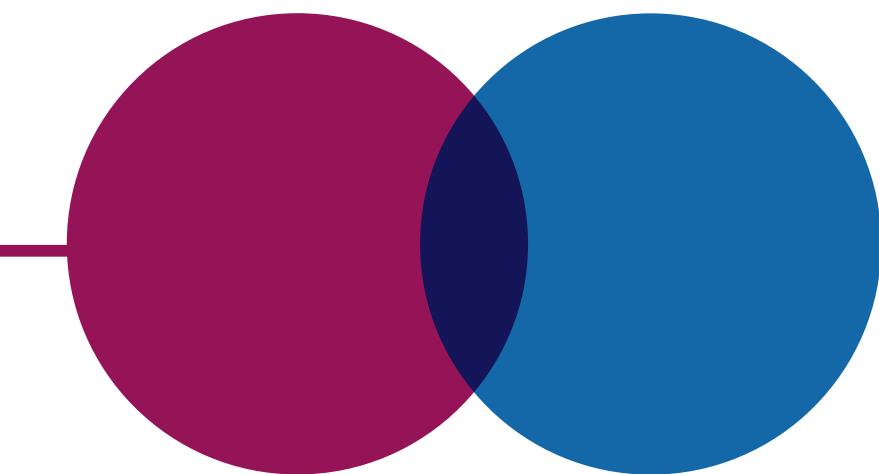




National Audit Office



REPORT

Administration of Welsh rates of income tax 2024-25

HM Revenue & Customs

SESSION 2024-2026
23 JANUARY 2026
HC 1598



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National Audit Office

Administration of Welsh rates of income tax 2024-25

HM Revenue & Customs

Report by the Comptroller and Auditor General

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of Commons in accordance with Section 9 of the Act

Presented to the National Assembly for Wales pursuant
to Section 116K of the Government of Wales Act 2006,
as amended by the Wales Act 2014

Gareth Davies
Comptroller and Auditor General
National Audit Office

15 December 2025

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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.

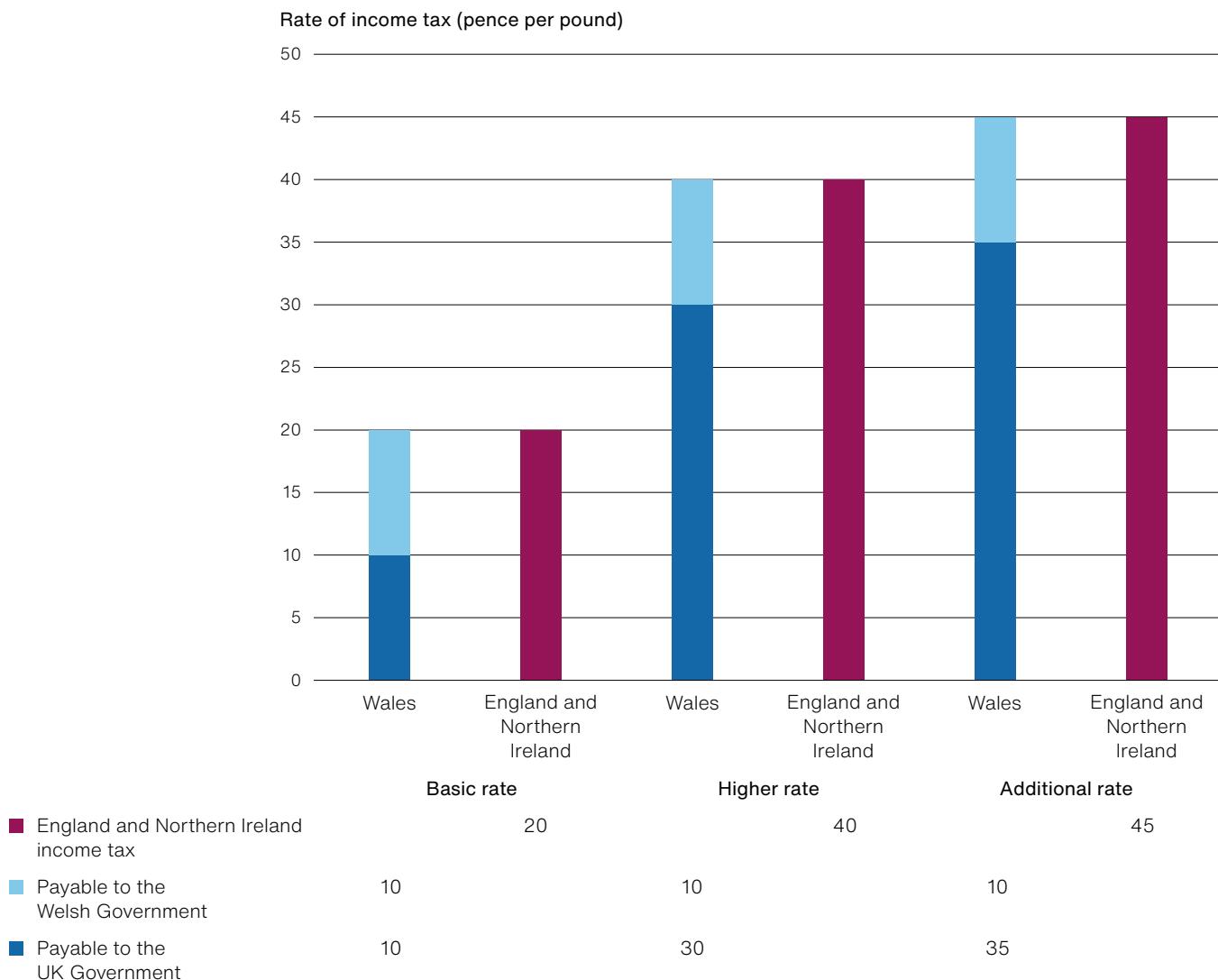
2 Since April 2019, the UK Government has reduced the UK basic, higher and additional income tax rates by 10 percentage points for Welsh taxpayers, and the Senedd has had the power to apply Welsh rates in addition. For each tax band, the rate of income tax paid is the sum of the reduced UK rate and the 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).

Part One

Income tax collected from Welsh taxpayers

1.1 Part One of this report covers HM Revenue & Customs' (HMRC's) calculation of the final revenue outturn in 2023-24 and its provisional estimate of the revenue for 2024-25 from the Welsh rates of income tax. This includes data limitations and HMRC's judgements in areas of uncertainty in its calculation of the outturn, and the features and limitations of HMRC's methodology in calculating its provisional estimate.

The Welsh rates of income tax 2023-24 final outturn

1.2 HMRC's calculation of the outturn for the Welsh rates of income tax for 2023-24 is £2,968 million. HMRC calculates the final outturn figure from several components, which it aggregates to produce the total Welsh rates of income tax liability for 2023-24. HMRC calculates each component using one or more sources of data.

1.3 The outturn for 2023-24 represents an increase of 13.4% compared with 2022-23. The outturn for comparable non-savings, non-dividend income tax for the rest of the UK increased by 10.1% in 2023-24. HMRC attributed the higher growth in revenue from Welsh income tax in 2023-24 to a more pronounced impact of 'fiscal drag', noting a greater increase in income bands of around £44,000 or higher in Wales.¹

Components of the outturn

1.4 HMRC largely based the outturn calculation on established tax liabilities, some £3,030 million, where HMRC has finalised the tax owed and fully reconciled the taxpayer records. HMRC calculates the established liabilities from the final tax liability data extracted from the Pay As You Earn (PAYE) and Self Assessment income tax systems.

¹ So-called 'fiscal drag' refers to the situation whereby tax revenues increase as a result of not increasing ('freezing') the value of tax thresholds. This increases people's taxable income without tax rates actually increasing and results in additional revenue to the government.

1.5 HMRC makes adjustments or estimates where it has not yet finalised the tax due, or where it must estimate the Welsh share of uncollectable amounts or tax reliefs. The reduction in outturn arising from these adjustments was £62 million (net) (**Figure 2**).² In some areas of the calculation, HMRC does not have data in sufficient detail to identify income tax liabilities, reliefs or other adjustments relating to individual taxpayers. HMRC estimated the Welsh share of these balances by using other available data, such as population and income data, to apportion the balance between Wales and the rest of the UK. The gross total of all the estimates and adjustments made by HMRC totalled £161 million in 2023-24, or 5.0% of the gross outturn.³ The overall proportion of the estimates and adjustments relative to the gross outturn remains broadly consistent with previous years (5.6% in 2022-23 and 5.9% in 2021-22).^{4,5}

1.6 As detailed in last year's report, in July 2024, HMRC reported some discrepancies identified in the outturn figures it had previously published in respect of Welsh income tax and the equivalent taxes elsewhere in the UK.⁶ This led to HMRC overstating the outturn for the Welsh rates of income tax by an average of £17 million per year, or 0.8% of the previously reported outturn between 2019-20 and 2021-22. HMRC revised its outturn calculations to remove the duplicate records for each of the affected years. HMRC reported that, from the 2022-23 outturn publication, the outturn methodology has been permanently amended to avoid double counting of some taxpayers. As noted in last year's report, HM Treasury and the Welsh Government have agreed that no adjustments were needed to amounts previously paid to the Welsh Government.

1.7 The other components of HMRC's methodology for calculating the outturn have remained the same since the prior year. The methodology includes areas of estimation, for instance where HMRC had not yet received returns from taxpayers. In these areas, we evaluated the basis for HMRC's estimate including relevant assumptions and available data. Based on our financial audit work, we concluded that the outturn for the Welsh rates of income tax for 2023-24 is fairly stated. We describe the key components of the calculation of outturn in more detail below.

- 2 The sum of the established tax liabilities and the net adjustments does not equal the reported outturn due to rounding.
- 3 This gross total is made up of £59 million estimated liabilities and £102 million deductions. Estimates and adjustments for Self Assessment and PAYE liabilities include both amounts that are added as estimates and those deducted from revenue, so this gross total is higher than the sum of the individual components presented in Figure 2.
- 4 For this year's report, we reviewed our methodology for calculating the proportion of estimates and adjustments as a percentage of the outturn. Instead of using the net outturn figure as a denominator, we use the gross outturn. This tends to be larger, therefore reducing the estimate. We also reviewed our categorisation of which components were estimated and removed some from the numerator (for example, some reliefs). This also reduces the proportion estimate. HMRC's calculation of this proportion estimate may also be smaller than the National Audit Office's, as it excludes some further elements of the numerator as non-estimated.
- 5 The net total of estimates and adjusted values has been relatively stable year-on-year (£62 million in 2023-24, £54 million in 2022-23, and £57 million in 2021-22).
- 6 Comptroller and Auditor General, *Administration of Welsh rates of income tax 2023-24*, Session 2024-2025, HC 542, National Audit Office, January 2025.

Figure 2

HM Revenue & Customs' (HMRC's) calculation of the 2023-24 Welsh rates of income tax revenue outturn

The majority of the outturn is based on established liabilities with a small proportion estimated by HMRC

	2023-24 outturn			2022-23 outturn		
	Established amounts	Estimates and adjustments	Total	Established amounts	Estimates and adjustments	Total
	(£mn)	(£mn)	(£mn)	(£mn)	(£mn)	(£mn)
Self Assessment liabilities	838	(15)	823	804	(12)	792
Pay As You Earn (PAYE) liabilities	2,192	2	2,194	1,868	(5)	1,864
Estimated further liabilities	–	53	53	–	58	58
Deductions from revenue	–	(102)	(102)	–	(95)	(95)
Total	3,030	(62)	2,968	2,672	(54)	2,618

Notes

- 1 Self Assessment and PAYE established tax liabilities are based primarily on the tax liability data held by HMRC, although some amounts are based on estimates as well.
- 2 Estimated further liabilities are HMRC's estimate of PAYE tax liabilities that have not yet been finalised and where tax liabilities are expected from future Self Assessment returns or compliance activity.
- 3 Deductions from revenue include tax relief on pension contributions and Gift Aid and an estimate for the share of tax liabilities after either employers or taxpayers fail to pay.
- 4 Numbers shown in brackets are negative numbers.
- 5 Figures may not sum to totals due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

Self Assessment liabilities

1.8 The Self Assessment total liability of £838 million represents all Welsh rates of income tax attributable from Welsh Self Assessment taxpayers in 2023-24. HMRC identifies Welsh taxpayers by using its record of Welsh residency status in its Computerised Environment for Self Assessment (CESA) system. The calculation of Self Assessment liabilities is mainly based on the extraction of Welsh taxpayer records from CESA. HMRC deducted £15 million to estimate Wales's share of other relevant Self Assessment balances where specific data are not available.⁷

⁷ This includes the following: an estimate of £3 million from manually entered liabilities and assessments, which do not provide a split of the liability between taxes; an adjustment of £2.7 million to cover sensitive records, which HMRC does not access when calculating the Welsh rates of income tax; and a deduction of £21 million for the share of tax reliefs claimed through Self Assessment attributable to the Welsh rates of income tax, for which HMRC does not collect Wales-specific data.

PAYE liabilities

1.9 The PAYE total established liability of £2,192 million represents all Welsh rates of income tax attributable from Welsh PAYE taxpayers in 2023-24. Under PAYE, employers submit data monthly to HMRC on the earnings and tax deductions made for their employees, and HMRC records this information in its National Insurance and PAYE Service (NPS) system. HMRC identifies Welsh taxpayers in the NPS using a residency indicator based on taxpayer postcode information. HMRC identifies total Welsh income tax liabilities by extracting Welsh taxpayer records from the NPS.

1.10 Most PAYE liabilities are based on Welsh taxpayer data extracted from HMRC's systems but some apportionment of other smaller elements is required. The sum of these adjustments in 2023-24 resulted in an addition to liabilities of £2 million.⁸

Estimated further liabilities

1.11 Most Self Assessment liabilities for 2023-24 are established prior to calculating the outturn. Nevertheless, HMRC knows from past years that Self Assessment tax liabilities will continue to be established and collected for up to six years afterwards. This is because HMRC continues to receive additional information from taxpayers and through its compliance activity. HMRC calculates the estimated additional liability for these elements based on past performance and estimated it at £53 million in the 2023-24 outturn.

Deductions from revenue

1.12 HMRC deducted a total of £102 million from the outturn revenue, made up of the following.⁹

- £17 million for liabilities HMRC does not expect to collect. Some PAYE and Self Assessment income tax liabilities are never settled because either employers or taxpayers fail to pay the full amounts due. HMRC analyses historical data for the UK as a whole to determine patterns of uncollected liabilities and then apportions an amount relating to the Welsh rates of income tax.
- £51 million in pension contributions and £33 million in Gift Aid, both of which attract income tax relief at the taxpayer's marginal rate of income tax. Pension scheme administrators claim tax relief at the basic rate from HMRC on behalf of their scheme members, while charities claim tax relief at the basic rate from HMRC on behalf of their donors. HMRC calculates both deductions by estimating the Welsh share of each tax relief claimed across the UK using historical data.

⁸ This includes a deduction of £4.6 million to cover the share of tax reliefs given against PAYE liabilities attributable to the Welsh rates of income tax, for which HMRC does not collect Wales-specific data. HMRC also made an adjustment of £6 million to apportion the tax it collects from employers under PAYE settlement agreements. These agreements allow employers to make one annual payment to cover all tax due on minor, irregular or impracticable expenses or benefits for employers in the scheme. As tax liabilities are settled through one payment for the employer, the identity of individual taxpayers is not recorded and, therefore, HMRC analyses employer submissions to determine the Welsh proportion of UK-wide settlement agreement revenue.

⁹ Total deductions do not equal the sum of components due to rounding.

The Welsh rates of income tax provisional estimate for 2024-25

1.13 HMRC estimates it will collect £3,287 million of revenue through the Welsh rates relating to the 2024-25 year.¹⁰ This provisional estimate is solely for financial reporting purposes in its annual accounts. It does not affect the amount of revenue that the Welsh Government receives. It does, however, provide a useful indicator, based on historical experience, of the amount of income tax likely to be collected from Welsh taxpayers. For 2023-24, the outturn was £30 million (1.0%) higher than HMRC's provisional estimate for that year.

1.14 The 2024-25 provisional estimate of £3,287 million suggests an increase of £319 million (10.7%) against the 2023-24 outturn. For the UK overall, the increase in the 2024-25 provisional estimate against the 2023-24 outturn was 10.0%. These increases may reflect inflationary rises in earnings, together with the freezing of tax bands and thresholds. HMRC expects to publish the final outturn for the 2024-25 year in its 2025-26 Annual Report and Accounts by July 2026.

1.15 HMRC's methodology to estimate revenue from the Welsh rates of income tax in 2024-25 is largely unchanged from that which it used to calculate the 2023-24 estimate. The methodology relies on taxpayer data from HMRC's Survey of Personal Incomes (SPI). The latest SPI data available to HMRC at the time it produced the estimate were from 2022-23. HMRC then adjusted the data to reflect demographic and policy changes that it expects or knows have taken place between 2022-23 and 2024-25. The SPI sample is less than 2% of UK taxpayers, which introduces sampling uncertainty into the revenue estimate. It also combines the calculation of PAYE and Self Assessment liabilities, so does not reflect the differing proportions of each type of taxpayer between Wales and the rest of the UK. There is also an inherent risk that data from 2022-23 will not accurately reflect the taxpayer base for 2024-25.

1.16 As part of our financial audit work, our review of the provisional methodology concluded that HMRC's approach is reasonable for the purposes of producing the estimate.

Part Two

Administering Welsh income tax

2.1 This part of the report covers:

- HM Revenue & Customs' (HMRC's) key processes to administer the income tax system and how we have obtained assurance on them;
- HMRC's procedures to identify and maintain a complete and accurate record of the Welsh taxpayer population; and
- how HMRC identifies and responds to compliance risks.

2.2 HMRC uses the same systems to administer income tax, whether it comes from a taxpayer in Wales or the rest of the UK. However, HMRC also operates additional rules and procedures for Wales, which we assess below. This reflects HMRC's responsibility to administer income tax for Welsh taxpayers in the same way as the service provided elsewhere in the UK.

2.3 Under Section 2 of the Exchequer and Audit Departments Act 1921, the UK Comptroller and Auditor General (C&AG) must consider the adequacy of HMRC's systems to assess and collect tax in the UK, including income tax. Each year we publish a report (the Standard Report) alongside HMRC's Annual Report and Accounts, setting out the C&AG's conclusions in this respect. Our 2024-25 Standard Report 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 they are duly carried out.

2.4 To support the conclusions of this report, we used our UK-wide testing to address the risks and approaches relevant to the administration of the Welsh rates of income tax. We also undertook specific procedures looking at HMRC's address-cleansing and wider tax compliance activities. These informed our assessment of the completeness and accuracy of HMRC's Welsh income tax estimates. To reach our conclusions, we examined several elements of devolved tax administration, such as HMRC's ongoing maintenance of Welsh taxpayer records, and how it identified and responded to devolved tax compliance risks.

The income tax system

2.5 HMRC's system to collect income tax is consistent across the UK. Depending on the type of income an individual receives, income tax is assessed and collected mainly through Pay As You Earn (PAYE), or by the taxpayer submitting a Self Assessment return, or a combination of these methods.¹¹

2.6 The PAYE and Self Assessment processes share common principles, despite HMRC using different IT systems and data sources to assess and collect tax.

Figure 3 overleaf identifies these principles and describes the main processes for each income tax stream.

Assurance of income tax processing

2.7 Our annual audit work programme on HMRC includes procedures providing assurance over key tax processing controls. These controls are broadly divided into two categories:

- automated system controls around handling, storing and processing data; and
- key business controls that have a high level of automation.

2.8 Following annual updates to business rules to reflect changing tax rates, thresholds and allowances for the UK and devolved administrations, HMRC completes several phases of assurance testing on key business controls to confirm system functionality. We evaluate the scope of this testing and re-perform elements to confirm HMRC's conclusions as part of our audit. The key processes for PAYE include annual:

- reconciling of employer information with personal tax records to confirm tax due on earnings and calculate any over- or underpayments of tax based on country of residence; and
- issuing of tax codes to PAYE taxpayers that incorporate residency information to ensure employers deduct tax under the tax rules of the correct country.

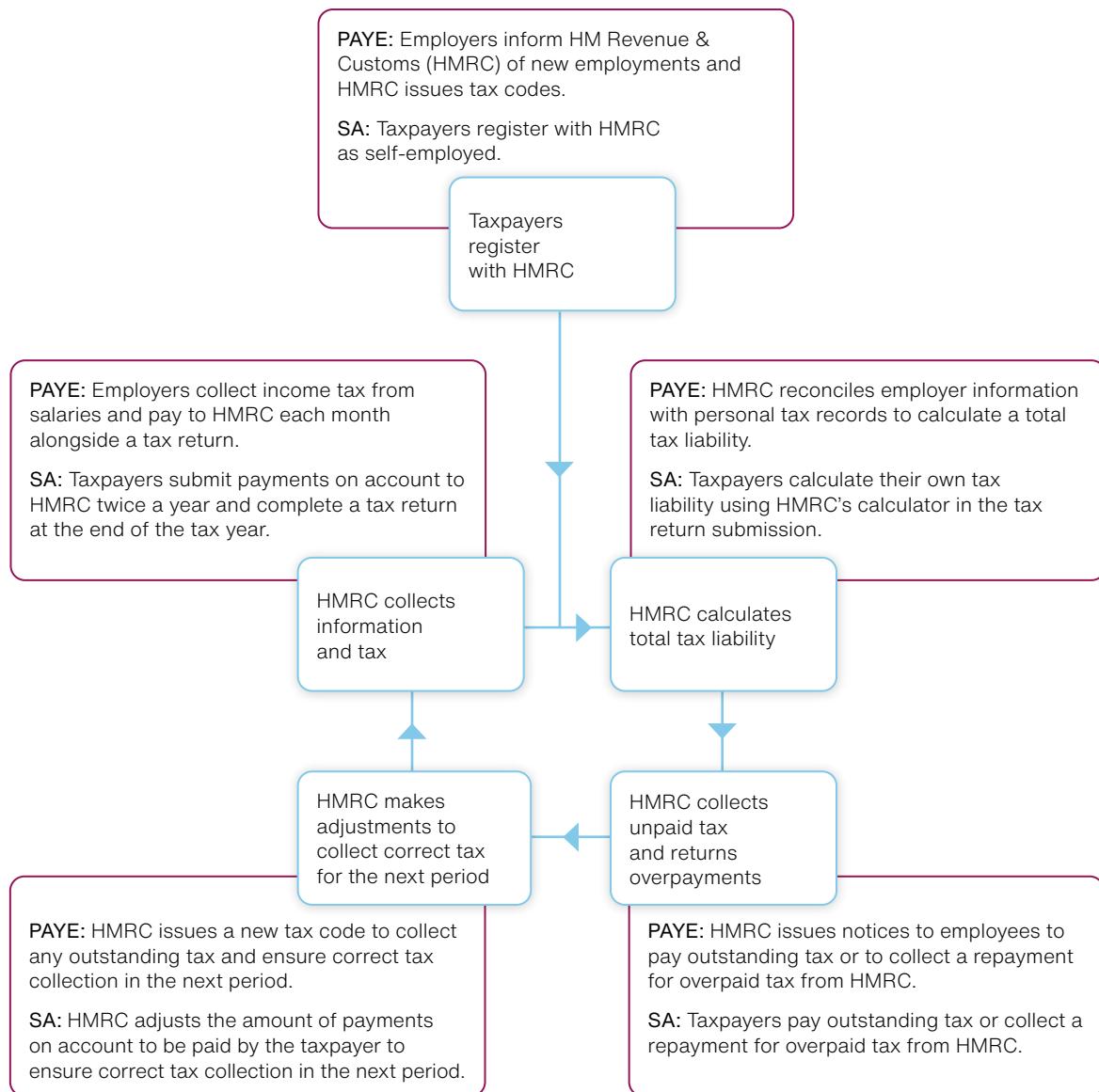
2.9 HMRC applies similar processes to each individual Self Assessment return that it receives. Self Assessment taxpayers make payments on account and at the year-end calculate their own tax liability using HMRC's calculator in their tax return submission.

¹¹ HMRC also uses the Simple Assessment method for a small number of taxpayers, calculating how much tax they owe using information it already holds. This applies, for example, when HMRC cannot automatically collect tax through income or when someone must pay tax on their state pension.

Figure 3

The UK income tax system

The Pay As You Earn (PAYE) and Self Assessment (SA) processes share common principles to assess and collect income tax



→ Tax cycle

Notes

- 1 PAYE and Self Assessment processes do not occur simultaneously. PAYE is processed during the tax year (6 April to 5 March) and reconciled after the end of the tax year. Self Assessment returns are not submitted until the January following the end of the tax year.
- 2 After the tax year ends, HMRC's PAYE reconciliation process calculates the income tax liability for each taxpayer using all available data. The calculated liability is compared with amounts deducted at source or collected from taxpayers directly to determine whether the correct tax has been collected.

Devolved income tax

2.10 The main differences in administering Welsh income tax, when compared with UK processes, are the business rules that the HMRC system applies when completing tax liability and tax code calculations. There have been no significant changes to system rules since our last report covering 2023-24.

2.11 A Welsh taxpayer is someone with a tax liability whose main place of residence during the tax year is Wales.^{12,13} The rules that the HMRC system applies for Welsh taxpayers are as follows.

- It checks the individual's residency status and applies the 'C' tax code prefix where they are identified as a Welsh resident. This instructs employers to collect tax under Welsh tax rates. Where an individual is no longer resident in Wales, the system removes the 'C' prefix.
- Where the system identifies an individual as a Welsh resident, it applies Welsh tax rates to the reported income when calculating the liability for the current tax year. Welsh taxpayers pay the same rates of income tax on non-savings and non-dividend income as taxpayers in England and Northern Ireland.
- If an individual has been identified as a Welsh resident and is enrolled on a PAYE scheme, the system uses Welsh income tax rates to calculate a new tax code for the following year.

2.12 Self Assessment returns include a check box for the taxpayer to state whether they resided in Wales during the tax year. If this contradicts HMRC's records, HMRC uses the address it holds to calculate the taxpayer's tax liability. HMRC notifies taxpayers of the discrepancy and asks them to update their address if required. HMRC does not collect data on the number of discrepancies. **Figure 4** overleaf shows where these divergences occur within the income tax system.

Tax relief on pension contributions

2.13 HMRC must identify Welsh taxpayers so that tax relief is correctly allocated. Pension administrators claim tax relief at source on behalf of their members and add this to their members' contributions. HMRC applies tax relief on pension contributions at the basic rate of 20% for all taxpayers. Welsh taxpayers paying a tax rate above 20% can claim the remaining tax relief through a Self Assessment return or by contacting HMRC.

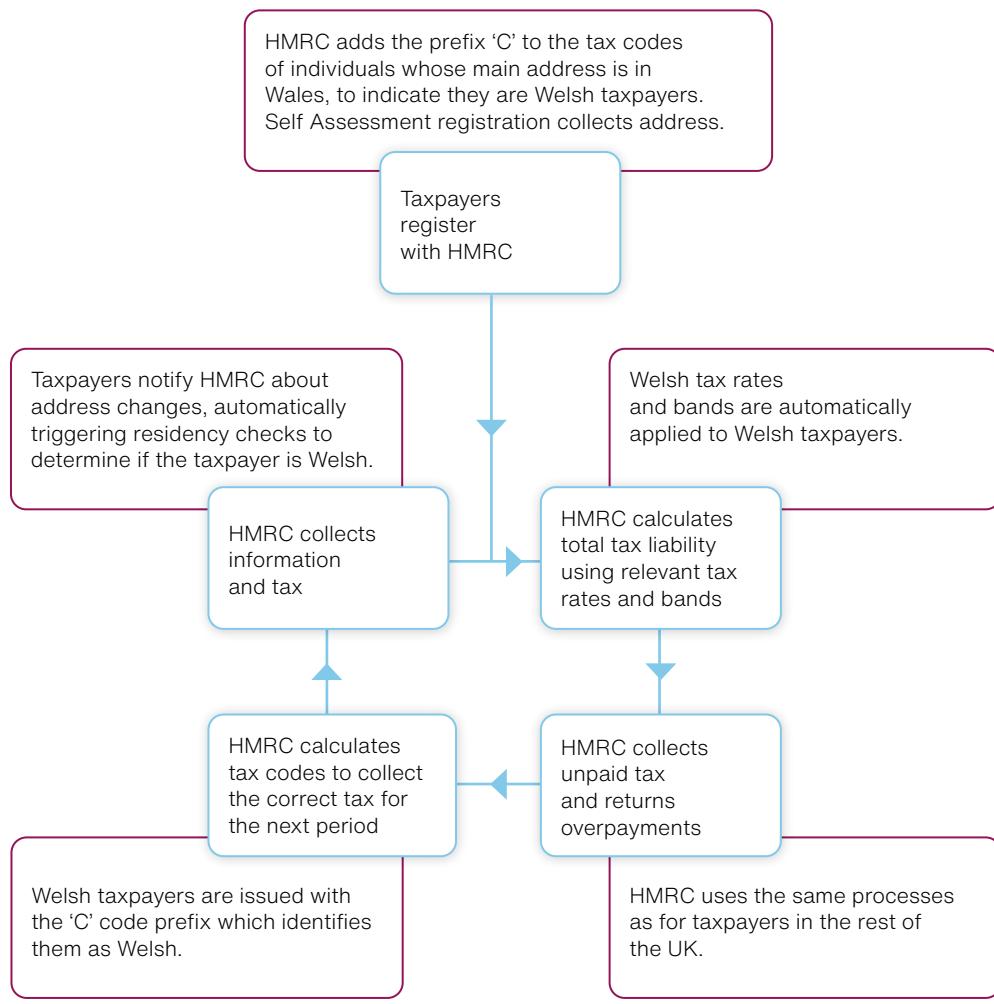
12 HMRC applies the 'day count test' when an individual has more than one place of residence and no clear main place of residence. HMRC treats the individual as a Welsh taxpayer if they spend more days in Wales than in any other part of the UK.

13 Welsh Parliamentarians are automatically deemed as Welsh taxpayers in any tax year they are in office, regardless of where they reside. This applies to the elected members of the Senedd and those members of Parliament in Westminster representing Welsh constituencies. Once HMRC records a Welsh Parliamentarian as a Welsh taxpayer, its system automatically overrides its normal business rules, and always records them as Welsh taxpayers until HMRC manually resets the override for each Parliamentarian. HMRC told us that it did not identify any issues in relation to Welsh Parliamentarians being recorded as Welsh taxpayers during 2024-25.

Figure 4

How the UK income tax system processes Welsh income taxpayers

HM Revenue & Customs' (HMRC's) business rules are configured to process income tax using the rates and thresholds applicable to a taxpayer's residency status



→ Tax cycle

Source: National Audit Office review of HM Revenue & Customs processes

2.14 To administer relief at source, HMRC requires all pension administrators to submit an annual return of information, which provides details of their members and their pension contributions during the previous tax year. HMRC's Relief at Source system then automatically matches scheme members against addresses held by HMRC and confirms the residency status of pension scheme members to identify Welsh taxpayers and ensure the correct relief is applied at source. HMRC then issues a report to all pension administrators confirming the residency of their members. HMRC confirmed the residency status for 93% of pension scheme members in the UK following the 2023-24 tax year, which is a similar proportion to that of the past six years. A Wales-specific figure for the proportion of residency statuses confirmed is not available. Following the 2023-24 tax year, HMRC issued Annual Notification of Residency Reports in January 2025.

Tax relief on Gift Aid contributions

2.15 HMRC provides tax relief on Gift Aid contributions in Wales at the UK basic rate of 20%. This is because HMRC does not have systems in place to establish the residency of taxpayers donating to charity. All taxpayers paying tax above the basic rate can claim back the difference between their tax rate and the basic rate on their donation. Where donations are made by Welsh taxpayers, HMRC applies the correct rate of relief when it is notified of the donated amount either through a request to amend a tax code or via a Self Assessment return.

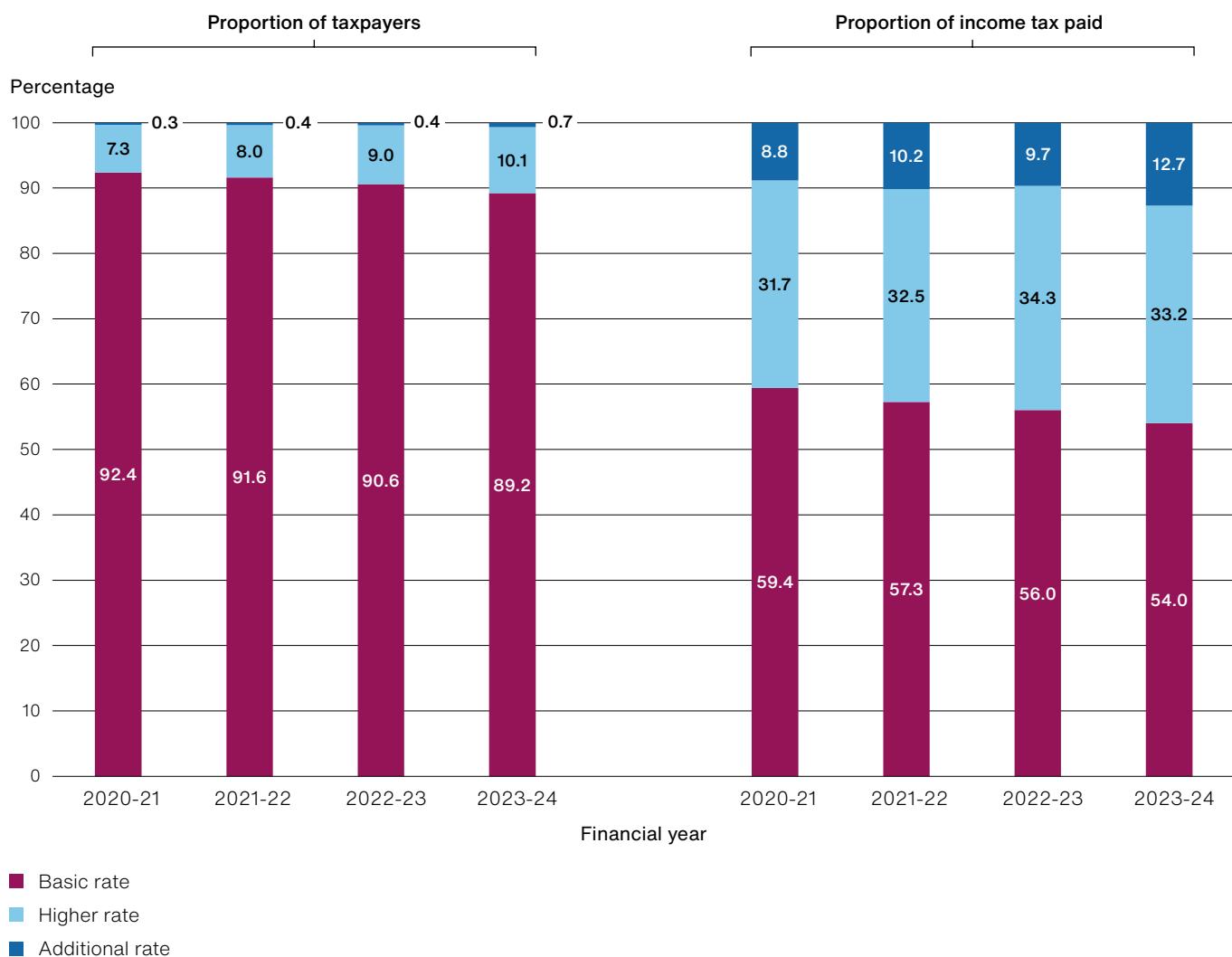
Welsh taxpayer population

2.16 HMRC has calculated that there were 1.6 million Welsh taxpayers in 2023-24, which is a 6.1% increase from 2022-23 (rest of the UK: 6.0%).¹⁴ The increase in the number of taxpayers reflects the freeze in the personal allowance threshold. Higher rate and additional rate taxpayers accounted for 10.8% of the Welsh income tax population in 2023-24 (up from 9.4% in 2022-23) and contributed 46% of income tax paid by Welsh taxpayers (up from 44% in 2022-23). These increases reflect the freezing of tax thresholds and the movement of taxpayers into higher tax brackets. Basic rate taxpayers accounted for 89.2% of the population and provided 54% of income tax paid by Welsh taxpayers overall (**Figure 5** overleaf). This has fallen from 90.6% of taxpayers and 56% of tax paid in 2022-23. Broadly, trends for Welsh taxpayers mirror those in the rest of the UK, in terms of an increasing number of taxpayers and a higher proportion of taxpayers paying at least the higher rate who account for a greater share of income tax revenue.

Figure 5

Welsh income tax bands by proportion of taxpayers and proportion of income tax paid, 2020-21 to 2023-24

Basic rate income tax payers accounted for over 89% of the population in 2023-24, and contributed 54% of the income tax paid



Note

1 2023-24 is the latest year for which data are available.

Source: National Audit Office analysis of HM Revenue & Customs data

Address assurance

2.17 HMRC does not have a centralised database for specifically identifying Welsh tax residents. As a result, maintaining accurate and complete records of the Welsh taxpayer population continues to be the main challenge for HMRC in administering the Welsh rates of income tax. HMRC considers a number of information sources for changes of address, but relies primarily on taxpayers informing it of such changes in a timely manner, although taxpayers are not legally required to do this. HMRC also obtains address information from other sources, such as employers, although it is not mandatory for employers to provide updates when their employees' addresses change. In 2024-25, HMRC reinforced key Welsh rates of income tax messages by reminding individuals to update their address details via platforms such as the personal tax account and annual tax summaries.

2.18 Address information must be correct to ensure the right amount of tax is collected from individuals and allocated to the appropriate government. HMRC has several assurance processes in place to maintain the completeness and accuracy of the address data it uses to identify Welsh taxpayers (**Figure 6** overleaf).

Postcode scans

2.19 HMRC scans taxpayer records to identify missing or invalid postcodes that would result in an incorrect residency status being applied. The 2024-25 scan identified 61,310 postcodes as either missing or invalid. HMRC investigates and updates all cases where individuals were either employed or receiving a pension. In 2024-25, HMRC updated 709 records, compared with 807 in 2023-24. HMRC told us that cases it has not updated are classified as dormant because they have no current taxable income and therefore no income tax attributable to Wales in 2024-25.

Administration of Welsh tax codes

2.20 Where an employer does not apply the 'C' prefix to an employee's tax code, they will deduct tax at the England and Northern Ireland rate. At the end of the tax year, HMRC reconciles what each taxpayer has paid in tax against what it thinks they should have paid. HMRC then uses this finalised information, and the residency status held on its systems, to calculate each taxpayer's tax liability. The outturn for Wales is, therefore, unaffected where the 'C' prefix in an individual's tax code is not correctly applied by an employer. In 2024-25, HMRC used the employer bulletin, agent update, customer compliance managers, employer and payroll forums, GOV.UK and social media to emphasise the importance of correctly applying 'C' tax codes issued by HMRC.

Figure 6

Assurance over the Welsh taxpayer population

HM Revenue & Customs (HMRC) carries out several assurance activities to maintain the completeness and accuracy of the Welsh tax base

Assurance activity	Description and purpose	Results
Controls ensuring Welsh residency is correctly determined using the address held by HMRC		
New postcodes	Comparison of HMRC's list of Welsh postcodes with Office for National Statistics (ONS) data to ensure postcodes are up to date.	HMRC receives postcode data quarterly from the ONS. HMRC added 518 new postcodes in 2024-25.
Address cleansing	Scans of taxpayer records held by HMRC to identify missing or invalid postcodes which would result in an incorrect residency status being applied.	Scans undertaken in 2024-25 identified 61,310 missing and invalid postcodes. HMRC told us that it updated 709 of these postcodes because they have a record of current employment or pension. ¹
Cross-border postcodes	HMRC's systems flag address changes where new addresses lie in a postcode that crosses the England-Wales border. HMRC reviews these cases to ensure it determines the correct residency.	In 2024-25, HMRC reviewed 468 cross-border cases. HMRC told us that it amended 102 of these following investigation.
Missing residency flags	Scans to identify Welsh taxpayer records that are not flagged as such in the system.	HMRC's scans during 2024-25 identified 365 cases. HMRC told us that all records were updated.
Controls monitoring the operation of Pay As You Earn (PAYE) by employers		
Tax code comparison scans	A comparison between tax codes in PAYE submissions with HMRC's taxpayer record to identify cases where the employer is applying a different tax code to HMRC.	In April 2024 HMRC identified 47,114 cases where 'C' prefixes were not correctly applied to tax codes. ² It wrote to employers to ask them to update the incorrect tax codes.
Controls to identify incorrect addresses held by HMRC		
Third-party data assurance exercise	A comparison of taxpayer address records held by HMRC with third-party data sources to identify cases where HMRC records are inconsistent with third-party data. The exercise is HMRC's main source of assurance over the accuracy of its address records.	HMRC and the Welsh Government have agreed to run this exercise every two years. The exercise performed in 2025 compared 3.1 million Welsh address records. HMRC identified 9,855 records where the residency determined from the address held by HMRC did not match the residency suggested by the third-party data. HMRC wrote letters to the individuals concerned asking them to update their residence records.
Wealthy individuals	HMRC performs checks and procedures to review the movements of wealthy individuals and ensure their addresses are up to date. ³ Specialist teams develop an in-depth understanding of the finances, behaviours and compliance risks of these taxpayers.	

Notes

- 1 Invalid postcodes identified are corrected or manually set as Welsh where the correct postcode cannot be determined from the address.
- 2 Figures are from HMRC's analysis of monthly tax code scans and show the number of tax codes where the Welsh 'C' prefix was not correctly applied, and where the tax code would have otherwise been correct.
- 3 HMRC defines wealthy individuals as those with incomes of £200,000 or more, or with assets equal to or above £2 million in any of the last three years.

Source: National Audit Office analysis of HM Revenue & Customs activities

2.21 Each month, HMRC compares tax codes in PAYE submissions with its own taxpayer record to identify cases where employers are using a different tax code. In April 2024, there were 47,114 cases (2.3% of cases) where employers were not operating a tax code with a 'C' prefix. HMRC's wider approach to incorrect 'C'-codes focuses on reminding, educating, and supporting employers to apply the correct codes, reissuing codes where necessary, and contacting employers that repeatedly make errors to help them resolve the problem. HMRC stated that this strategy has reduced the error rate for missing 'C' prefixes from around 10% in 2019-20 to around 2.3% in April 2024, and it intends to continue this work to keep the error rate low.

2.22 We have previously encouraged HMRC to follow up with employers applying incorrect tax codes, particularly those making persistent errors. In November 2024, HMRC expanded its reporting to include the characteristics of employers using incorrect tax codes and, in January 2025, it reported its early insight into the employer's application of 'C'-codes. HMRC reported that there were more errors by large businesses and the financial and insurance sector. The majority of the errors relate to Welsh low-rate taxpayers.^{15,16} HMRC also identified the top employers with the highest number of errors in the last three years, with plans to engage directly with two employers persistently applying incorrect 'C'-codes. HMRC's initial analysis indicated possible links between errors and the treatment of 'no net liability' taxpayers, and incorrect country code assignments within the National Insurance and PAYE service.^{17,18} HMRC plans to conduct further analysis and root-cause investigations to address these discrepancies and improve the accuracy of Welsh 'C'-code application.

Third-party data exercise

2.23 HMRC periodically compares Welsh taxpayer address records it holds with third-party data to identify differences. This comparison is HMRC's main source of assurance over its address information, and it previously agreed with the Welsh Government to run the exercise every two years.

2.24 In 2025, 3.1 million records held by HMRC were compared with third-party data, showing that:

- 2.3 million records (74.86% of records analysed, up from 73.97% in 2023) held by HMRC were successfully matched to third-party data with a Welsh address;
- 4,353 (0.14% of records analysed) were identified as having an address elsewhere in the UK by the third-party data (down from 0.15% in 2023); and
- the residency status of taxpayers for 0.8 million records (25.00% of records analysed) could not be corroborated by comparison with the third-party data (down from 25.88% in 2023).

¹⁵ HMRC defines a large business as having 250 and more employees.

¹⁶ HMRC defines a Welsh low taxpayer as an individual with taxable income of £49,999 or under.

¹⁷ HMRC defines no net liability taxpayers as those individuals not notably liable to pay tax.

¹⁸ The National Insurance and PAYE Service is the main system used by HMRC to manage individual tax records. Country codes are assigned by HMRC, usually based on the individual's address, not by employers.

2.25 HMRC subsequently reviewed unmatched records against its internal data sources.

- It successfully matched 0.6 million records (83.43% of the previously unmatched records, excluding duplicates, the deceased individuals, those under 18 and overseas cases).
- Overall, HMRC successfully corroborated 2.9 million records, or 96.03% of records analysed (excluding ineligible cases) to a Welsh address using third-party data or internal data sources.
- It also reported that, based on the comparison with third-party data or internal data sources, 13,375 (0.44%) cases were identified as having an address elsewhere in the UK, while 106,425 (3.52%) cases were not matched to either source so residency status could not be corroborated.

2.26 HMRC sent letters to the 9,855 individuals whose residency, based on HMRC records did not match that indicated by third-party data, asking them to update their addresses. HMRC can only contact individuals using the addresses it already holds; it cannot write to third-party addresses due to data restrictions. As HMRC has no legal authority to enforce taxpayers to update their details, it cannot correct a mismatched address unless an individual notifies it. HMRC is working with the third-party data provider to explore ways to access third-party addresses and potentially correct more mismatched records.

Compliance risk assessment and planning

2.27 HMRC applies the same risk-based compliance approach to collect income tax in Wales as it does in the rest of the UK. This approach involves:

- promoting compliance by designing processes to encourage and help customers get things right first time;
- preventing non-compliance through process design and customer insight, and providing an opportunity to correct mistakes; and
- responding to, investigating and correcting compliance risks using tailored activity when intervention is needed.

2.28 As part of its Service Level Agreement with the Welsh Government, HMRC produces an annual Strategic Picture of Risk (SPR) for the Welsh rates of income tax, to assess and plan for compliance risks applicable to Wales. This draws from HMRC's assessment of key compliance risks at the overall UK level. For the Welsh SPR, it applies a value to represent the Welsh proportion of these risks, calculating these in line with Wales' share of UK income tax as reported in the Welsh Income Tax Outturn Statistics. HMRC does not vary the size of this proportion for each risk and has not tested its assumption that non-compliance in Wales is the same as in the rest of the UK. It said that doing so would involve considerable methodological challenges and costs. As in previous years, HMRC has not identified any significant risks specific to Wales and considers the main risks to Welsh income tax to be the same as for the whole of the UK.¹⁹

Tax gap

2.29 HMRC could quantify risks affecting Welsh rates of income tax more precisely through a Wales-specific tax gap. This would estimate the difference between the amount of tax that should be paid by Welsh taxpayers and what is actually paid. HMRC does not currently produce a Wales-specific tax gap. In response to a report by the Committee of Public Accounts, HMRC noted that calculating a Wales-specific tax gap would be difficult for methodological reasons and the high degree of uncertainty of such an analysis.

HMRC's compliance activity and debt management

Compliance activity

2.30 Across the UK, HMRC opened 333,000 compliance cases in 2024-25 (2023-24: 311,000) and closed 316,000 (2023-24: 320,000). HMRC has limited information on how much of this compliance activity is undertaken in Wales. Its compliance system enables HMRC to raise a flag where potential manipulation of residency status has been identified. We understand that there are currently no such flags on the compliance system. HMRC told us that information about numbers of active compliance cases relating to Welsh taxpayers for reasons not related to their status as a Welsh taxpayer requires interrogation of separate information systems. Unlike the income tax system, which can flag Welsh residents, HMRC's compliance management information system cannot readily identify people living in Wales, and information must be compared with other data to provide numbers on the total extent of Welsh non-compliance.

¹⁹ Overall risks that HMRC identifies at the UK level include the following: evasion (where individuals or businesses deliberately omit, conceal or misrepresent information to reduce their tax liabilities); the hidden economy (where taxable income is not declared or where declared income is deliberately understated); and tax avoidance (where tax rules are exploited to gain a tax advantage that Parliament never intended).

2.31 HMRC measures the effectiveness of its enforcement and compliance activities through compliance yield, its estimate of the additional revenues it considers it has generated, and the losses it had prevented. HMRC's yield from its tax compliance activities for the whole of the UK was £48.0 billion in 2024-25, up 14.9% compared with 2023-24 (in cash terms). Compliance yield in 2024-25 exceeded HMRC's target of £45.4 billion.

2.32 HMRC estimates a compliance yield of £220 million in 2023-24 for Wales's share of the risks in the SPR. HMRC also estimates that Wales's share of net losses from the risks in the SPR was £430 million in 2022-23. These data are the most recent available. 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 variation between Wales and the rest of the UK when assessing compliance risk or the relative success of compliance activity.

Debt management

2.33 HMRC's management of tax debt affects how much income tax that is initially unpaid is subsequently collected across the UK, including in Wales. 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 2025, total tax debt for the UK was £42.8 billion, 0.5% (£0.2 billion) lower than the debt reported at 31 March 2024. Despite the decrease in tax debt compared with the £68.5 billion reported at the height of the pandemic, it remains higher than in the five years leading up to the pandemic, when tax debt was typically around £15 billion. In April 2025, HMRC produced a Wales-specific estimate of tax debt. It estimated the total tax debt in respect to Welsh taxpayers to be £1.3 billion, around 3.1% of UK tax debt. This is a similar level to Wales' 3.6% share of the total UK income tax revenue estimated for 2024-25.

2.34 Having completed our additional work on devolved tax issues, we are satisfied that HMRC has adequate rules and procedures in place to assess and collect Welsh income tax, and that these are being complied with.

Part Three

Costs

3.1 This part considers the administrative costs invoiced to the Welsh Government from HM Revenue & Customs (HMRC) for the Welsh rates of income tax, and whether they are reasonable.

3.2 Under the Service Level Agreement between HMRC and the Welsh Government, the Welsh Government must reimburse HMRC for 'net additional' costs incurred through administering Welsh income tax powers.

3.3 The Service Level Agreement sets out the administrative cost framework through which HMRC recharges the Welsh Government for the operation of Welsh rates of income tax. Costs must be 'net-additional', that is, costs incurred solely because of administering devolved Welsh income tax powers, and not costs of administering the overall income tax system in Wales. The framework identifies major cost drivers such as customer contact, or system and IT maintenance. HMRC passes on the total cost of Welsh rates of income-tax-related activities to the Welsh Government, with monthly, quarterly and annual financial reporting.

Costs incurred in 2023-24

3.4 HMRC invoiced the Welsh Government for £0.38 million of 'net-additional' costs relating to the administration of the Welsh rates of income tax in 2024-25 (2023-24: £0.43 million). All the spending related to operating costs. Costs incurred in 2024-25 were below the budget of £0.48 million. The underspend relates substantially to HMRC staff spending less time on the Welsh rates of income tax than planned. HMRC told us that there have been no significant changes to the re-charging process in 2024-25.

3.5 We examined HMRC's method for estimating the costs to collect and administer the Welsh rates of income tax for the year ended 31 March 2025. Based on our audit work, we 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.

Appendix One

Our evidence base

1 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 any of HM Revenue & Customs' (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 attributable to a Welsh rate resolution; and
- the accuracy and fairness of the amounts that are reimbursed to HMRC as administrative expenses.

2 To reach the conclusions of this report relating to the rules and procedures operated by HMRC, we drew directly from our statutory audit work on HMRC's Annual Report and Accounts, including the UK C&AG's report on HMRC's controls for the proper assessment, collection and allocation of tax under Section 2 of the Exchequer and Audit Departments Act 1921. We also completed specific audit procedures over controls relevant to administering devolved taxes.

3 Our fieldwork for this report took place between April and November 2025.

Financial audit

4 We audited the data, methodologies, assumptions and mechanics of the calculation for the revenue outturn for 2023-24 and the revenue estimate for 2024-25, which are described in this report. For the estimate, and where appropriate for the outturn, we applied the principles set out in the International Standards on Auditing (UK) 540 Auditing Accounting Estimates and Related Disclosures, to design audit procedures relevant to the nature of the estimates and to a sufficient level of precision.

5 In relation to administration costs, we based our conclusion on the accuracy and fairness of the costs HMRC charged to the Welsh Government upon evaluating costs against the details of the Service Level Agreement and supporting framework for costs agreed between both parties. HMRC estimated some of the incurred costs from available data on customer contacts and staff time. During the audit, we saw evidence that both parties regularly discuss and review cost budgets and forecasts, and agree any amounts to be invoiced and paid.

6 All of these audit procedures were planned, performed and reviewed in accordance with our internal quality control procedures for financial audit.

Document review

7 To evaluate HMRC's approach to compliance risk, we reviewed published and unpublished HMRC documents about the Welsh rates of income tax, including project documentation, risk and compliance documentation and details of key assurance work performed by HMRC.

Interviews with departmental officials

8 We carried out four interviews with officials from HMRC, selected to participate because of their job role and their relevance to the audit. This included staff responsible for, or involved in, devolved tax policy and compliance.

9 We also spoke to the Welsh Government to inform our risk assessment and planning for this report.

10 We carried out interviews online. They typically lasted one hour, and we took notes.

Quantitative analysis

11 We analysed financial data from HMRC on Welsh income tax revenue, HMRC's estimate of Welsh income tax revenue and the administrative costs of the Welsh rates of income tax.

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