



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **HM Revenue & Customs**

# Administration of Welsh income tax 2018-19

## Key facts

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**2.0m**

Welsh taxpayers<sup>1</sup> issued  
with notification letters

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**£2,101m**

Welsh income tax forecast  
for 2019-20<sup>2</sup>

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**£5.8 million** project implementation costs in 2018-19

**£2.9 million** HM Revenue & Customs' forecast of the remaining Welsh  
rates of income tax project implementation costs for 2019-20<sup>3</sup>

### Notes

- 1 This includes those with income below the Personal Allowance, who would not be liable for income tax.
- 2 Office for Budget Responsibility (OBR), *Devolved Tax and Spending Forecasts*, March 2019, Table 1.4.
- 3 This includes £2.1 million relating to the implementation of the Welsh rates of income tax project and £0.8 million relating to relief at source. More information can be found in paragraphs 3.1 to 3.7.

# Summary

## Introduction

### Welsh income tax

**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 the 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 are reduced by 10 percentage points and the Assembly has the power to apply Welsh rates. The sum of the reduced UK rates and the new Welsh rates will determine the overall rate of tax paid by Welsh taxpayers (**Figure 1** overleaf). The Assembly set the Welsh rates of income tax at 10% across all bands, effectively matching the UK rates at 20% (basic rate), 40% (higher rate) and 45% (additional rate).

### Roles and responsibilities

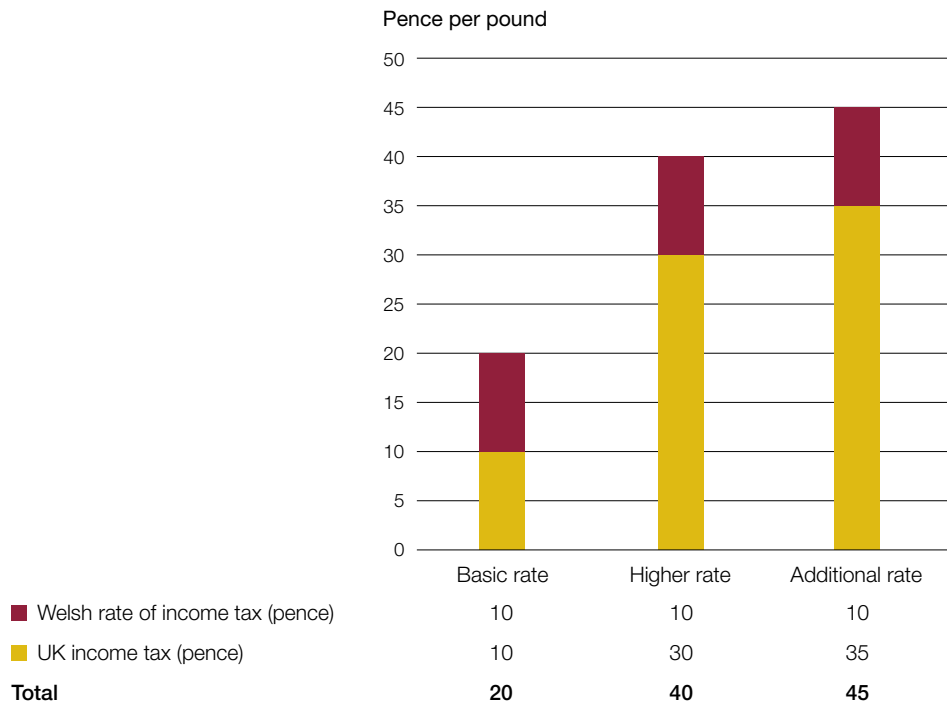
**3** HM Revenue & Customs (HMRC) is responsible for the administration of the Welsh rates of income tax and continues to collect Welsh income tax as part of the UK tax system. HMRC will pay revenues collected in relation to the Welsh rates of income tax to HM Treasury in the same way as it does for all other tax receipts. HM Treasury is responsible for the payment of the Welsh income tax to the Welsh Government.

**4** Each year, HMRC will report its estimate of revenue attributable to the Welsh rates provisions as part of its Annual Report and Accounts, published following the end of the financial year. 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. The first estimate of Welsh income tax revenue for 2019-20 is, therefore, expected to be published in July 2020, with the outturn to be presented as part of the Annual Report and Accounts 2020-21, expected to be published in July 2021.

**Figure 1**

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



Source: The Welsh Government

Remit of the Comptroller and Auditor General

5 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 rates 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.

**6** This is the second report prepared under these responsibilities and covers HMRC's preparations leading to the roll-out of the Welsh rates from April 2019. It provides:

- an overview of HMRC's approach to the administration of devolved income taxes and the Welsh rates in the context of the UK tax system (Part One);
- our findings from reviewing the implementation of the Welsh rates of income tax, 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).

**7** 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 our 2019-20 report on the Welsh rates of income tax. Appendix One sets out our audit approach and methodology.

## **Key findings**

**8 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.** There is evidence of constructive challenge by Welsh Government officials in these forums, while HMRC has helped joint working by locating some of its project personnel in Cardiff. The Welsh Government is represented throughout the project structure, including the Welsh Income Tax Devolution Project Board and the supporting boards (paragraphs 2.5 and 2.6).

**9 Maintaining a complete and accurate database of Welsh taxpayers is important to ensuring that HMRC can collect the correct amount of tax from Welsh taxpayers and allocate this to the Welsh Government.** HMRC cleansed the data on its systems to recognise Welsh taxpayers and then corroborated its records to third-party data sources. In November 2018, HMRC issued 2.0 million bilingual taxpayer notification letters to Welsh taxpayers informing them of the Welsh rates of income tax (paragraphs 2.7 to 2.22).

**10 HMRC regularly communicates with a diverse range of external audiences including employers, pension providers and other businesses that deliver payroll-related services to help ensure the Welsh rates of income tax project is implemented as intended.** In May 2019, HMRC identified 174,000 Welsh taxpayers where the incorrect tax code was being applied by employers and pension providers. The application of incorrect tax codes was due to an issue within the payroll software being used by some employers. The application of incorrect tax codes was due to an issue within the payroll software being used by some employers, the timing of PAYE submissions by pension providers, and employer error or omission. HMRC found that its records were up to date. HMRC has been working with the affected employers to address and resolve these issues and ensure that the correct tax codes are being applied (paragraphs 2.29 to 2.35).

**11 In 2018-19, HMRC incurred and recharged £5.8 million of costs for implementing the Welsh rates of income tax.** We examined HMRC's method for estimating the costs of collecting and implementing the Welsh rates of income tax for the year to ensure this was reasonable in the context of the agreement with the Welsh Government. Based on our procedures, we have concluded that the amount repaid by the Welsh Government for the year ended 31 March 2019 is accurate and fair (paragraphs 3.1 to 3.7).