



National Audit Office



REPORT

# Administration of Welsh rates of income tax 2021-22

HM Revenue & Customs

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SESSION 2022-23  
19 JANUARY 2023  
HC 1024

## Key facts

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**1.4mn**

Welsh taxpayers in 2020-21

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**£2.14bn**

Welsh income tax revenue  
in 2020-21

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**£2.36bn**

HM Revenue & Customs'  
estimate of Welsh income  
tax revenue in 2021-22

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**£0.4 million** costs of administering Welsh income tax in 2021-22

# Summary

## Introduction

### Welsh income tax

**1** The Wales Act 2016 gave the Senedd (Welsh Parliament) power to determine the rates (excluding the personal allowance) paid by Welsh taxpayers on all non-savings, non-dividend income, from 6 April 2017. The Welsh Government receives all income tax revenue generated from non-savings, non-dividend income under Welsh income tax policy.

**2** From April 2019, the UK government reduced the UK basic, higher and additional income tax rates by 10 percentage points for Welsh taxpayers and the Senedd had the power to apply Welsh rates in addition. For each tax band, the rate of income tax paid is the sum of the reduced rest of UK rate and the new Welsh rate (**Figure 1** overleaf). For 2021-22, the Senedd set the Welsh rates of income tax the same as in 2020-21, at 10% across all bands, which meant that the total rates for taxpayers in Wales matched the UK rates at 20% (basic rate), 40% (higher rate) and 45% (additional rate).

### Roles and responsibilities

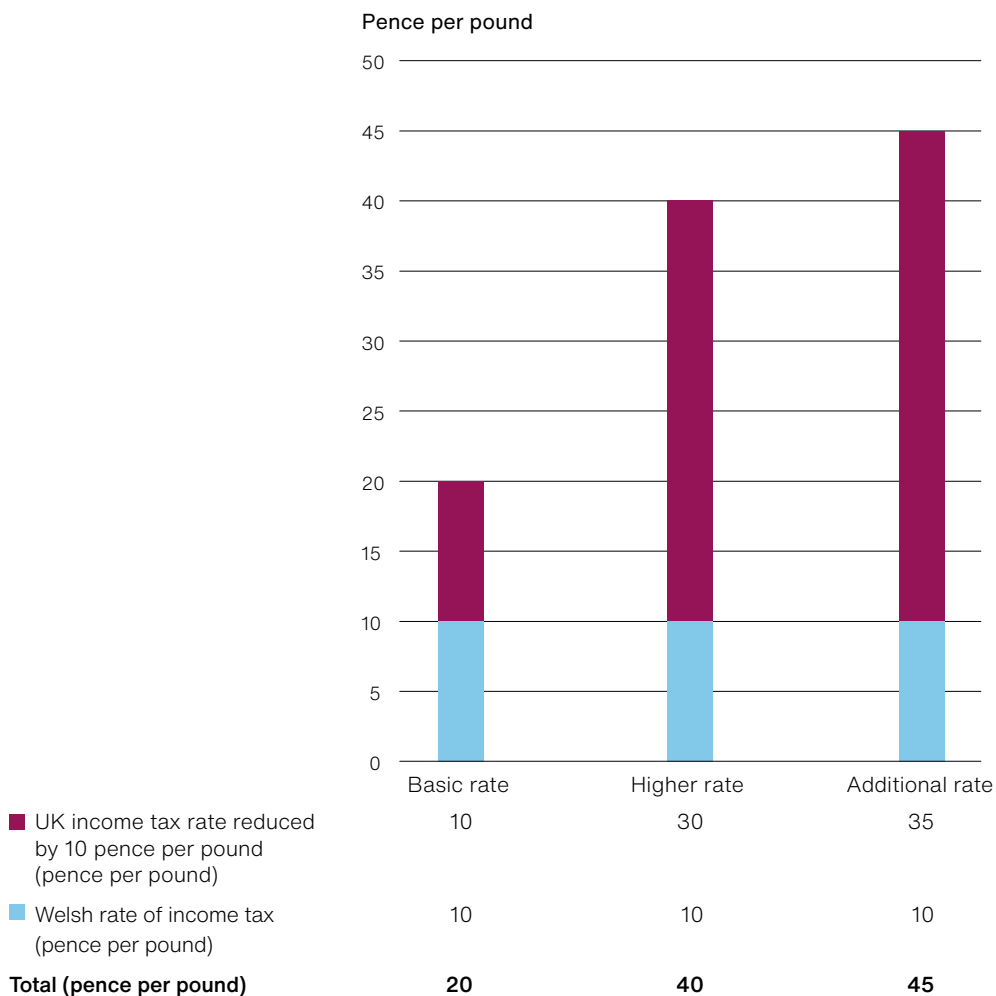
**3** HM Revenue & Customs (HMRC) administers and collects Welsh income tax as part of the UK tax system. HMRC identifies taxpayers living in Wales by applying a 'flag' in its systems that indicates they are subject to Welsh income tax rates. HMRC has calculated that there were 1.4 million Welsh taxpayers in 2020-21. HM Treasury is responsible for paying Welsh income tax to the Welsh Government.

**4** Following the end of each tax year, HMRC produces a provisional estimate of Welsh income tax revenue for that year. The final outturn is calculated the following year once HMRC receives further information from taxpayers and employers. This report covers the final outturn for 2020-21 and the provisional estimate for 2021-22. HMRC expects to publish the outturn for 2021-22 in its 2022-23 Annual Report and Accounts.

**Figure 1**

Welsh rates of income tax for 2021-22

The UK rates of income tax are effectively reduced by 10 pence per pound and replaced with the Welsh rates of income tax



**Notes**

- 1 For each tax band (basic, higher and additional), the UK government reduces the amount of tax it will collect by 10 pence per pound and the Sennedd (Welsh Parliament) sets the Welsh rate of income tax to be added to the UK rates of tax.
- 2 For 2021-22, the Sennedd set each Welsh rate of income tax at 10 pence, meaning that Welsh taxpayers pay an amount of tax equivalent to the UK rate for each tax band.

Source: The Welsh Government

**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 HMRC's rules and procedures, in consequence of the Welsh rate provisions, to ensure 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 that is attributable to a Welsh rate resolution; and
- the accuracy and fairness of amounts reimbursed to HMRC as administrative expenses.

**6** This report assesses:

- HMRC's calculation of the 2020-21 income tax revenue for Wales, the 'outturn', and assurance on the correctness of amounts brought to account (Part One);
- HMRC's estimate of the 2021-22 income tax revenue for Wales and our view on the estimate methodology (Part One);
- key controls operated by HMRC to assess and collect income tax (Part Two);
- HMRC's approach to assessing and mitigating the risk of non-compliance with Welsh tax requirements (Part Two); and
- the cost of administering Welsh income tax. We provide assurance on the accuracy and fairness of these amounts in the context of costs incurred by HMRC (Part Three).

**7** Appendix One sets out our audit evidence base.

## Key findings

### Welsh income tax 2020-21 final outturn and 2021-22 estimate

**8 HMRC calculated the final outturn for 2020-21 as £2,140 million, representing amounts collected under Welsh income tax policy.** HMRC's estimate of Wales's 2020-21 income tax revenue, published in November 2021, was £2,100 million, meaning the actual outturn was £39 million higher than HMRC had originally estimated. We examined the methodology for the calculation of the actual outturn, which necessarily includes remaining areas of estimation, for instance where returns from taxpayers had not yet been received. In these areas, we have evaluated the basis of HMRC's estimate, including relevant assumptions and available data. Based on that audit work, we have concluded that the Welsh income tax revenue outturn for 2020-21 is fairly stated (paragraphs 1.2 to 1.15).

**9 HMRC has estimated Welsh income tax revenue for 2021-22 as £2,356 million.** This represents an increase of £216 million (10.1%) compared with the 2020-21 outturn. Income tax for the whole of the UK increased by 13.2% in 2021-22. The increases in UK and estimated Welsh income tax revenues reflect the recovery of the economy after the acute phase of the COVID-19 pandemic had ended. HMRC expects to calculate the finalised 2021-22 income tax outturn attributable to Wales in 2023. The estimate HMRC produces is solely for financial reporting purposes in its annual accounts and does not affect the amount of revenue ultimately received by the Welsh Government (paragraphs 1.16 to 1.20).

**10 External factors have increased the level of uncertainty in HMRC's estimate of Welsh income revenue in 2021-22.** HMRC identified the key source of uncertainty as the accuracy with which it can estimate Wales's share of UK income tax liabilities, particularly since this estimate relies on survey data from 2019-20. External factors outside its direct control, such as the wave of the Omicron variant of COVID-19 that developed during the year and the impact of the Ukraine conflict on taxpayers' ability to meet their tax liabilities, have introduced further uncertainty to the estimate. We consider the approach adopted by HMRC to estimating the impact of these areas of uncertainty on Welsh income tax revenue in 2021-22 to be reasonable (paragraph 1.21).

## Administration of Welsh rates of income tax

**11 HMRC has adequate rules and procedures in place to ensure the proper assessment and collection of Welsh income tax and that those rules are being complied with.** Our work on Welsh income tax matters builds on our wider assessment of HMRC's rules and procedures, completed as part of our annual audit of HMRC. As part of that audit, we concluded that HMRC had framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that these regulations and procedures are being duly carried out (paragraphs 2.2 to 2.13).

**12 Maintaining an accurate and complete record of the addresses of the residency status of Welsh taxpayers remains the key challenge in administering the system.** HMRC relies on taxpayers notifying it of a change of address, although there is no legal requirement for them to do so. We found that there had been an increase in the number of Welsh postcodes identified by HMRC's address-cleansing work as either missing or invalid, with 6% (81,716) of the overall taxpayer population identified as either missing or invalid in June 2021 compared with 4% (53,467) in September 2020. HMRC has investigated and updated those cases where individuals were either employed or receiving a pension (paragraphs 2.14 to 2.24).

**13 HMRC continues to assess the risk of non-compliance in relation to Welsh income tax as low because there is no divergence between Welsh tax rates and the rest of the UK.** In 2021-22, HMRC produced a Welsh Strategic Picture of Risk (SPR). It considers the main areas of risk to Welsh income tax to be the same as those compliance risks which are assessed at the whole-of-UK level. There are no risks identified in the Welsh SPR which are specific to Wales (paragraphs 2.25 and 2.26).

**14 HMRC calculated a compliance yield of £100 million relating to Wales for 2020-21, the most recent data available.** HMRC measures the effectiveness of its enforcement and compliance activities through compliance yield: its estimate of the additional revenues it has generated, and the revenue losses it has prevented. HMRC also estimated that the Welsh share of net losses was £370 million. HMRC calculates these figures as a proportion of the equivalent UK figure, rather than using Welsh-specific data to quantify the risks. HMRC does not consider or report on geographical variations in the level of compliance risk, or the relative success of compliance activity in Wales compared with the rest of the UK (paragraph 2.27).

**15 HMRC has limited performance data available about its compliance activities in Wales.** Unlike its income tax system which flags residents as Welsh, HMRC's compliance system cannot readily identify people living in Wales. HMRC therefore cannot easily track and monitor compliance activity in Wales and this affects its ability to collect performance data about the extent of Welsh non-compliance (paragraph 2.29).

**16 COVID-19 continued to have an impact on HMRC's compliance activities during 2021-22.** Across the UK, the number of compliance cases opened and closed in 2021-22 was higher than in 2020-21 but 27% lower than in 2019-20 before the pandemic. The ability to conduct face-to-face enquiries and the need to re-deploy compliance staff to support other COVID-19 measures also affected its compliance activity during the year. HMRC's yield from its tax compliance activities for the whole of the UK was £30.8 billion in 2021-22, up 1.1% compared with 2020-21 but lower than the £36.9 billion reported in 2019-20. It will take some time to understand fully the impact of the pandemic on tax compliance and yield (paragraphs 2.30 and 2.31).

**17 Tax debt has reduced since 2021 but remains higher than pre-pandemic levels.** HMRC's debt balance is affected by external factors that have an impact on taxpayers' ability to pay their tax liabilities, including current inflationary pressures and increases in the cost of living. At 31 March 2022, total tax debt for the UK was £41.6 billion, 86% (£19.2 billion) higher than the level of debt reported at 31 March 2020, before the impact of the COVID-19 pandemic. HMRC expects the level of tax debt to fall more slowly than it initially anticipated. An analysis of income tax debt attributable to Wales is not currently available (paragraph 2.32).

## Costs

**18 In 2021-22 HMRC incurred and recharged £0.4 million to the Welsh Government for the cost of implementing and administering Welsh income tax.** We examined HMRC's method for estimating the costs of collecting and administering Welsh income tax for the year ended 31 March 2022. Based on our audit work, we have concluded that the amount paid by the Welsh Government was accurate and fair in the context of the agreement between HMRC and the Welsh Government. 2021-22 is the first year since income tax powers were devolved to Wales that expenditure relates exclusively to operating costs. HMRC did not incur any costs for implementing the Welsh Income Tax Project, unlike previous financial years, because the project closed in February 2021 (paragraphs 3.4 and 3.5 and Figure 8).