



# The third annual report by Welsh Ministers about the implementation and operation of Part 2 (Finance) of the Wales Act 2014

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Laid before the National Assembly for Wales and presented to  
Parliament, pursuant to Section 23 of the Wales Act 2014

December 2017

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## Foreword



In a few months, the first Welsh taxes for almost 800 years will be introduced. They will be managed and administered by the Welsh Revenue Authority, the first non-ministerial government department created by the Welsh Government. These are important changes, as Wales takes greater responsibility for its finances and seeks to use its tax levers to help support its wider policy ambitions.

This past year has seen progress on many fronts: Royal Assent for the legislation needed to introduce land transaction tax and landfill disposals tax; the establishment of the Welsh Revenue Authority; and the development of new budgetary procedures for the National Assembly. Last December I reached agreement with the UK Government on a fiscal framework, which sets out the funding arrangements for Wales after March 2018. This has introduced a long-term funding floor, for providing a fairer basis from which Wales can grow and develop to meet the needs of its citizens. In turn, this has made it possible to begin working towards the introduction of Welsh rates of income tax in April 2019.

With the introduction of Welsh rates of income tax, £5bn of devolved and local tax revenue will be raised in Wales to spend on Welsh public services. This provides an opportunity to develop our own distinctive approach to tax policy, which I announced in June. The tax policy framework seeks to deliver a regime which is clear, stable, progressive and robust, and central to this will be engagement with taxpayers, tax experts, businesses, the public sector and the third sector. The response from citizens to the call for new tax suggestions has shown there is a real interest in how we can use tax as a means to deliver some of our wider objectives for Wales - such as tackling an environmental or social concerns, creating jobs and boosting growth, or helping to deliver crucial public services or infrastructure - or a combination of these.

Many have given their time and expertise to advise the Welsh Government in its preparations for tax devolution. I am grateful for their helpful contributions, and I look forward to continuing to work with individuals and organisations across Wales in the years ahead.

Our preparations for tax devolution are advanced. We continue to work hard to ensure a smooth transition when the Welsh taxes are introduced in April.

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

Mark Drakeford AM  
Cabinet Secretary for Finance

## Introduction

Under section 23 of the Wales Act 2014<sup>1</sup>, Welsh Ministers and the Secretary of State for Wales are each required to report annually on the progress made in effecting the provisions under Part 2, until the first anniversary after the final provisions have been implemented. This is the third annual report by Welsh Ministers.

Section 23(7) of the Act specifies the annual reports must include the following information on the finance provisions:

- (a) *A statement of the steps that have been taken, whether by the maker of the report or by others, since the making of the previous report (or, in the case of the first report, since the passing of this Act) towards implementation of the provisions of this Part,*
- (b) *A statement of the steps that the maker of the report proposes should be taken, whether by the maker of the report or by others, towards the implementation of the provisions of this Part,*
- (c) *An assessment of the operation of the provisions of this Part that have been implemented,*
- (d) *An assessment of the operation of any other powers to devolve taxes to the Assembly or to change the powers of the Welsh Ministers to borrow money, and of any other changes affecting the provisions inserted or amended by this Part,*
- (e) *A statement of the effect of this Part on the amount of any payments made by the Secretary of State under section 118 of GOWA 2006 (payments into the Welsh Consolidated Fund), and*
- (f) *Any other matters concerning the sources of revenue for the Welsh Government that the maker of the report considers should be brought to the attention of Parliament or the Assembly.*

The reports are not required to address the following sections of the Wales Act 2014 – section 10 (Welsh taxpayers for social security or child support purposes); section 11 (Amendments to the definition of a Scottish taxpayer) and section 22 (Budgetary procedures), however Welsh Ministers have included progress towards delivering section 22 in this report.

The reports are due each year before the anniversary of the day on which the Act gained Royal Assent – 17 December 2014 – with the final report being due on, or as soon as practicable after, the first anniversary of the day on which the last of the provisions in Part 2 is implemented.

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<sup>1</sup> <http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

## Fiscal framework for the Welsh Government

1. Following negotiations between the Welsh Government and UK Government, the Cabinet Secretary for Finance and Local Government<sup>2</sup> and the Chief Secretary to the Treasury announced the agreement of a fiscal framework for the Welsh Government on 19 December 2016<sup>3</sup>.
2. The fiscal framework comprises the following package of arrangements:
  - Reform of the Barnett formula as applied to Wales – implementing the funding floor recommended by the Holtham Commission;
  - Agreement on the methodologies for adjusting the Welsh block grant following tax devolution (as this will reduce the revenue going to the UK Government) which reflect Wales' unique circumstances, including a method for adjusting the block grant for income tax, which ensures the characteristics of the tax base in Wales are appropriately reflected;
  - Borrowing – Wales' capital borrowing limit will increase to £1bn;
  - A new Wales Reserve to enable the Welsh Government to manage its budget across years – the Welsh Government will be able to save surplus revenues from devolved taxes and underspends on the Departmental Expenditure Limit in the Wales Reserve for use in future years;
  - Provision for independent oversight – giving independent bodies a role, where required, to provide input into disputes between the Welsh and UK Governments on matters relating to the fiscal framework agreement.
3. Taken as a whole, the package protects the Welsh Government's budget from undue risks which may arise following the devolution of tax powers, including the impact of some significant UK policy changes. The agreement also paves the way for the partial devolution of income tax to Wales – the introduction of Welsh rates of income tax – in April 2019.

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<sup>2</sup> Mark Drakeford AM was the Cabinet Secretary for Finance and Local Government from May 2016 to November 2017, when he became the Cabinet Secretary for Finance following a Cabinet reshuffle.

<sup>3</sup> <http://gov.wales/docs/caecd/publications/161219-fiscal-agreement-en.pdf>

## Welsh tax policy

4. On 12 June 2017, the Cabinet Secretary for Finance and Local Government published the *Tax Policy Framework*<sup>4</sup> and 2017 tax policy workplan<sup>5</sup>. The framework sets out how the Welsh Government intends to use its tax powers, including the five tax principles:

Welsh taxes should:

- Raise revenue to fund public services as fairly as possible;
  - Deliver Welsh Government policy objectives, in particular supporting jobs and growth;
  - Be clear, stable and simple;
  - Be developed through collaboration and involvement;
  - Contribute directly to the Wellbeing of Future Generations Act goal of creating a more equal Wales.
5. The work plan included the research areas under consideration by the Welsh Government – some of which are short term and include analysis to underpin the decisions on rates and bands for the new Welsh taxes – land transaction tax and landfill disposals tax, to be introduced in April 2018 – and longer-term work, such as a review of the overall balance of taxation between income and property.
  6. An update on progress, including a detailed tax rates and bands technical paper (annex), was published on 3 October 2017, alongside the Welsh Government's draft outline Budget<sup>6</sup>.

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<sup>4</sup> <http://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

<sup>5</sup> <http://gov.wales/docs/caecd/publications/170612-workplan-en.pdf>

<sup>6</sup> <http://gov.wales/docs/caecd/publications/171003-welsh-tax-policy-report-a-en.pdf>

## Land transaction tax

Section 15 of the Wales Act 2014 amends the Government of Wales Act 2006 ("GOWA 2006") to enable the National Assembly for Wales to legislate for a Welsh tax on transactions involving interests in land. Section 16 and Schedule 2 amend UK legislation to dis-apply UK stamp duty land tax in relation to Wales. The amendments have effect on or after such date as is appointed by the Treasury by Order. Section 17 concerns the supply of information about land transactions in Wales to HMRC.

The Command Paper issued by the UK Government alongside the Wales Bill (March 2014) additionally specifies that stamp duty land tax would be 'switched off' from April 2018<sup>7</sup>.

### Legislation

7. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill passed through the National Assembly for Wales' legislative processes in the first half of 2017.
8. During the passage of the Bill, a number of amendments were introduced. These include the schedule for the higher rates for residential property transactions, the addition of an independent review of land transaction tax within six years of implementation, an obligation on the Welsh Revenue Authority to publish guidance for taxpayers where properties straddle the Wales-England border, and a commitment that the WRA would analyse land transaction tax data in relation to the higher rate to inform discussion with local authorities about the impact of the higher rates in their area. The Bill as passed also includes a number of amendments to the Tax Collection and Management (Wales) Act 2016.
9. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 received Royal Assent on 24 May 2017.
10. The first commencement order of the Act was made on 24 September 2017. This order commenced certain provisions on 18 October 2017. The provisions commenced were, primarily, those necessary to enable Welsh Ministers to use regulation-making powers before the date the tax goes live, 1 April 2018. The regulation-making powers commenced include the ability to:
  - Set the tax rates and tax bands for land transaction tax;
  - Set the amount of the relevant rent;
  - Create the transitional rules of the change from stamp duty land tax to land transaction tax;
  - Make administration requirements.
11. These regulations are mainly subject to the affirmative procedure and will be debated and voted on by the National Assembly in January 2018.

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<sup>7</sup> *Wales Bill: financial empowerment and accountability* Cm 8838, para 16:  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/294470/Wales\\_Bill\\_Command\\_Paper\\_-\\_English.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294470/Wales_Bill_Command_Paper_-_English.pdf)

12. Further provisions will be commenced in due course to ensure the Act, and the Tax Collection and Management (Wales) Act 2016, comes fully into force by 1 April 2018.

### Rates and bands

13. The tax rates and bands for land transaction tax were published in the Welsh Government's draft outline Budget 2018-19 on 3 October 2017<sup>8</sup> to aid scrutiny of the Welsh Government's tax and spending decisions. These tax rates and bands were subject to further consideration of any changes made to stamp duty land tax in the UK Government's Autumn Budget. Following the changes to stamp duty land tax for first-time buyers, new residential rates and bands were announced on 11 December<sup>9</sup>.
14. For residential properties, we have six bands and a progressive tax regime which mean around 80% of first-time buyers in Wales will pay no tax and around 90% of homebuyers in Wales will either pay the same or less tax than under stamp duty land tax. There are four rates for non-residential properties and three non-residential lease rates. Wales will have the lowest starting rate of tax for the purchase of business premises in the UK and all businesses buying premises up to £1.1m in Wales will either pay no tax or less tax than under stamp duty land tax.
15. Information about the considerations made in setting the rates and bands was included in the *Welsh Tax Policy Report* published alongside the draft outline Budget<sup>10</sup>. The tax revenue forecasts included in the draft Budget were assured by Bangor University and a description of the tax revenue forecast methodology is provided in its report<sup>11</sup>. Updated forecasts will be published with the final Budget on 19 December and will also be assured by Bangor University.
16. Regulations to bring the land transaction tax rates and bands into effect will be laid with the associated Explanatory Memorandum, including a Regulatory Impact Assessment, in January 2018.
17. In December 2017, HMRC wrote to indicate the savings from no longer operating stamp duty land tax in Wales, the cost to the Welsh Government of transitioning from stamp duty land tax to land transaction tax and the cost of implementing Welsh rates of income tax. These costs remain under discussion.

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<sup>8</sup> Draft Budget 2018-19 outline proposals:

<http://gov.wales/docs/caecd/publications/171003-budget-narrative-a-en.pdf>

<sup>9</sup> <http://gov.wales/about/cabinet/cabinetstatements/2017/lttratesandbands/?lang=en>

<sup>10</sup> <http://gov.wales/docs/caecd/publications/171003-welsh-tax-policy-report-a-en.pdf>

<sup>11</sup> Bangor University (2017) *Independent scrutiny and assurance of devolved tax forecasts for Wales*: <http://gov.wales/docs/caecd/publications/171003-bangor-report-en.pdf>



## Landfill disposals tax

Section 18 of the Wales Act 2014 amends GOWA 2006 to enable the National Assembly for Wales to legislate for a Welsh tax on disposals to landfill. Section 19 amends Part 3 of the Finance Act 1996 to dis-apply UK landfill tax in relation to Wales.

The Command Paper issued by the UK Government alongside the Wales Bill (March 2014) additionally specifies that landfill tax would be 'switched off' from April 2018.

### Legislation

18. On 28 November 2016, the Cabinet Secretary for Finance and Local Government introduced the Landfill Disposals Tax (Wales) Bill to the National Assembly for Wales. The Landfill Disposals Tax (Wales) Bill passed through the National Assembly for Wales' legislative stages in the first half of 2017.
19. During the passage of the Bill, a number of significant amendments were introduced. These included the introduction at Stage 3 of section 91, which places a duty on the Welsh Ministers to have regard to the objective of reducing landfill disposals in Wales when exercising their powers and duties under the Act. The duty to prepare and publish a landfill disposals tax communities scheme and the addition of Schedule 1 Qualifying Materials were also introduced in Stage 2.
20. The Landfill Disposals Tax (Wales) Act 2017 received Royal Assent on 7 September 2017.
21. The first commencement order of the Act was made on 24 September 2017. This order commenced certain provisions on 18 October 2017. The provisions commenced were, primarily, those necessary to enable the Welsh Ministers to use their regulation making powers to:
  - Set the tax rates for landfill disposals tax;
  - Establish the customer insolvency credit;
  - Establish the requirements for determining the tax liability of waste fines, including loss on ignition testing;
  - Modify reliefs;
  - Amend Schedule 3, the contents of a landfill invoice.

These regulations are mainly subject to the affirmative procedure and will be debated and voted on by the National Assembly in January 2018.

22. Other provisions commenced include:
  - The duty for Welsh Ministers to have regard to the objective of reducing landfill disposals in Wales when exercising their powers and duties under the Act.
23. Further provisions commenced on 8 November include:
  - Information sharing provisions to enable Natural Resources Wales and local authorities to share information with the Welsh Revenue Authority (WRA);
  - The duty to prepare and publish a Landfill Disposals Tax Communities Scheme.

24. A second commencement order will be made in January 2018 to commence certain provision in January with the remaining provisions of the Act coming into force on 1 April 2018.

### Rates

25. The proposed tax rates for landfill disposals tax were published in the Welsh Government's draft outline Budget 2018-19, on 3 October 2017<sup>12</sup>.
26. There are three rates of tax – a lower rate for materials which meet the conditions set out in the Act, a standard rate for all other material and a new unauthorised disposals rate for taxable disposals made at places other than authorised landfill sites.
27. Information about the considerations made in setting the landfill disposals tax rates was included in the *Welsh Tax Policy Report*, published alongside the draft outline Budget<sup>13</sup>. The tax revenue forecasts were assured by Bangor University and a description of the tax revenue forecast methodology is provided in its report<sup>14</sup>.
28. Regulations to bring the landfill disposals tax rates into effect will be laid with the associated Explanatory Memorandum, including a Regulatory Impact Assessment, in January 2018.
29. In December 2017, HMRC wrote to indicate there would be no cost to the Welsh Government of transitioning from landfill tax to landfill disposals tax. HMRC will transfer to the Welsh Government the savings from no longer administering landfill tax in Wales.

### Landfill disposals tax communities scheme

30. The landfill disposals tax communities scheme is being established to support environmental and community projects in areas affected by the disposal of waste to landfill. The scheme will fund projects that support biodiversity, waste minimisation and environmental enhancements.
31. To maximise the amount of funding reaching communities, the scheme will be delivered as a grant with money allocated to a third party to distribute directly to projects.
32. On 13 December 2016, an update paper was published outlining key decisions made to date in developing the scheme and set out how we propose to shape it. Responses to the paper closed on 7 February 2017 and a summary of the responses was published on the Welsh Government website.
33. A procurement exercise for the appointment of the distributive body to administer the grant was published on 8 September and closed on 11 October. The appointment is due to be made in December.

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<sup>12</sup> *Draft Budget 2018-19 outline proposals:*

<http://gov.wales/docs/caecd/publications/171003-budget-narrative-a-en.pdf>

<sup>13</sup> <http://gov.wales/docs/caecd/publications/171003-welsh-tax-policy-report-a-en.pdf>

<sup>14</sup> Bangor University (2017) *Independent scrutiny and assurance of devolved tax forecasts for Wales:*  
<http://gov.wales/docs/caecd/publications/171003-bangor-report-en.pdf>

34. On 3 October 2017, the Cabinet Secretary for Finance and Local Government allocated £1.5m per year to the scheme for the next four years, as part of the Welsh Government's draft outline Budget 2018-19.

#### Readiness assessment

35. The UK and Welsh Governments will jointly assess readiness for the transition from stamp duty land tax and landfill tax to land transaction tax and landfill disposals tax from 1 April 2018. This assessment will be jointly undertaken as of 31 December 2017. A meeting of the Joint Exchequer Committee (Officials) will take place in early 2018 to assess readiness against the agreed criteria and will be followed by an exchange of Ministerial letters.

## **Welsh Revenue Authority**

36. On 18 October 2017, the Welsh Revenue Authority (WRA) was established. It is the first non-Ministerial department created by the Welsh Government and is legally responsible for the collection and management of Welsh devolved taxes. The WRA held its first board meeting at its new headquarters in Treforest in October.

### Collection of taxes

37. Substantial progress has been made over the past year to enable the WRA to become established, operational and ready to collect taxes from 1 April 2018. Registration for both landfill disposals tax and land transaction tax will begin in early 2018, enabling taxpayers and agents to register their details early, ensuring a smooth transition to filing and payment of tax returns from April 2018. Taxpayers and agents will be able to register and file their returns online.
38. The full cost of implementing the WRA over the two year period 2016-17 and 2017-18 is expected to be £6.3m, with annual operational costs from 2018-19 onwards of £6m.

### Appointments and people

39. The WRA chair, Kathryn Bishop, was appointed in July 2017 and the board members were appointed in September. Dyfed Alsop, the current WRA programme director was appointed as the first WRA chief executive. Recruitment to date has been timely and effective – the top two tiers of the WRA are now in place, including specialist expertise in HR, finance, legal, strategy, compliance, operations and data analysis. The WRA will build a bilingual operational capacity with the external recruitment of its customer-facing team. The WRA and Welsh Treasury have worked closely to ensure the transfer of knowledge to the new organisation to support the introduction of the devolved taxes.

### Stakeholders and partners

40. Stakeholders have volunteered to test the tax systems and guidance. Guidance will also be tested by the relevant tax committees of the Law Society and Chartered Institute of Taxation. Practitioners across the UK (including Scotland) will test both systems and guidance, including practitioners who operate along the Wales-England border. The guidance for registration will be published early in 2018 and all guidance will be published in advance of 1 April 2018.
41. Memoranda of understanding and information-sharing agreements are being developed with the Land Registry, the Valuation Office Agency and Revenue Scotland.
42. Work has progressed with HMRC to confirm readiness with discussions about the technical capability to transfer data to HMRC from April 2018. A Memorandum of understanding and information sharing agreement between the WRA and HMRC is nearing completion and will include data-sharing and joint compliance activity from April 2018.

43. Natural Resources Wales has been named in Welsh secondary legislation as a body to which the WRA may delegate functions. The detail of that delegation will be approved by the WRA board.

## Income tax

Sections 8 to 11 of the Wales Act 2014 provide for Welsh basic, higher and additional rates of income tax to be set by the National Assembly by way of resolution, and further define "Welsh taxpayers".

The Wales Act 2014, when originally enacted, made provision for a referendum to be held in Wales about whether the income tax provisions set out in the Act should come into force. These provisions in relation to a referendum were subsequently removed by section 17 of the Wales Act 2017<sup>15</sup>.

44. Following the agreement of the fiscal framework and the provision in the Wales Act 2017 removing the need for a referendum, the Cabinet Secretary for Finance and Local Government informed the National Assembly that the Welsh Government would work towards the introduction of Welsh rates of income tax in April 2019. This means that from April 2019, the National Assembly for Wales will decide whether to vary the rates of income tax paid by Welsh taxpayers or keep them at the same level as the rates paid by English and Northern Irish taxpayers<sup>16</sup>.
45. When Welsh rates of income tax are introduced, responsibility for most aspects of income tax will remain with the UK Government and HMRC will continue to collect the tax in Wales. HMRC has confirmed it can complete the necessary preparations in time to introduce Welsh rates of income tax in April 2019.
46. While the implementation of Welsh rates of income tax falls to HMRC and the UK Government, the Welsh Government has a close interest in this work. The Cabinet Secretary for Finance has set out five priorities for Wales, which have been acknowledged by the Financial Secretary to the Treasury:
  - Commitment from UK Government Ministers and HMRC senior officials to engage with the National Assembly's Finance Committee;
  - Agreement from HMRC to share timely and high-quality income tax data for Wales, to enable analysis to support advice on the setting of income tax rates, as set out in the fiscal framework;
  - Agreement of an approach to income tax compliance, which meets the needs of both the Welsh Government and HMRC;
  - Clear definition and agreement of costings;
  - Good communication with Welsh taxpayers, particularly in relation to Welsh language.
47. A cross-governmental project board, which includes HMRC and Welsh Government officials, has been established to manage delivery ahead of the 2019 devolution date.

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<sup>15</sup> The Wales Act 2017 received Royal Assent 31 January 2017:  
<http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

<sup>16</sup> The Scottish Parliament decides the income tax rates for Scottish taxpayers.

A joint working group has also been established, which is focusing on communications, particularly around Welsh taxpayer identification, with a clear focus on the Welsh language.

48. The costs of implementing Welsh rates of income tax are to be finalised by HMRC. In December 2017, HMRC wrote to indicate its early estimate, based on the experience of implementing the Scottish rate of income tax, is between £5m-£10m. This is lower than the cost for the Scottish rate of income tax (latest estimate £20m-25m).
49. The Department for Work and Pensions is due to make changes to its systems to enable the implementation of Welsh rates of income tax in Wales, and is expected to deliver this in an orderly and efficient way.
50. The Welsh rates of income tax rates and forecast will form part of the draft outline Budget for 2019-20, published in autumn 2018. The Welsh Government has pledged not to increase Welsh rates of income tax during the current Assembly.
51. The Financial Secretary to the Treasury has committed to keep the National Assembly and the Finance Committee fully informed during the implementation process. HMRC has appointed its Director General for Customer Strategy and Tax Design as the additional accounting officer for Welsh rates of income tax, available to appear before the Finance Committee on request. The National Audit Office will report to the National Assembly annually on the performance of HMRC in relation to Welsh rates of income tax.

## Ability to create a new Welsh tax

Section 6 of the Wales Act 2014 amends GOWA 2006 to enable the creation of new devolved taxes by way of Her Majesty making an Order in Council. A recommendation to Her Majesty to make an Order in Council cannot be made until a draft of the statutory instrument containing the Order has been laid before and approved by each House of Parliament and the National Assembly. These could be existing UK taxes which the UK Government devolves to Wales or taxes newly created by the Welsh Government.

The Command paper issued by the UK Government alongside the Wales Bill (March 2014) provides further detail about how Welsh Government proposals for new taxes would, in the first instance, be assessed by the UK Government.

52. On 4 July 2017, the Cabinet Secretary for Finance and Local Government led a debate in the National Assembly, which noted the Wales Act 2014 powers to propose new taxes in areas of devolved responsibility and recognised the need to test the mechanism<sup>17</sup>. The Cabinet Secretary committed to engage with the public, with businesses, with experts and with academics to bring forward ideas for new taxes for Wales. This work forms a strand of the tax policy work plan published in June<sup>18</sup>.
53. During the summer, the Welsh Government considered a range of tax ideas, including many suggested by the public following the National Assembly debate and the ideas proposed by the Bevan Foundation in its 2016 report on potential taxes for Wales<sup>19</sup>. The initial sift involved considering the ideas against the Welsh Government's tax principles (see p4) and the aims of the national strategy *Prosperity for All*.<sup>20</sup>
54. On 3 October, the Cabinet Secretary for Finance and Local Government announced a shortlist of four possible tax ideas<sup>21</sup>:
- A disposable plastic tax;
  - A levy to fund social care;
  - A tourism tax;
  - A vacant land tax.
55. Following further consideration of the evidence and discussion with stakeholders over the next few months, the Cabinet Secretary will write to the UK Government in

<sup>17</sup> The motion in full, agreed unanimously, was:

1. Notes that the Wales Act 2014 allows for the creation of new Welsh taxes.
2. Recognises that it will be necessary to test this new aspect of the devolution machinery.
3. Welcomes a wide range of potential ideas for use of this new fiscal possibility in Wales.
4. Believes that any new taxes should adhere to the views expressed by the Cabinet Secretary for Finance and Local Government, in his written statement issued on 5 July 2016, that 'there should be no change for change's sake'.
5. Calls on the Welsh Government to make arrangements for an independent review of any new taxes to be completed within 6 years of their introduction.

<http://www.assembly.wales/en/bus-home/pages/rop.aspxProceedings=04/07/2017>

<sup>18</sup> <http://gov.wales/docs/caecd/publications/170612-workplan-en.pdf>

<sup>19</sup> Bevan Foundation (2016) *Taxes for Good: New Taxes for a Better Wales*

<https://www.bevanfoundation.org/publications/tax-good-new-taxes-better-wales/>

<sup>20</sup> <http://gov.wales/docs/strategies/170919-prosperity-for-all-en.pdf>

<sup>21</sup> *Welsh Tax Policy Report 2017*, pages 22-23:

<http://gov.wales/docs/caecd/publications/171003-welsh-tax-policy-report-a-en.pdf>



early 2018 to put forward one of the proposals, as part of the process to test the Wales Act mechanism.

## Borrowing

Section 20 of the Wales Act 2014 amends GOWA 2006 to enable the Welsh Ministers to borrow up to £500m to manage cash-flow (to smooth fluctuations in tax receipts and address temporary mismatches between tax and spending) and, subject to the approval of HM Treasury, up to a total of £500m to meet capital expenditure. The new borrowing powers will come into force by way of a Commencement Order made by the Treasury alongside the devolution of stamp duty land tax and landfill tax (planned for April 2018).

Section 21 of the Wales Act 2014, once commenced, will repeal the (more limited) borrowing powers in Schedule 3 to the Welsh Development Agency Act 1975, which have been conferred on the Welsh Ministers.

The Command Paper issued by the UK Government alongside the Wales Bill (March 2014) additionally specifies:

### *Capital Borrowing*

- Within the £500m limit for capital borrowing, the Welsh Government may borrow up to £125m per annum;
- Sources of capital borrowing are limited to the National Loans Fund (via the UK Government) or commercial banks;
- Until the new capital borrowing powers come into effect (planned for April 2018), the Welsh Government may borrow under Schedule 3 to the Welsh Development Agency Act 1975 for the purposes of funding improvements to the M4 in South East Wales;
- The UK Government will review the Welsh Government's capital borrowing ceiling at each Spending Review, in the light of economic and fiscal circumstances, and the level of devolved taxation.

### *Revenue Borrowing*

- Within the £500m limit for revenue borrowing, the Welsh Government may borrow up to £200m per annum;
- A new cash reserve will assist the Welsh Government in managing volatility by providing a mechanism for saving 'surplus revenues' (for example, tax receipts which come in above forecasts) – the first call on a surplus will be the repayment of any outstanding current borrowing, after which any remainder could be paid into a cash reserve or used to finance additional public spending on devolved matter.

### Capital borrowing

56. Under the Wales Act 2017<sup>22</sup>, and in line with the fiscal framework agreement, the Welsh Government's limit for capital borrowing will be increased from £500m to £1bn. This increase will take effect from April 2018, when the Welsh devolved taxes – land transaction tax and landfill disposals tax – are introduced. Under the fiscal

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<sup>22</sup> The Wales Act 2017 received Royal Assent on 31 January 2017:  
<http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

framework, the annual capital borrowing limit will increase from £125m to £150m when Welsh rates of income tax are introduced in April 2019.

57. The Welsh Government plans to make use of up to £375m of capital borrowing over the next three years (£125m in each year). The remaining £50m (£25m per annum 2019-20 and 2020-21) is being held in reserve.
58. The take-up of planned borrowing will be carefully considered during each budget period and will only be used when all available conventional, cheaper sources of capital financing have been exhausted.
59. The initial focus has been on operationalising direct borrowing powers, so no formal request has been made to activate the powers associated with the Welsh Government issuing bonds to raise market finance<sup>23</sup>.

#### Revenue borrowing and the Wales Reserve

60. Given the block grant offset methodology agreed for income tax as part of the fiscal framework, the Welsh Government expects the £500m revenue borrowing limit provided by the Wales Act 2014 to be sufficient to cover fluctuations in the revenue stream from devolved tax powers.
61. As agreed in the fiscal framework, a new Wales Reserve will be introduced from April 2018. This will enable unspent resources from tax receipts and the block grant to be stored for future years. The Wales Reserve will be capped at £350m and annual drawdowns limited to £125m for revenue spending and £50m for capital spending. There will be no annual limits for payments into the reserve.
62. As part of the adjustment made to enable the full devolution to Wales of non-domestic rates (April 2015), the UK Government will add £98.5m to the Wales Reserve. The Welsh Government will be able to add any underspend from 2017-18 (up to a limit of £251.5m) to the reserve.

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<sup>23</sup> Following intergovernmental and cross-party talks, the UK Government agreed to extend the Welsh Government's borrowing powers to include the issue of bonds: Command Paper *Powers for a purpose: towards a lasting devolution settlement for Wales* (Cm 9020), 27 February 2015, chapter 4, p51: <https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales>

## Budgetary procedures

Section 22 of the Wales Act 2014, which amends GOWA 2006, provides for the Assembly to legislate for its own budgetary procedures.

63. A report on progress towards establishing new budgetary procedures for the National Assembly is not required under the Wales Act 2014, however the Welsh Government considers it appropriate to review progress.
64. On 21 June 2017, the National Assembly for Wales agreed revisions to its Standing Orders to implement a new budget scrutiny process. In addition, a budget protocol was agreed setting out further details of the revised process. The Welsh Government's draft Budget for 2018-19, published in two stages on 3 and 24 October, was laid and scrutinised under these new procedures.
65. The Wales Act 2017 provides for the devolution of powers related to financial controls, accounts and audit. This enables the Welsh Government and National Assembly to develop and introduce comprehensive Welsh financial framework legislation incorporating both budgetary and accountability arrangements.
66. Further improvements include the alignment of the Welsh Government's Budget motion and consolidated accounts with that of HM Treasury's budget boundary. A phased approach to the implementation of alignment has been adopted. The Government of Wales Act 2006 (Budget Motions and Designated Bodies) Order 2017 was laid on 28 September 2017, designating health trusts in Wales and five of the Welsh Government's subsidiary companies, completing the second phase of this exercise.
67. The next phase of alignment will consider all other Welsh Government bodies classified by the Office of National Statistics to the Central Government sector.

### Independent scrutiny of tax revenue forecasts

68. Following a procurement exercise, Bangor University Business School was contracted to undertake independent scrutiny of the Welsh Government's tax revenue forecasts for inclusion in the 2018-19 Budget. The university's report, which endorsed the Welsh Government's forecasts, was published alongside the draft outline Budget on 3 October.
69. The Cabinet Secretary for Finance is considering the longer-term options for the independent production of tax revenue forecasts, including a role for the Office for Budget Responsibility (OBR).

### Block grant adjustment for the Welsh taxes

70. The methodologies for adjusting the Welsh block grant following the devolution of tax powers were agreed as part of the fiscal framework. The adjustment for 2018-19, in response to the introduction of land transaction tax and landfill disposals tax, and the end of stamp duty land tax and landfill tax in Wales, will be calculated on the basis of the Office for Budget Responsibility's November 2017 Economic and Fiscal Outlook.

The UK Government has committed to publishing the details by the end of the year. Discussions are continuing between the Welsh Government and UK Government about the extent to which this adjustment should allow for the behavioural effect of forestalling<sup>24</sup>.

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<sup>24</sup> This is a one-off effect, by which purchases are deliberately brought forward so they can be completed under the existing tax system. The agreement on the Scottish Government's fiscal framework in early 2016 included an explicit amendment to the block grant adjustment for the Scottish equivalent of land transaction tax (land and buildings transaction tax) to take account of forestalling.

## Appendix 1: Engagement

### Tax Advisory Group (TAG)

TAG provides strategic advice to Welsh Ministers about tax policy and administration and considers the impact new policies may have on the people of Wales. Its membership represents a broad range of perspectives and expertise to ensure that the needs of the people of Wales are represented at the highest level.

The group is chaired by the Cabinet Secretary for Finance and meets three times a year.

#### *Remit*

- To provide advice and support in the development of tax policy and administration in Wales;
- To give advice about the wider impact of Welsh tax policy on stakeholders and the economy and social fabric of Wales;
- To help to improve communication across a range of stakeholders about tax policy and administration to better inform Welsh Government tax consultations and legislation.

#### *Members<sup>25</sup>*

Andrew Evans, Geldards LLP

Frank Haskew, Institute of Chartered Accountants in England and Wales

Councillor Anthony Hunt, Welsh Local Government Association

Janet Jones, Federation of Small Business

Robert Lloyd Griffiths, Institute of Directors

Martin Mansfield, Wales TUC

Ruth Marks, Wales Council for Voluntary Action

David Phillips, Institute for Fiscal Studies

Kay Powell, the Law Society

Ian Price, CBI Wales

Leighton Reed, Broomfield & Alexander Ltd, representing the Institute of Chartered Accountants in England and Wales

Dr Victoria Winckler, the Bevan Foundation

Further information about the TAG is available at:

<http://gov.wales/funding/fiscal-reform/tax-policy-framework/tax-advisory-group/?lang=en>

### Tax Forum

The Tax Forum engages with professions and representative organisations about tax policy and administration. It provides a two-way conversation with tax professionals about the development of tax policy and legislation in Wales. It meets at least twice a year.

The Tax Forum is chaired by the chief executive of the Welsh Revenue Authority (WRA).

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<sup>25</sup> Membership as at November 2017.

## *Remit*

- To discuss, inform and feedback about the approach to the implementation of devolution of taxes in Wales;
- To provide advice and support about communicating the development of tax administration and policy in Wales;
- To give advice about the wider impact of Welsh taxes and tax policy on stakeholders in Wales;
- To work with the Welsh Revenue Authority in enabling communication across key established networks with regards to tax administration.

## *Members*

The membership is drawn from those professions and organisations on which changes in tax administration will have a direct effect. The attendees vary from meeting to meeting, and include representatives of business, the public sector and the third sector. Those who have attended meetings to date are representatives of the following:

Association of Chartered Certified Accountants  
Association of Taxation Technicians  
Bangor Law School  
Cardiff Council  
Cardiff Law School  
Chartered Institute of Public Finance and Accountancy  
Chartered Institute of Taxation  
Conwy Council  
Country Landowners Association  
Country Land and Business Association Limited  
Cyngor Gwynedd Council  
Federation of Small Businesses  
HM Revenue and Customs  
Institute of Chartered Accountants of England and Wales  
Land Registry  
The Law Society of England and Wales  
Office of Tax Simplification  
Royal Institute of Chartered Surveyors Wales  
Valuation Office Agency  
Wales Audit Office  
Wales Social Partners Unit  
Wildlife Trust Wales  
Woodland Trust  
Welsh Local Government Association  
Wales Council for Voluntary Action

Further information about the Tax Forum is available at:

<http://gov.wales/funding/fiscal-reform/tax-policy-framework/tax-forum/?lang=en>

## Other ways to keep in touch

### *Social media*

Tax devolution in Wales is promoted on social media through a Welsh Treasury twitter account @WelshTreasury: <https://twitter.com/WelshTreasury>

A range of communications tools, including infographics, Twitter cards, Survey Monkey and Doopoll are used to communicate and engage with stakeholders.

### *Newsletter*

The Welsh Treasury newsletter, issued every two to three months, provides brief updates about progress and links to further information.

New subscribers can sign up at:

[https://public.govdelivery.com/accounts/UKWALES/subscriber/new?topic\\_id=UKWALES\\_102](https://public.govdelivery.com/accounts/UKWALES/subscriber/new?topic_id=UKWALES_102)

### *Website*

The Welsh Treasury pages on the Welsh Government website offer further information about tax devolution in Wales, including publications to view or download – both formal publications and communications tools, such as factsheets and leaflets.



## **Appendix 2: Further information**

A range of further information about tax devolution to Wales is available on the internet.

### Background

#### *Independent Commission on Funding and Finance for Wales (Holtham Commission)*

The commission was established by the Welsh Government to consider the funding mechanism for Wales and how it could be improved, including the case for devolution of tax and borrowing powers. It issued two reports with recommendations (2009 and 2010). These and other materials published by the commission are available at:  
<http://gov.wales/funding/fiscal-reform/framework/reports/?lang=en>

#### *Commission on Devolution in Wales (Silk Commission)*

The UK Government's commission was tasked with considering the financial and constitutional arrangements for Wales. Its first report (2012) looked at the case for devolving tax and borrowing powers and related institutional changes:  
<http://webarchive.nationalarchives.gov.uk/20140605075122/http://commissionondevolutioninwales.independent.gov.uk/>

### Welsh Government and the National Assembly

#### *Consultations*

The collection and management of devolved taxes, including a summary of responses:  
<http://gov.wales/betaconsultations/finance/devolved-taxes/?lang=en>

Land transaction tax, including a summary of responses:  
<http://gov.wales/betaconsultations/finance/land-transaction-tax/?lang=en>

Landfill disposals tax, including a summary of responses:  
<http://gov.wales/betaconsultations/finance/landfill-disposals-tax/?lang=en>

#### *Tax Collection and Management (Wales) Act 2016*

This Act puts in place the legal framework for the collection and management of devolved taxes in Wales, including establishing the Welsh Revenue Authority (WRA):  
<http://www.legislation.gov.uk/anaw/2016/6/contents/enacted>

#### *Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017*

This Act provides for the introduction of a land transaction tax from April 2018 and includes measures to tackle the avoidance of devolved taxes:  
<http://www.legislation.gov.uk/anaw/2017/1/contents>

#### *Landfill Disposals Tax (Wales) Act 2017*

This Act provides for the introduction of a landfill disposals tax from April 2018:  
<http://www.legislation.gov.uk/anaw/2017/3/contents/enacted>

## UK Government and Parliament

### *Wales Act 2014*

UK legislation paving the way for devolution of tax and borrowing powers:  
<http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

### *Wales Bill 2014 Command Paper*

Some aspects of the arrangements for devolving tax and borrowing powers (such as target dates, early access to borrowing and the approach to creating new devolved taxes) were set out in the UK Government Command Paper *Wales Bill: financial empowerment and accountability*, published in March 2014:

<https://www.gov.uk/government/publications/wales-bill>

### *Command Paper: Powers for a purpose: towards a lasting devolution settlement for Wales*

Issued in February 2015, this committed the UK Government to introduce a floor in the level of relative funding it provides to the Welsh Government; to consider the case and options for devolving further powers to the Assembly over air passenger duty; and to enable the Welsh Government to issue bonds:

<https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales>

### *Welsh Government's fiscal framework*

Published 19 December 2017, this describes the funding arrangements to support the implementation of the fiscal provisions in the Wales Act 2014 and Wales Act 2017.

<http://gov.wales/docs/caecd/publications/161219-fiscal-agreement-en.pdf>

### *Wales Act 2017*

The Wales Act 2017, which removed the requirement for a referendum on Welsh rates of income tax and increased the capital borrowing limit for the Welsh Government, received Royal Assent 31 January 2017:

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

### **Annex 3: Acronyms used in this report**

GOWA 2006	Government of Wales Act 2006
HMRC	Her Majesty's Revenue and Customs
OBR	Office for Budget Responsibility
TAG	Tax Advisory Group
WRA	Welsh Revenue Authority