Devolution: the fifth Welsh Parliament

General Features

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With elections to the Welsh Parliament taking place in May, the CIOT and LITRG have offered observations on the Senedd's fifth term.

Elections to the Senedd Cymru – the Welsh Parliament – take place on 6 May. The CIOT and LITRG have offered some observations to the Welsh Treasury on the current (fifth) Welsh Parliament term from the perspective of the devolved taxes.

The fifth term marked a pivotal stage in the devolution of taxes in Wales with the implementation of the land transaction tax (LTT), the landfill disposals tax (LDT) and the Welsh rates
of income tax. In our view, rigorous post-legislative review is essential to evaluate whether the legislation is working consistently with the Welsh government's tax principles and particularly to assess the efficacy of reliefs – whether they meet their policy objectives and provide value for money.

Tax policy objectives

The Welsh government's tax principles provide a clear framework. We think stating clear objectives in this way is a highly beneficial approach in terms of coherence of policy development across government and to facilitate effective evaluation.

A more refined understanding of the policy objectives may be needed for specific measures, such as the higher rates for LTT where it is not entirely clear whether the policy intent is to deter the purchase of additional residential properties (so that in fact lower revenue attributable to higher rates in Wales would represent a fulfilment of the policy) or to raise revenue which may be applied to building good quality, affordable housing or a combination of both.

Consultation

The development and successful implementation of LTT and LDT was the culmination of extensive informal and formal consultation. We commend this consultative approach that continued throughout the term. Unfortunately, immediate changes to the devolved taxes are sometimes driven by changes made by the UK government to the predecessor taxes and this restricts the ability to consult when changes are announced with little notice. The pandemic has highlighted the need for pro-active cooperation, both at civil servant and ministerial level, between the Welsh and UK governments to ensure the devolved taxes operate effectively. In particular, it would be sensible, and improve the policy-making process, for the devolved governments to receive forewarning of changes (through confidential channels) to predecessor taxes.

Innovation

Effective consultation has enabled the Welsh government to adapt and innovate. While LTT was designed to achieve substantial consistency with SDLT, a key message from the consultation process, LTT design diverges from SDLT in some respects to add greater certainty or to remove known anomalies or inconsistencies.

Devolution inevitably generates complexity for taxpayers operating across devolved jurisdictions under different tax regimes but it also drives prospective refinements to the tax codes that need to evolve with changing circumstances.

Threats to the tax base

In the absence of a Disclosure of Tax Avoidance Schemes regime, awareness of tax leakage through avoidance is dependent on other strategies for assessing tax risk. We suggest that consideration is given to providing appropriate mechanisms for taxpayers and advisers to report awareness or concerns in relation to tax avoidance or evasion and to look at the benefits and challenges of estimating a Welsh-specific tax gap.

Welsh rates of income tax (WRIT)

Awareness and understanding of the WRIT in Wales remains low, despite considerable efforts to engage the public. This is a national not just a devolved taxes issue. Realistically, it is challenging to generate interest when rates are aligned so

the practical effect for most Welsh taxpayers is limited to the PAYE C code. For the future, we suggest that Welsh-specific research is needed to establish Welsh taxpayer attitudes to paying more or less tax and to explore possible behavioural effects of tax changes.

Charter

We think that consideration should be given to making the Charter more evident and accessible on the Welsh Revenue Authority (WRA) website; for example, the Charter is not mentioned on the WRA website home page or on the main list of guidance and forms pages, and there is no link to the Charter on the WRA's complaints page tinyurl.com/sem39fj8. The full submission can be read at www.tax.org.uk/ref760.