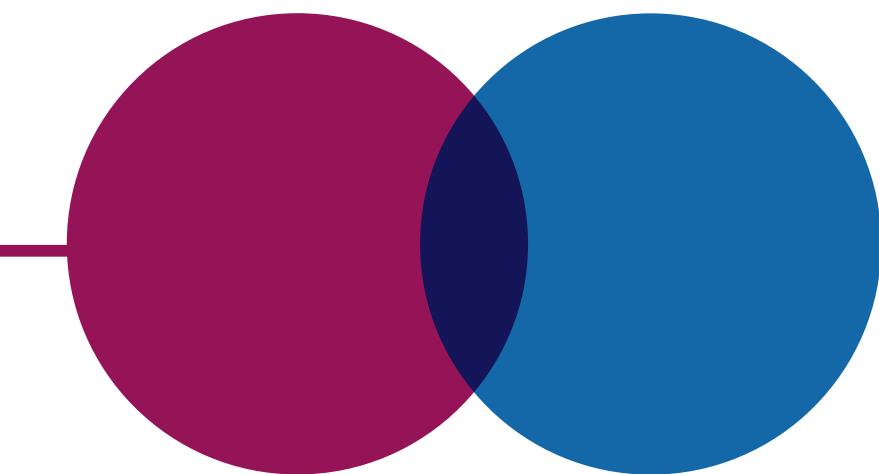




National Audit Office



REPORT

Administration of Welsh rates of income tax 2024-25

HM Revenue & Customs

SESSION 2024-2026
23 JANUARY 2026
HC 1598

Summary

Introduction

1 The Wales Act 2014 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 2019.

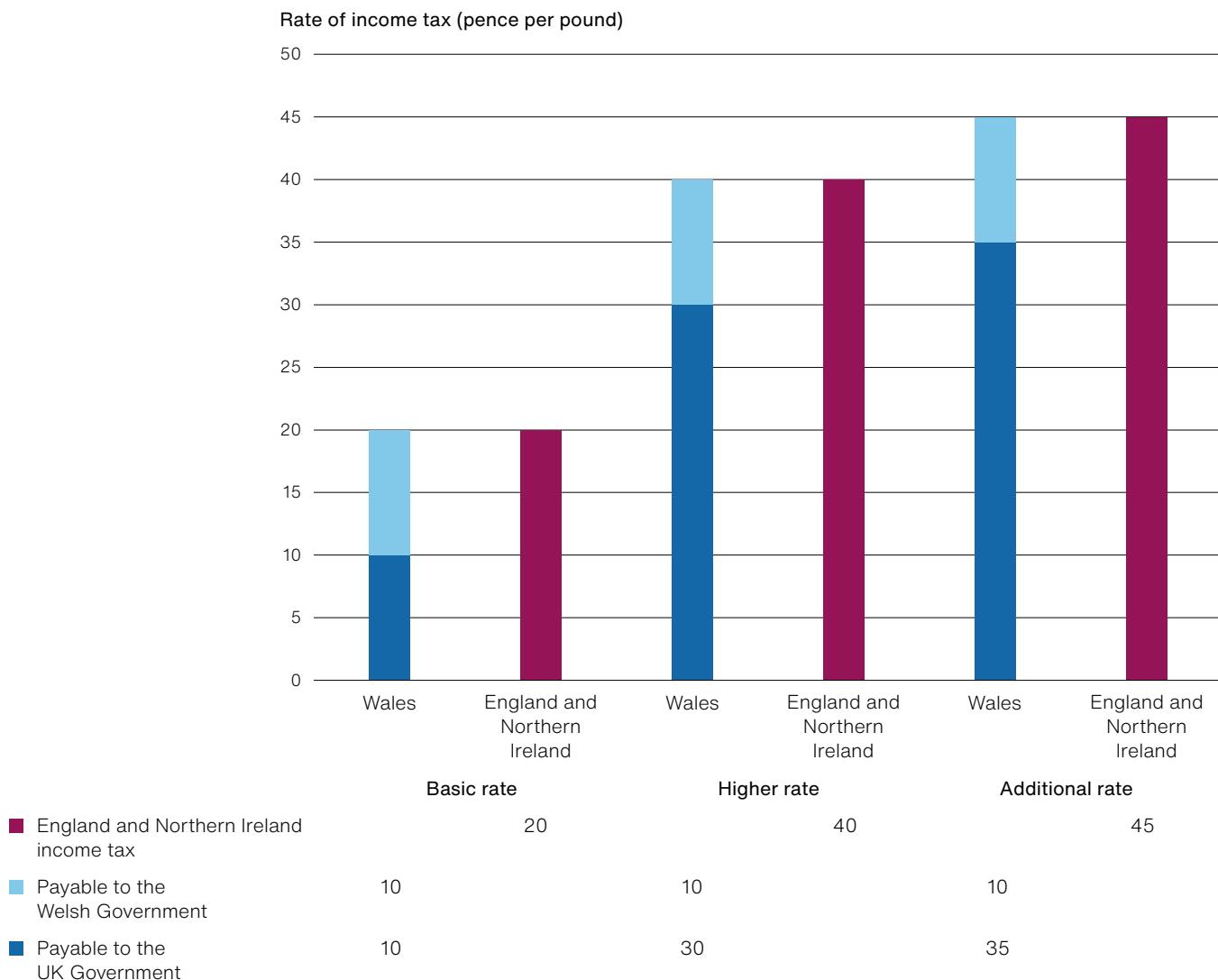
2 Since April 2019, the UK Government has reduced the UK basic, higher and additional income tax rates by 10 percentage points for Welsh taxpayers, and the Senedd has had the power to apply Welsh rates in addition. For each tax band, the rate of income tax paid is the sum of the reduced UK rate and the Welsh rate set for the year (**Figure 1**). As in previous years, for 2024-25 the Senedd set the Welsh rates of income tax at 10% across all bands, which meant that the total rates for taxpayers in Wales were exactly the same as the England and Northern Ireland rates, at 20% (basic rate), 40% (higher rate) and 45% (additional rate).

3 In this report, we describe the amount collected under the Welsh rates of income tax, which represents approximately 43% of the total income tax collected from Welsh taxpayers. The Welsh Government's resource block grant from the UK Government is reduced by this amount and HM Treasury is responsible for paying these amounts to the Welsh Government. The balance of remaining income tax contributions is paid to the UK Government.

Figure 1

Welsh rates of income tax for 2024-25

In 2024-25 the Senedd set the Welsh rates of income tax at 10p in the pound, meaning that Welsh taxpayers pay the same rates of income tax on non-savings and non-dividend income as taxpayers in England and Northern Ireland

**Notes**

- 1 The basic rate is charged on income between £12,571 and £50,270; the higher rate is charged on income between £50,271 and £125,140; and the additional rate is charged on income over £125,140.
- 2 For each tax band (basic, higher and additional), the UK Government reduces the amount of tax it will collect by 10 pence per pound. For 2024-25 the Senedd (Welsh Parliament) set the Welsh rates of income tax at 10 pence, meaning that Welsh taxpayers pay an amount of tax equivalent to the England and Northern Ireland rate for each tax band.
- 3 A taxpayer's personal allowance is reduced by £1 for every £2 of net income above £100,000.

Source: National Audit Office analysis of data from the Welsh Government

Roles and responsibilities

4 HM Revenue & Customs (HMRC) administers and collects the Welsh rates of 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 1.6 million Welsh taxpayers in 2023-24 (2022-23: 1.5 million).

5 Following the end of each tax year, HMRC produces a provisional estimate of tax revenue for that year from the Welsh rates of income tax. It calculates the final outturn the following year, once it has received further information from taxpayers and employers. This report covers the final outturn for 2023-24 and the provisional estimate for 2024-25. HMRC expects to publish the outturn for 2024-25 in its 2025-26 Annual Report and Accounts in July 2026.

6 Section 116K of The Government of Wales Act 2006, as amended by the Wales Act 2014, requires the UK 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 by those provisions;
- whether HMRC is complying with these rules and procedures;
- 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.

7 This report assesses:

- HMRC's calculation of the 2023-24 Welsh rates of income tax revenue (the 'outturn') and assurance on the correctness of amounts brought to account (Part One);
- HMRC's estimate of the 2024-25 Welsh rates of income tax revenue 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).

8 Appendix One sets out our audit evidence base.

Key findings

Welsh rates of income tax 2023-24 final outturn and 2024-25 estimate

9 HMRC calculated the final outturn for the Welsh rates of income tax in 2023-24 as £2,968 million, representing amounts collected under Welsh income tax policy. This represents an increase of 13.4% compared with the outturn for 2022-23. HMRC based the outturn calculation on established tax liabilities where HMRC has finalised the tax owed and fully reconciled the taxpayer records. The calculation includes some areas of estimation and adjustments, for instance where HMRC had not yet received returns from taxpayers or where HMRC does not have Wales-specific data. In these areas, we have evaluated the basis of HMRC's estimates, including the relevant assumptions and available data. The gross total of the estimates and adjustments made by HMRC constituted 5.0% of the gross outturn in 2023-24 (2022-23: 5.6%). Based on our audit work, we have concluded that the outturn for the Welsh rates of income tax for 2023-24 is fairly stated (paragraphs 1.2 to 1.12 and Figure 2).

10 HMRC has estimated revenue from the Welsh rates of income tax for 2024-25 as £3,287 million. The estimate HMRC produces is solely for financial reporting purposes in its annual accounts and does not affect the amount of revenue that the Welsh Government receives. However, based on recent years, it has proved to be a reasonable indicator of the amount of income tax likely to be collected from Welsh taxpayers: the outturn in 2023-24 was £30 million (1.0%) higher than HMRC's provisional estimate. HMRC expects to calculate the finalised 2024-25 income tax outturn attributable to the Welsh rates of income tax by July 2026 (paragraphs 1.13 to 1.16).

Administration of the Welsh rates of income tax

11 HMRC has adequate rules and procedures in place to ensure the proper assessment and collection of the Welsh rates of income tax and it is complying with those rules. Our work on Welsh income tax 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 2.15).

12 Maintaining an accurate and complete record of the addresses of Welsh taxpayers remains HMRC's key challenge in administering the system as HMRC does not have a central database for identifying Welsh residents. HMRC relies on taxpayers or employers notifying it of a change of address, although there is no legal requirement for them to do so. It undertakes various exercises to check addresses, including those listed below.

- The number of Welsh residents with taxable income in 2024-25 found to have a missing or invalid postcode through HMRC's address-cleansing work remained relatively low at 709 (2023-24: 807). As part of its assurance work, HMRC told us it updated all these records.
- In its 2025 exercise to compare the Welsh address records it holds with third-party data, the latest available, HMRC was able to successfully match 74.86% of address records, up from 73.97% in 2023. HMRC reviewed the records that could not be verified with third-party data and checked them against its internal sources. Overall, HMRC matched 96.03% of the records to a Welsh address using either third-party or its internal data. It could not find a match in either source in 3.52% of cases (paragraphs 2.17 to 2.26 and Figure 6).

13 HMRC continues to assess the risk of non-compliance in relation to the Welsh rates of income tax as low because there is no divergence between Welsh tax rates and those in England and Northern Ireland. HMRC produces an annual Strategic Picture of Risk (SPR) for the Welsh rates of income tax. In 2024-25, it considered the main areas of risk to Welsh income tax to be the same as those compliance risks which it assesses at the whole-of-UK level. In this SPR, HMRC identifies no risks as specific to Wales, as HMRC assesses that compliance risk in Wales is consistent with the rest of the UK (paragraphs 2.27 and 2.28).

14 HMRC estimated a compliance yield of £220 million in 2023-24 based on Wales' share of UK compliance risks. Compliance yield is HMRC's estimate of the additional revenues it has generated through its compliance work, and the revenue losses it has prevented. It is how HMRC measures the effectiveness of its enforcement and compliance activities. HMRC estimated that the Welsh share of net losses from compliance risks for 2022-23, the most recent data available, was £430 million. HMRC calculates these figures as a proportion of the equivalent UK figure, rather than using Wales-specific data to quantify the risks. HMRC does not 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 (paragraphs 2.31 and 2.32).

Costs

15 In 2023-24, HMRC incurred £0.38 million for the cost of administering the Welsh rates of income tax, and re-charged this to the Welsh Government. We examined HMRC's method for estimating the costs of collecting and administering the Welsh rates of income tax for the year ended 31 March 2025. 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 (paragraphs 3.4 and 3.5).