

Wales: The Senedd Finance Committee inquiry into the implementation of devolved taxes

General Features

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The CIOT and LITRG have responded jointly to the Senedd's Finance Committee inquiry into how the devolved taxes align with the Welsh government's principles and how successful the administration of Welsh taxes and the Welsh rates of income tax has been to date.

Our view is that both the land transaction tax and landfill disposals tax were developed through highly collaborative processes involving extensive informal and formal consultation, the results of which are reflected in their final design, successful implementation and administration.

However, changes to the devolved taxes are to some extent driven by changes made by the UK government to the predecessor taxes as a consequence of the effect of such changes on the Welsh government's tax revenues through block grant adjustments.

The need to make consequential changes may impinge on both stability and the ability of the Welsh government to consider change through collaboration and involvement of stakeholders, particularly where changes are announced with little notice and an immediate adjustment is required to preserve revenue.

Wales has not introduced a Disclosure of Tax Avoidance Schemes regime; therefore, the Welsh Revenue Authority's (WRA) awareness of potential threats to the devolved tax base due to avoidance is more dependent on robust strategies for assessing tax risk and from exchanges of information between HMRC and the WRA.

It is too early in the development and assessment stage to evaluate whether the proposed new taxes (a vacant land tax, a social care levy, a disposable plastics tax

and a tourism tax) will, if taken forward, adhere to the Welsh government's tax principles.

We commend the current approach of promoting a positive case for taxation by illustrating the link between taxes and spend on public services in Wales and building knowledge and awareness of Welsh taxes across Wales. However, we are concerned that, anecdotally, awareness and understanding of the Welsh rates of income tax by the public in Wales remains fairly low despite efforts to engage the public. We acknowledge the difficulty in generating interest when effective rates are unchanged.

The fact that income tax is only partially devolved with allowances, base and reliefs all decided at a UK level means that the scope for a fundamentally different approach to taxation and future tax changes has some limitations.

In line with our submission to the Senedd's previous inquiry, we consider that robust research is needed to establish Welsh taxpayer attitude to paying more or less tax in return for greater or less social funding, and how much increases in income tax rates would in fact increase the tax take, taking into account behavioural effects such as migration across the porous Wales/England border.