

# TAXATION POWERS FOR WALES<sup>1</sup>

## 1. The Proposals

The UK Government's response<sup>2</sup> to the recommendations of the Silk Commission accepts the devolution of the following taxes to the National Assembly for Wales:

- Landfill Tax
- Stamp Duty Land Tax (SDLT)
- 10p in the pound of all bands of Income Tax, subject to the outcome of a referendum
- Landfill Tax
- Non-domestic business rates.

In addition it accepted the recommendation that the National Assembly for Wales should have powers to create new taxes. The Assembly's block grant would be adjusted to take account of the anticipated revenue from taxes.

The recommendation of the Silk Commission that Air Passenger Duty on long haul flights should be devolved was not accepted by the UK Government. It has also proposed that there are constraints on the extent to which the National Assembly for Wales can vary income tax – the so-called 'lockstep' which would require any variance to apply to all tax bands.

The Draft Wales Bill, published in December 2013,<sup>3</sup> proposes to amend the Government of Wales Act 2006 to enable the Assembly to legislate about these devolved taxes, except non-domestic business rates which does not require legislation.

## 2. The Value of Devolved Taxes

The value of the taxes it is proposed to devolve is approximately £3.1 billion, made up as follows:<sup>4</sup>

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<sup>1</sup> The Bevan Foundation gratefully acknowledges the comments on an earlier draft of the Welsh Government's Financial Reform team.

<sup>2</sup> UK Government (2013) **Empowerment and Responsibility: devolving financial powers to Wales**

<sup>3</sup> Wales Office / Treasury (2013) **Draft Wales Bill**. Available at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/266782/Draft\\_Wales\\_Bill.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266782/Draft_Wales_Bill.pdf)

<sup>4</sup> Welsh Affairs Committee (2014) **Pre-legislative scrutiny of the draft Wales Bill**, 4<sup>th</sup> Report

- Landfill Tax £50 million
- Stamp Duty Land Tax £105 million
- Non-domestic rates £940 million
- Income tax devolved share £2,000 million

This is approximately 20% of the National Assembly for Wales current budget. If tax revenues increase and the Welsh block grant decreases as austerity measures continue the proportion of income from tax revenues could be higher still.

### 3. Timetable

The Bill is expected to be published in late spring / early summer 2014, with a Command Paper, setting out the detailed arrangements for adjusting the Welsh block grant due around the same time. Royal Assent is anticipated by March 2015. The Assembly's new powers would then most probably come into effect after the 2016 Assembly elections.

### 4. Issues

#### 4.1. Adjustment to the block grant

The arrangements for adjusting the Welsh block grant to take account of the Assembly's tax-raising powers are crucial.

The draft bill does not specify how the adjustments will be made, but David Gauke MP, Exchequer Secretary to the Treasury, has confirmed to the Welsh Affairs Select Committee that, in the case of income tax, the block grant would be reduced in the first year by the amount of revenue raised from the devolved element of income tax. In later years, the block grant would be adjusted by changes to a UK-wide economic indicator, as yet unspecified.

The arrangements to adjust the Welsh block grant in respect of revenue from SDLT and Landfill Tax are also not specified in the draft bill. There are different views, summarised in the Welsh Affairs Select Committee's report, about how the adjustment might be made.

#### 4.2. Income Tax Lockstep

The lockstep on any variations in income tax means that any adjustment to the rate of taxation must be applied at the same monetary value across all tax bands. For example, if the Assembly wished to increase taxation for additional rate taxpayers by 1p in the pound from 45p to 46p, it would have to increase the rates for lower bands by the same amount, i.e. from 40p and 20p to 41p and 21p.

There are considerable differences of view about the lockstep proposals.

#### 4.3. Property Taxes - Stamp Duty Land Tax and Non-domestic Business Rates

The significance of the devolution of Stamp Duty Land Tax (SDLT) and Non-domestic Business Rates (NDBR) is much greater than a simple transfer of powers.

First, the draft bill actually *disapplies* SDLT in Wales and gives the Assembly powers to establish its own taxes in this field – it could therefore establish an entirely different tax if it wished.

Second, the proposed changes mean that all property taxes – i.e. SDLT, NDBR and Council Tax - come within the remit of the Assembly. This creates potential to use property taxes in a more progressive way and to stimulate regeneration, if the Assembly wished.

#### 4.4. New Taxes

The draft bill makes provision for the Assembly to propose new taxes, through amending Part 4a of the Government of Wales Act 2006 by Order in Council. This is arguably one of the most significant parts of the bill, although it has received relatively little serious attention to date.

The arrangements, if any, for adjusting the Welsh block grant to take account of any new taxes are not set out in the bill, but may be addressed in the Command Paper expected later in 2014.

#### 4.5. Collection and enforcement

The question of collection of tax revenues and enforcement for non-compliance is under consideration – the Welsh Government is expected to consult on the

options later in 2014.

## 4.6. Risks and Incentives

Granting the National Assembly powers to raise a proportion – perhaps as much as 25% - of its budget from taxation brings both risks and incentives.

The **risks** occur if the revenue generated is less than expected (e.g. because of a change in economic circumstances or low collection rates) or is less than the amount lost from the Welsh block grant. For this reason the Wales bill allows Welsh Government Ministers to borrow in the short-term to balance its budget, but in the long-term, a future Welsh Government could face cuts in spending if tax revenues fell short.

Conversely, devolving income tax in particular provides a strong **incentive** for the Welsh Government to increase employment. It means it gains some pay-back from its efforts to stimulate the economy and help people into work, as the fiscal benefits currently accrue almost entirely to the Treasury.

## 4.7. Impact on behaviour

One of the biggest unknown impacts of devolving taxation powers is the impact on people's behaviour. It is widely claimed that, for example, varying the rate of income tax could result in people relocating on whichever side of the Wales – England border is most favourable to them. Similarly, a tax on an undesirable behaviour, such as disposing of waste in landfill, is supposed to encourage reuse or recycling of waste but may well result in fly-tipping instead.

Any anticipated changes in behaviour as a result of taxation are made considerably more complex because of the mobility of the Welsh population and indeed that of the EU as a whole.

## 5. Conclusion

The proposed changes to the National Assembly for Wales's powers in respect of taxation are a very significant step in the process of devolution. They not only provide the greater accountability intended by the UK Government, but they also raise major challenges for Welsh politics, policy and civil society. The potential for a radical reform of property taxes and to introduce new taxes has not yet been given serious consideration, even though the powers to make changes are as little as two years away.