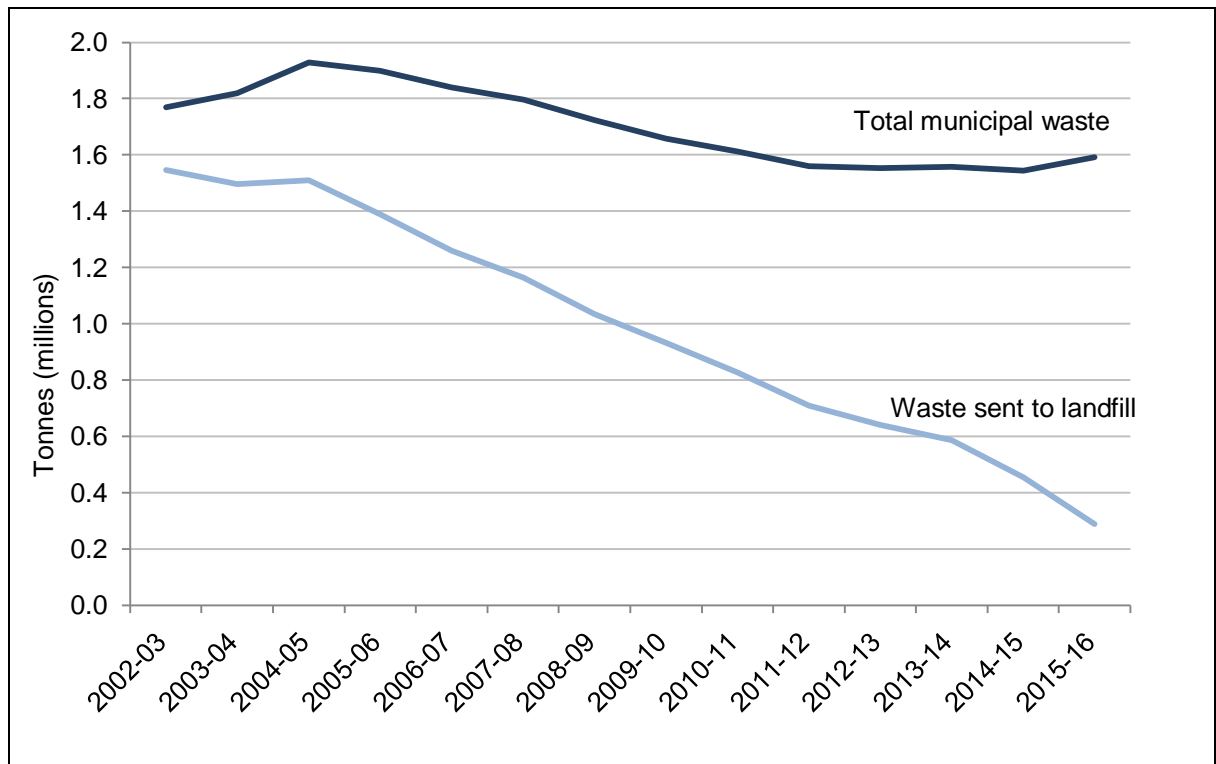
**Figure A14: Estimates of waste landfilled in Wales, by tax rate**



Source: Welsh Government estimates using data from Natural Resources Wales

A87. The decrease in standard rate material has been driven, in large part, by changes in local authority waste management practices. Local authorities have a statutory target to re-use, recycle or compost 70% of the waste they collect by 2024-25. As figure A15 shows, the amount of waste local authorities send to landfill has been falling rapidly over the last decade.

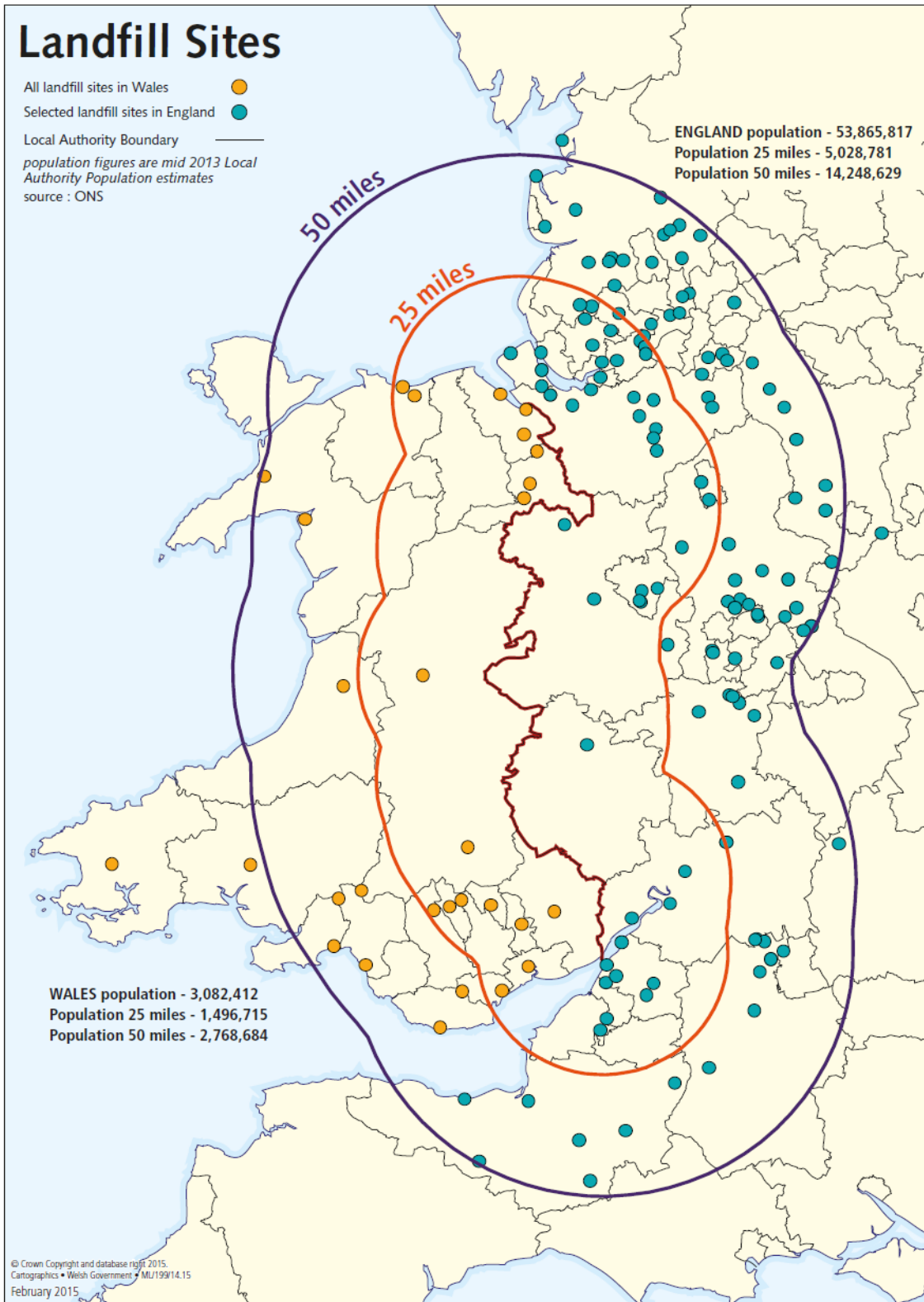
**Figure A15: Local authority municipal waste, Wales**



Source: StatsWales

- A88. Waste sent to landfill in Wales is expected to continue falling in future. Local authorities are likely to gradually increase the amount of waste that is re-used, recycled and composted in order to meet statutory targets. In addition, increased incineration capacity will become available in North and South Wales, either through the expansion of existing facilities or the opening of new facilities. This suggests that large quantities of waste, largely taxed at the standard rate, will be diverted away from landfill over the coming years.
- A89. A key priority for the Welsh Government is a smooth transition to LDT in 2018. Any changes to tax rates can be expected to have behavioural effects. A specific area of concern among stakeholders was the impact on business if there was a material difference between the tax rates charged in Wales and England, with several highlighting the potential for waste to cross the border if it was more economically advantageous to travel further to dispose of it.
- A90. The majority of landfill sites in Wales are within 25 miles of the Wales-England border and there are more landfill sites within 25 miles of the border on the English side.

Figure A16: Landfill Sites and Populations – Wales/England Border<sup>34</sup>



<sup>34</sup> Location of landfill sites based on HMRC data 2012  
[http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?\\_nfpb=true&\\_pageLabel=pageExcise\\_ShowContent&id=HMCE\\_PROD\\_009941&propertyType=document](http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageExcise_ShowContent&id=HMCE_PROD_009941&propertyType=document)

- A91. Analysis of haulage rates suggests that a relatively small differential of less than £10 in rates between Wales and England could introduce a significant financial incentive to move waste across borders.
- A92. A reduction in LDT rates may encourage greater landfill disposals in Wales, which is not consistent with our aim to reduce landfill disposals. An increase in waste being disposed of in Wales would also have wellbeing and environmental impacts for communities. For example, it would:
- Increase waste, including potentially hazardous waste, travelling further distances on major roads and through residential areas;
  - Increase disruption for residents near landfill sites and waste transfer stations;
  - Increase the carbon footprint of waste disposal;
  - Increase pressure on existing landfill capacity, with potential calls for new landfill sites to be developed.
- A93. Conversely, an increase in LDT rates may encourage less waste to be disposed of to landfill in Wales than if landfill tax were to continue to apply, reducing the amount of revenue collected. This is inconsistent with our principle that there should be no less revenue available to fund public services.
- A94. Stakeholders have suggested that the standard rate has reached its optimum level where landfilling these materials is the most expensive, and therefore least attractive, means of waste disposal. Increasing tax rates may incentivise unauthorised disposals of waste. Some stakeholders have made the case for increasing the lower rate to encourage greater recycling, re-use and recovery of these materials but the majority wanted consistency with UK rates to minimise the risk of waste tourism, including, at least initially, for the lower rate.
- A95. Engagement with taxpayers and the waste industry has also indicated it will be helpful for them to know rates in advance in order to inform their business plans and investments, in light of this, the rates will be set for two years.
- A96. In summary, for the first two years of LDT, the standard and lower rates are intended to mirror the rates for the UK Government's landfill tax.
- A97. Table A17 shows the rates for 2018-19. The UK Government is yet to announce its rates for landfill tax in 2019-20. Therefore an assumed rate is given below, which increases the 2018-19 tax rates by the OBR's forecast for RPI. This is in line with the UK Government's stated policy on setting landfill tax rates.

**Table A17: Landfill disposals tax rates (rate per tonne)**

<b>Rate</b>	<b>2018-19</b>	<b>2019-20 <i>Assumed</i></b>
Standard	£88.95	£91.70
Lower	£2.80	£2.90

- A98. During the development of landfill disposals tax, there was a clear message from stakeholders about the need to implement a tax which provides consistency, certainty and stability for businesses. This has been the driving factor behind the decision to set rates that are consistent with the rest of the UK. By setting rates that

are consistent with landfill tax, public services in Wales will continue to benefit from tax revenue, while ensuring the risk of the movement of waste across borders is reduced.

- A99. As the proposed tax rates are consistent with landfill tax, there is not expected to be any significant change in the amount of waste disposed of at authorised landfill sites in Wales. Revenue from landfill disposals tax is expected to continue to fall as an increasing amount of waste is diverted away from landfill in future.

**Table A18: Landfill disposals tax revenue forecast**

	2018-19	2019-20	2020-21	2021-22
Landfill disposals tax (£m)	28	26	23	22

### Unauthorised disposals

- A100. Tax will also be charged on waste disposed of at places other than an authorised landfill site – known as unauthorised disposals. Any person who makes the disposal or who knowingly causes or knowingly permits the disposal to be made, will be liable to the tax.
- A101. Taxing unauthorised disposals is intended primarily as a deterrent. At September 2016, Natural Resources Wales reported that there were 60 known illegal waste sites in Wales with approximately 55,000 tonnes of waste across these sites.
- A102. This policy has been developed to dovetail with existing environmental regulations and complement wider Welsh Government initiatives including its approach to tackling fly-tipping.
- A103. Our approach aims to bring benefit to the communities who are affected by unauthorised disposals by seeking to deter this activity in future. It also aims to minimise opportunities to evade tax and thus protect revenue for investment in public services in Wales.
- A104. It intends to ensure unauthorised disposals are more financially risky and so a less attractive option for those tempted to ignore their environmental obligations and evade tax. It therefore seeks to realign the balance of risk, so that the consequences of making unauthorised disposals outweigh the perceived benefit of evading tax.
- A105. Consistent with the purpose of the tax as a lever to influence positive environmental behaviours this approach seeks to encourage individuals to make efforts to take up sustainable methods of waste disposal or, as a minimum, to take waste to a registered landfill site and pay a fair share of tax.
- A106. The unauthorised disposals rate will be set at 150% of the standard rate.

**Table A19: Unauthorised disposals tax rate (rate per tonne)**

	<b>2018-19</b>	<b>2019-20</b> <i>Assumed</i>
Unauthorised disposals rate	£133.45	£137.55

- A107. Setting the rate at 150% provides a suitable financial deterrent. It ensures a level of fairness, proportionality, and transparency. It reflects that in normal circumstances registered landfill site operators bear administrative costs relating to registration, filing, paying and record-keeping and these would have been avoided along with penalties and interest, which would have been applied to a registered landfill site operator for failure to do these. Setting the rate at 150% therefore helps to create a level playing field for legitimate waste businesses. The unauthorised disposals rate also recognises the compliance and enforcement costs of the Welsh Revenue Authority (WRA).
- A108. The introduction of a separate tax rate for unauthorised disposals is aimed primarily at deterring unauthorised disposals rather than raising tax revenue. The WRA will be responsible for determining the level of compliance and enforcement activity it undertakes in relation to unauthorised disposals. It is expected that its approach will be proportionate and cost-effective and be considered in the context of the wider initiatives being taking forward by the Welsh Government, NRW and local authorities to tackle unauthorised disposals. It is anticipated the WRA's focus will be on larger unauthorised waste sites and may also extend to regular and persistent fly-tippers where significant tonnages of wastes have been deposited and tax evaded.
- A109. An industry report<sup>35</sup> in 2015 highlighted that every £1 spent on waste crime enforcement is expected to return between £3.60 and £5.60 to government. This clearly makes the enforcement of these powers a valuable tool and one which could be a worthwhile investment in the long term. The WRA's operating costs include costs for compliance and enforcement activity.
- A110. LDT will only apply to unauthorised disposals made after the introduction of the tax on 1 April 2018 – at this stage, levels of non-compliance are not known and so compliance and enforcement costs and the level of potential revenue cannot be quantified. Potential revenue from the unauthorised disposals rate is therefore not included in the LDT revenue forecast.
- A111. Tax collected from unauthorised disposals will support the delivery of public services in Wales, with some revenue allocated to NRW and local authorities where they have been instrumental in assisting the investigation and pursuit of tax and to incentivise future action.
- A112. An evaluation framework is being developed to assess the impact of this new approach and the implementation of the unauthorised disposals rate will be monitored closely.

---

<sup>35</sup> [http://www.esauk.org/esa\\_reports/ESAET\\_Waste\\_Crime\\_Tackling\\_Britains\\_Dirty\\_Secret\\_LIVE.pdf](http://www.esauk.org/esa_reports/ESAET_Waste_Crime_Tackling_Britains_Dirty_Secret_LIVE.pdf)