Welsh rates of income tax

Personal tax

01 December 2018

The Welsh Government has confirmed its intention to set Welsh income tax rates from April 2019. HMRC will continue to collect the tax and has issued a short consultation on draft statutory instruments alongside a technical note to which LITRG and the CIOT have responded, highlighting some of the issues around implementation.

From April 2019, the UK government will reduce each of the three rates of income tax – basic, higher and additional rate – paid by Welsh taxpayers by 10p. Each year, the Welsh Government will then decide the three Welsh rates of income tax (WRIT), which will be added to the reduced UK rates. The combination of reduced UK rates plus the Welsh rates will determine the overall rate of income tax paid by Welsh taxpayers.

The Welsh Government has committed not to increase income tax rates in Wales for the duration of the current Assembly, which is due to continue until May 2021. This means that the first Welsh rates of income tax will be set at 10p. Therefore, the rates of income tax paid by Welsh taxpayers will continue to be the same as those paid by English and Northern Irish taxpayers. However, the mechanisms for implementing the WRIT will need to be in place for April 2019.

The LITRG and CIOT joint response emphasises the need for communication and publicity in advance of April 2019 as essential for both Welsh taxpayers and their employers. Publicity for the introduction of the WRIT has, in our view, yet to start in earnest. In addition, it is starting from a low base of understanding; a recent survey looking at the experience of Scottish taxpayers amply demonstrates the poor awareness and understanding of the Scottish Income Tax two years after it was introduced, underlining the need to raise awareness.

Our recommendations include:

- The recently issued Welsh taxpayer technical guidance should be accessible via the Welsh Revenue Authority (WRA) website. Although the WRA will not be administrating the WRIT, experience in Scotland indicates that a number of taxpayers with questions or concerns about the WRIT will contact the WRA in preference to HMRC.
- This guidance should cover the appeal process on the income tax status of a taxpayer.
- More complex tax situations need to be covered, for example claiming tax relief for charitable donations for a higher rate or additional rate Welsh taxpayer, trust income received by Welsh beneficiaries which will be subject to the WRIT, understanding the tax position where a personal service company is used (that is, when IR35 applies), and understanding the order of set-off of allowances against different sources of income.
- Online software, used particularly by many unrepresented taxpayers, must operate correctly with the changes.
- The interactions between WRIT and tax credits and benefits should not be overlooked given the significant impact on the living standards of low income individuals.