National Audit Office

Report
by the Comptroller
and Auditor General

HM Revenue & Customs

Administration of Welsh Income Tax 2017-18

HC 1869 SESSION 2017–2019 24 JANUARY 2019

Summary

Introduction

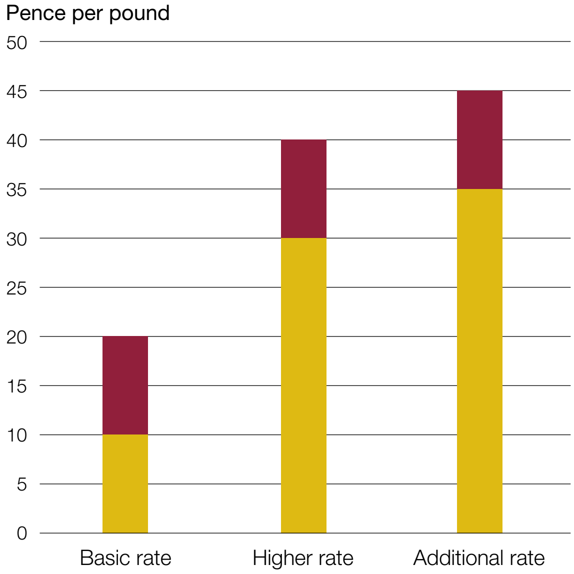
1 The Wales Act 2014 amended the Government of Wales Act 2006 to give the National Assembly for Wales (the Assembly) the power to set Welsh rates of income tax that will apply to the non-savings non-dividend income of Welsh taxpayers from the 2019-20 tax year onwards.

2 From April 2019, the United Kingdom (UK) basic, higher and additional income tax rates will be reduced by 10 percentage points and the Assembly will use its powers to determine the Welsh rates that will replace them. The sum of the reduced UK rates and the new Welsh rates will determine the overall rate of tax paid by Welsh taxpayers. For 2019-20, the Welsh Government has proposed rates equal to the reduction in the UK rates: 10 percentage points (**Figure 1**).

Figure 1

The proposed Welsh rates of income tax for 2019-20

The UK rates of income tax are effectively reduced by 10p per £1 and replaced with the Welsh rates of income tax



	Basic rate	Higher rate	Additional rate
Welsh rate of income tax (pence)	10	10	10
UK income tax (pence)	10	30	35
Total	**20**	**40**	**45**

Source: The Welsh Government

3 HM Revenue & Customs (HMRC) is currently implementing the Welsh rates of income tax. This involves making changes to a range of IT systems that support tax assessment and collection, taxpayer communications and financial reporting functionality. It also needs to develop a Welsh taxpayer population from existing taxpayer records to ensure that the right amount of tax is collected from individuals and allocated to the appropriate government. HMRC planned to communicate with taxpayers before the beginning of the 2019-20 tax year to inform them of the changes.

4 Once implemented, HMRC will administer and collect income tax from Welsh taxpayers as part of the UK tax system. It will pay over revenues arising from the Welsh rates of income tax to HM Treasury in the same way that it does for all other tax receipts. HM Treasury is responsible for the payment of the Welsh income tax to the Welsh Government.

5 Each year, HMRC will report its estimate of revenue attributable to the Welsh rate provisions as part of its annual report and accounts, published following the end of the financial year. The first estimate of revenue for 2019-20 is expected to be published in July 2020, and the final outturn will be presented as part of the 2020-21 annual report and accounts expected to be published in July 2021.

6 The revenue must initially be estimated because the total income tax liabilities are not known until all Pay As You Earn (PAYE) taxpayer accounts are reconciled and income tax liability data are collected from Self Assessment taxpayers, which can take up to 10 months after the end of the tax year.

Remit of the Comptroller and Auditor General

7 The Government of Wales Act 2006, as amended by the Wales Act 2014, requires the Comptroller and Auditor General (C&AG) to prepare a report for each financial year on:

- the adequacy of any of HMRC's rules and procedures put in place, in consequence of the Welsh rate provisions, for the purpose of ensuring the proper assessment and collection of income tax charged at rates determined under those provisions;
- whether these rules and procedures are being complied with;
- the correctness of the sums brought to account by HMRC which relate to income tax which is attributable to a Welsh rates resolution; and
- the accuracy and fairness of the amounts which are reimbursed to HMRC as administrative expenses.

8 This is the first report prepared under these responsibilities and covers the activities of HMRC before the introduction of the Welsh rates of income tax in April 2019. It provides:

- an overview of HMRC's approach to the administration of devolved taxes in the context of the UK tax system (Part One);
- our findings from reviewing the Welsh rates of income tax implementation project, including key events and timings (Part Two); and
- details of the cost of administering Welsh income tax, including whether the amounts are accurate and fair (Part Three).

9 This report does not consider the correctness of sums brought to account in relation to the Welsh rates of income tax, the adequacy of the rules and procedures put in place by HMRC or whether these rules and procedures have been complied with. These will be covered in later reports once the Welsh rates of income tax have been implemented. Appendix Three sets out our audit approach and methodology.

Key findings

10 HMRC has established a project governance structure within its wider devolution and change programme and it is engaging with Welsh Government representatives across the full range of project activities. The Welsh Government is represented throughout the project structure, including boards below the project board (paragraphs 2.5 and 2.6).

11 The project team has responded positively to the findings from project assessments. An internal health check review, completed in March 2018, rated the project 'amber' and raised a number of recommendations – all of which have since been actioned. The joint project assessment review, completed by independent Welsh Government and HMRC reviewers in October, has improved the project rating to 'amber-green', reporting that good progress has been made since the end of 2017-18 and successful delivery is likely if project risks are managed effectively (paragraphs 2.7 to 2.10).

12 HMRC completed a 'lessons learned' exercise from the implementation of Scottish income tax but it has not produced the proposed action plan to implement these lessons. HMRC has instead relied on both the inclusion of staff in the Welsh project team who have experience of Scottish implementation, and the continuity of wider stakeholder contacts inside and outside the department, to deliver improvements. We will examine whether HMRC has effectively implemented these lessons as part of our 2018-19 report (paragraphs 2.11 to 2.14).

13 **HMRC has designed the IT systems changes and it is now developing and testing these changes before they go live in March 2019.** The IT solution relies heavily on functionality introduced as part of the Scottish income tax project. This functionality was deliberately designed to be flexible to incorporate future devolution arrangements. As a result of using existing IT functionality, HMRC has reduced the risk of implementing the Welsh rates of income tax (paragraphs 1.10, 1.11, 2.15 and 2.16).

14 **HMRC developed an appropriate approach to identifying Welsh taxpayers, which it planned to implement before the notification letter was issued in November.** It is not possible to provide full assurance over the completeness of a tax base and there is no definitive list of Welsh taxpayers that HMRC can use to assure the Welsh taxpayer population. However, HMRC's approach, which includes the cleansing of existing taxpayer records and the use of third-party data to corroborate these records – rather than just relying on the data it already holds – will provide greater assurance over the completeness and accuracy of the Welsh taxpayer population if it has been implemented as planned (paragraphs 2.21 to 2.24).

15 **A communications strategy is in place that recognises the need for bilingual support.** Following the approval of this strategy in March 2018, HMRC developed plans to communicate with a diverse range of external audiences including employers, pension providers and other businesses that deliver payroll-related services. The bilingual notification letter for individual taxpayers was developed with the Welsh Government. It explains the changes to Welsh income tax and provides links to further information. It was issued in November 2018 (paragraphs 2.26 to 2.28).

16 **In 2017-18, HMRC incurred and recharged £0.34 million of costs for implementing the Welsh rates of income tax.** Based on our procedures, we have concluded that the amount repaid by the Welsh government for the year ended 31 March 2018 is accurate and fair (paragraphs 3.2 to 3.3).