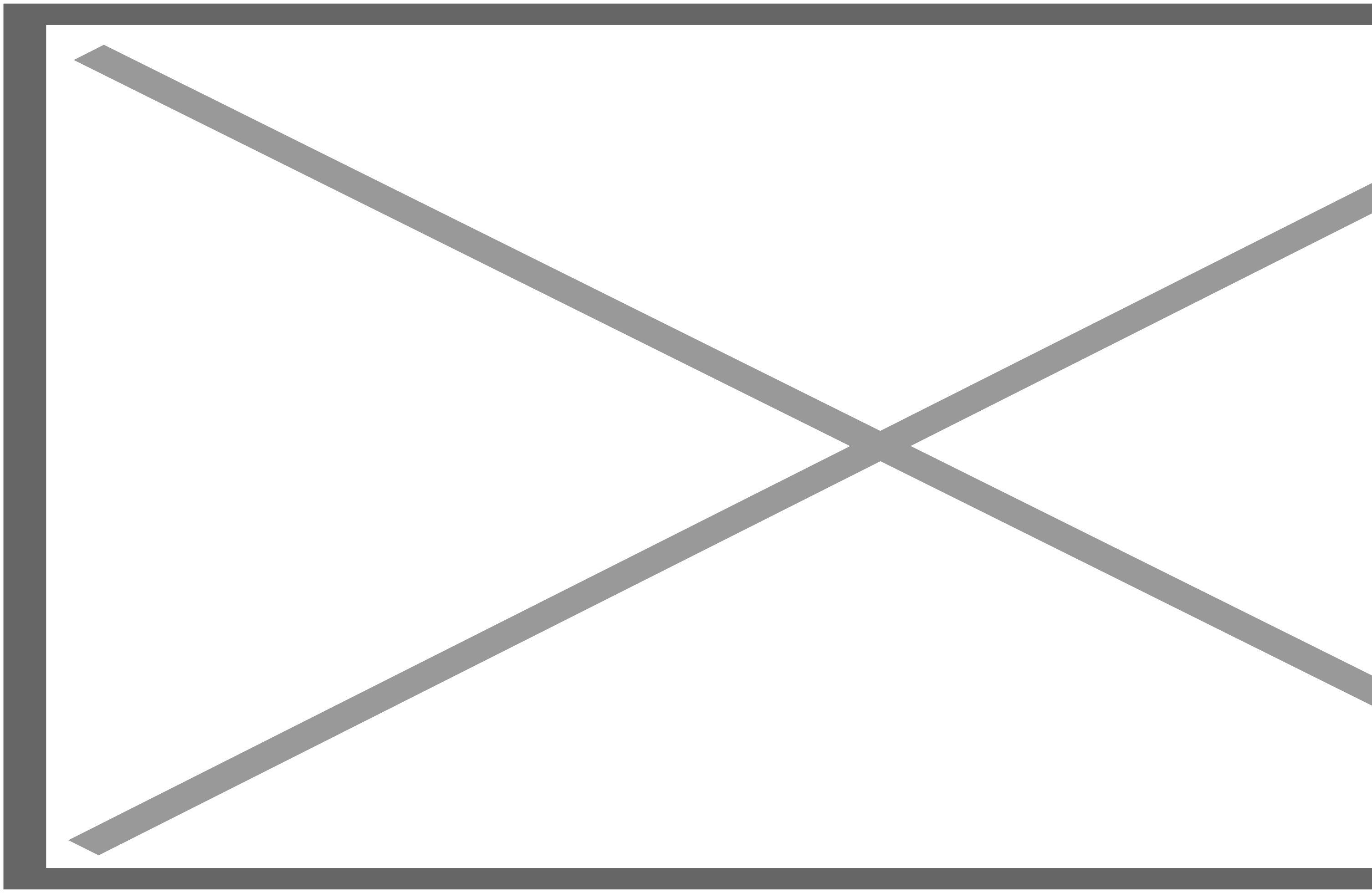
Inspiring ideas

General Features Indirect Tax



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Bill Dodwell considers the future of Welsh tax policy

Professor Mark Drakeford AM is the Cabinet Secretary for Finance in the Welsh government. On 13 February he announced that the Welsh Assembly would move forward with a vacant land tax proposal. The announcement followed a long period of studying tax policy. The Cabinet Secretary said '…tax devolution must not only simply be about replacing one tax system with another. We have a responsibility to think more innovatively about tax, about how taxes operate, about their impact on people, businesses and communities, and how they interact with our wider policy objectives.'

Section 6 of the Wales Act 2014 added a new Part 4A to the Government of Wales Act 2006. This gives the Welsh Assembly the ability to legislate for devolved taxes. It includes a provision that 'Her Majesty may by Order in Council amend this Part so as to…specify, as an additional devolved tax, a tax of any description…' Devolving a new tax requires that 'a draft of the statutory instrument containing the Order has been laid before, and approved by a resolution of, each House of Parliament and the Assembly.' The Command Paper stated that any new tax would be assessed against a range of criteria, including the extent to which the new tax affects UK macro-economic or fiscal policy and/or the single market; complies with EU legislation; increases tax avoidance risks; or creates additional compliance burdens for businesses and/or individuals; and is aligned with devolved responsibilities.

The Bevan Foundation carried out a project looking at many ideas where Wales could introduce its own taxes – to increase revenues available to the Assembly. Their final report, in June 2016, put forward eight possible ideas:

- Tourism levy
- Innovation tax credits (which would replace the existing UK R&D tax credits)
- Workforce Development Levy (which would replace Apprenticeship Levy)
- Sugar Tax (replacing Sugary Drinks tax)
- Sunbed tax
- Takeaway Packaging tax
- Land Value tax
- Water tax

When the Assembly debated new taxes last July, Professor Drakeford suggested two other candidates for consideration: a tax to fund social care and a vacant land levy. The debate welcomed a wide range of new tax ideas but concluded that there should be 'no change for change's sake'. Importantly, the Assembly called on the Welsh Government to make arrangements for an independent review of any new taxes to be completed within 6 years of their introduction. This is a key part of tax policy making urged upon the Treasury by a wide range of bodies – including in the 2017 Making Tax Policy report from the CIOT, with the Institute for Government and the Institute for Fiscal Studies.

Four ideas to be studied in more detail were announced in October 2017. They were vacant land tax; disposable plastic tax; tourism tax; and a levy to support social care. Finally, the February announcement was that vacant land tax was the preferred candidate to go forward.

The announcement made it clear that work would continue on the other ideas. The Cabinet Secretary noted that the UK's announcement at the autumn Budget on a possible tax on single use plastic made it less likely that a separate Welsh tax would be adopted but Wales would input into the possible design. Tourism tax remains a controversial tax. There is a significant lobby from parts of the hospitality sector for a reduced rate of VAT to boost activity. At the same time, there is evidence that tourism brings extra costs to a community. In the end, the conclusion was that a national tourism tax would not best reflect the breadth of local circumstances across Wales. As a result, consideration will be given to allowing local authorities to develop and implement a local tourism tax should they so choose. Work will continue in 2018 to look at a new tax to finance social care.

The reason for choosing a Vacant Land Tax is that it could help to incentivise more timely housing development by making it more expensive to hold on to land identified as suitable for development. It has a model: the Republic of Ireland vacant land sites levy. Under this model, planning authorities must establish a register of vacant sites in their areas. Once a registered site has been vacant for a year, the levy begins to apply and is collected annually by the planning authority. The rate is set by the Irish Government as a percentage of the value of the site. Ireland has an initial 3% tax rate, with a 7% rate after two years. The snag is that the tax raises little additional money, beyond covering its costs.

In the assembly chamber, Professor Drakeford stated that he would be next writing to the Chief Secretary of the Treasury (Liz Truss) to set the process in motion. Obtaining agreement to devolve such a tax to Wales does not bind the Assembly to introduce it, though.

It surely must be one of the goals of tax devolution: that regional assemblies should develop policies appropriate for their citizens and voters. Wales has already inspired a UK wide policy by introducing a plastic bag levy. A successful Vacant Land tax could offer inspiration elsewhere.