# Wales and devolved tax powers: scope to do more?

Management of taxes | General Features

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We ask what the future holds for taxation in Wales following the 2014 devolution of local taxes and land taxes.

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Following the Wales Act 2014, the Senedd Cymru (the Welsh parliament) has control of local taxes (business rates and council tax), land transaction tax (the devolved equivalent to stamp duty land tax) and landfill disposals tax (replacing landfill tax in Wales).

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### Welsh rates of income tax

The Senedd has the power to vary income tax rates in Wales, although its scope in this area is far more restricted than in Scotland. For example, the Senedd cannot change the income tax bands. It cannot therefore reduce the basic rate band and increase the higher rate bands. Preventing the Senedd from reducing the top rate band to encourage higher earners to move to Wales may have been the motive for the restriction, since the Welsh-English border is porous with many people living in Wales and working in England (as in the Bristol area) and many living in England and working in Wales (the Wrexham area).

If the Welsh income tax is lower than equivalent English rates, the reduction in revenue raised is deducted from the Block Grant – so really the only decision for the Senedd is whether to increase the rates. Taking such a step requires a full understanding of Welsh taxpayer attitudes to paying more tax in return for greater social funding. Higher taxes in Wales may also impact migration across the Welsh-English border.

Currently, Welsh income tax rates are the same as England and Northern Ireland. For taxpayers, there is no obvious change apart from a ‘C’ (standing for Cymru) at the start of their tax code to denote a Welsh taxpayer.

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## Land transaction tax

The land transaction tax threshold (LTT) is £225,000 (£25,000 lower than for stamp duty land tax (SDLT)) and the LTT rates and bands for more expensive or additional residential properties are higher than for SDLT. Apart from variations in rates and bands designed to take account of Welsh circumstances and priorities, there are relatively few substantive differences between LTT and SDLT, reflecting the policy aims of stability and consistency for taxpayers.

However, Wales is considering providing discretion for local authorities to impose additional land transaction tax charges for second homes and short-term holiday lets. Their aim is to impact the affordability and availability of permanent housing in some areas of Wales where second homes and short term holiday lets continue to proliferate.

Housing has been a political issue in Wales for many years. With a shortage in social housing dating back 40 years, second homes and holiday lets have an adverse impact on the local population, pushing house prices out of reach for many in popular areas.

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## Council tax

Councils in Wales have the power to charge up to 300% council tax on second homes and long-term empty properties. This has, however, allowed some second home owners to claim discrimination in having to pay a council tax premium, while owners of holiday lets previously registered for business rates can claim discrimination in having to pay any rates of council tax at all.

More widely, an upcoming Local Government Finance Bill will provide for a council tax revaluation of all 1.5 million residential properties in Wales with a new system of bands and rates. In conjunction with revaluation, adding more bands covering the entire property value scale and re-evaluating the bands to align them more closely to property values should help make the system less regressive, although much will depend upon the distribution of housing wealth in Wales. The last revaluation was in 2003 – more recently than in England or Scotland.

The revaluation and re-banding are set to be delivered from April 2025, with more frequent valuations in the future, though timings will be important to avoid short-term economic distortions. Taking periodic revaluations out of the five year political cycle (avoiding election years) may also be helpful.

However, council tax has to raise a specific level of revenue, so revaluation only serves to move the burden between different types of property with no link to property occupation or use.

A local income tax has been mooted as a replacement; however, this would shift the burden of local taxation to people who are still working and disproportionately benefit pensioners and wealthier individuals living off capital.

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## Business rates

The Welsh government is pursuing a similar range of reforms to England, including more frequent valuations, improving the flow of information between government and ratepayers, digitalising services, reviewing reliefs and exemptions, and introducing a new improvement relief.

More radically, the Welsh government commissioned Bangor University to carry out an initial appraisal of the practical viability of a local land value tax in Wales to replace council tax and business rates. It found that the tax could raise sufficient revenues but the data requirements for implementing a local land value tax in Wales were not currently met. There are also constitutional obstacles.

Although local taxes and local government finance are devolved, the Welsh government must seek permission from Westminster to change the valuation function in any significant way and Wales also has no control over land registration. This work is part of a longer term workstream that will extend beyond a single five-year Senedd term.

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## Visitor levy

The Senedd is formulating the final proposals to allow local authorities to introduce a visitor levy on overnight stays in their area. The overall objective is to offset some of the costs associated with congestion, traffic and the environmental costs of tourism (refuse collection, sewerage, toilets, etc).

A visitor levy is a common tax throughout the EU and more widely. It has been picked up in other parts of the UK, including the introduction of the Visitor Levy (Scotland) Bill and the adoption of a £1 per night tourist tax in Manchester.

Nevertheless, the idea of a discretionary visitor levy has proved to be controversial in Wales. It has to be balanced by the need not to disproportionately disadvantage Welsh hotels, guesthouses, campsites and other accommodation providers. Depending in part on the level of the levy, critics point to competition issues both with providers across the border in England or within Wales where another local authority is not applying a levy. However, the serious criticism is the extra administrative burden that will be placed on accommodation providers to collect and account for the tax and what it will cost local authorities to administer the scheme.

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## The future for the Welsh devolved tax powers

It is no surprise that the existing devolved powers relate largely to land and property. It is much easier to identify revenue streams derived from real property in a geographical location where it is largely impossible to move the assets out of scope. But there is room to be more radical, especially as the Welsh policy framework includes the need to consider the Wellbeing of Future Generations Act 2015 that imposes legally binding obligations on public bodies in Wales to improve the economic, social, environmental and cultural wellbeing of Wales.

The ability to change the Welsh rates of income tax has been the focus of criticism, mainly from the perspective that the Senedd would use it as an easy revenue raising measure. In practice, the Senedd has not opted for short term, easy measures but has actively sought to investigate innovative ways to use the devolved powers it has.

The Wales Act 2014 provides a route for the Welsh government to develop new taxes. The Senedd tested this process through a formal request to devolve further tax powers for a vacant land tax. This was to address the problem of land that has been identified as suitable for new housing and regeneration but where the developer has chosen to delay development. (The Republic of Ireland has implemented something similar in the form of a vacant site levy on vacant and under-utilised sites in urban areas at a rate of 7% of market value.)

The Welsh government reports that the process has been protracted and challenging. The Westminster-reliant consent processes do not seem to have been designed with new taxes in mind and the impression is that the process has stalled since 2018 and will not be resolved before the 2024 general election. The inability to progress tax changes through Westminster means that the Senedd has used the devolved powers they have, which means measures that can be enacted through the local authorities.

This is not to say that the Senedd is powerless. There are many measures which can be implemented by way of this workaround: council tax discounts for energy saving enhancements; workplace skills support via business rates relief; and lifelong learning grants for individuals. Alongside devolved taxes, Welsh universities punch well above their weight but links with local businesses, particularly in the SME space, are intermittent. Joint research projects, sector-specific courses and student placements would benefit both business and universities.

In summary, devolution is accepted to be a progressive process and is clearly fraught with the risk of unintended consequences. However, to be meaningful, it is essential that there are effective and timely mechanisms for the evolution of devolved taxes and powers to introduce new Welsh taxes. If the UK's devolved governments are being tasked with developing economic strategy, doesn't this need to be matched by giving them the tools they need to implement those strategies?