

## Welsh Rates of Income Tax (WRIT)



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## Executive Summary

Income Tax sharing comes to Wales from the 2019/20 tax year with the Welsh Rates of Income Tax (WRIT). Very important is the word 'sharing' as it is not a devolved tax. The principle with shared Income Tax is the fundamentals of the Income Tax regime are not devolved and remain with the UK government in Westminster. For example, this includes factors such as the income that is or is not taxable, the workings of the UK tax system and the setting of the annual personal allowances.

Sharing means some elements of the Income Tax regime are for the control of the devolved nations (Scotland first and Wales from 2019/20). So, the purpose of this short white paper from the Global Payroll Association is as follows:

- A summary of the devolved taxes in the United Kingdom
- An overview of Income Tax sharing
- A reminder of sharing in Scotland, moving onto
- Sharing in Wales

The white paper also indicates how employers should prepare themselves and their workers for the WRIT and gives indicators to the places of guidance.

## Devolved Taxes

There are few truly devolved taxes that are fully controlled by the devolved administrations:

### Scotland

Revenue Scotland was formed in 2012 as an administrative unit of the Scottish Government.

It was given legal administration and collection powers from the 1<sup>st</sup> of January 2015 by the Revenue Scotland and Tax Powers Act 2014 and looks after the following devolved taxes that were devolved from the 1<sup>st</sup> of April 2015:

1. Land and Buildings Transaction Tax (LBTT), replacing Stamp Duty Land Tax, and
2. Scottish Landfill Tax (SLfT), replacing UK Landfill Tax

The Scotland Act 2016 further amended the Scotland Act 1998 to devolve Air Passenger Duty, to be renamed Air Departure Tax (APD). This was supposed to be from April 2019 but looks to have been delayed as a result of Brexit.

Devolution of the Aggregates Levy is also allowed following amendments to the 1998 Act but this also looks to be delayed.

## Wales

The Tax Collection and Management (Wales) Act 2016 allowed for the creation of The Welsh Revenue Authority which was formed on the 1st of October 2017. It is a non-ministerial department of the Welsh government, responsible for the administration and collection of devolved taxes in Wales. It is accountable to the National Assembly of Wales and Welsh Ministers and looks after the following devolved taxes that were devolved from the 1st of April 2018:

1. Land Transaction Tax (LTT), replacing Stamp Duty Land Tax, and
2. Landfill Disposal Tax (LDT), replacing UK Landfill Tax

## Northern Ireland

There is no administration or collection agency in Northern Ireland. Air Passenger Duty is collected by HMRC, though long-haul duty was abolished in 2012. The devolution of Corporation Tax was due to come into place from April 2017, however, this has been delayed because of the breakdown of devolution.

## The Concept of Sharing

Sharing of Income Tax powers is not the same as devolved taxes. As stated in our Executive Summary, shared taxes are not devolved but the day-to-day workings of the Income Tax regime are shared between the UK Government and the devolved administrations that have the necessary powers. In 2018, the only two nations that have these powers in legislation are:

- Scotland from 2016, and
- Wales from 2019

The important consideration is that the administration and collection remain with the UK's central collection agency Her Majesty's Revenue and Customs (HMRC). Whilst the devolved administrations have some powers, these are put into practice by HMRC. Revenue Scotland and the Welsh Revenue Authority only collect and administer taxes that are fully devolved.

## The Scottish Precedent

### Scottish Rate of Income Tax (SRIT)

#### The Legislation

The Scotland Act 2012 updated the 1998 Act and gave the Scottish Parliament the power to set the SRIT and this power was used from April 2016. It applied for one year only.

#### In Practice

The UK government reduced the UK Income Tax rates by 10 percentage points for Scottish Taxpayers, as defined in the 1998 Act. The block grant paid by the UK Government to the devolved administration in Scotland was reduced meaning Scotland had to recover this shortfall using the SRIT powers. This allowed the Scottish Government to set a single percentage that would be added back onto the reduced rates. Under SRIT, Scotland could not amend the tax bands / thresholds, only the single percentage.

In 2016/17, the Scottish Government set the SRIT as 10% which gave rise to the following, accounting for the fact that the UK personal allowance was £11,000:

UK Tax Band	Reduced UK Rate	Add SRIT	UK Tax Band (£)
Basic (20%)	10	10	£11,001 to £43,000
Higher (40%)	30		£43,001 to £150,000
Additional (45%)	35		Over £150,000

In effect, Scottish taxpayers saw no difference in the amount of tax that they paid compared to taxpayers in the other UK countries (referred to as rest of the UK (rUK) taxpayers). But it was important as the reduced UK block grant was increased by the amount of tax that was attributed by HMRC as applying to Scottish taxpayers at the SRIT.

### Scottish Income Tax (SIT)

The Scotland Act 2016 made more amendments to the 1998 Act and gave the Scottish Finance Secretary increased powers from April 2017. The system is still administered by HMRC and employers pay over Income Tax collected in the same way.

Scottish Income tax is nothing like the SRIT that preceded it and the Scottish government has the power to amend individual rates and thresholds and set more thresholds if that was deemed fit for Scotland's finances.

#### 2017/18

In 2017/18, SIT was used for the first time and saw only modest powers used when the higher rate threshold was frozen at £43,000 for Scottish taxpayers, as opposed to rUK taxpayers who saw the threshold increased. This gave rise to the following situation in 2017/18, accounting for the fact that the UK personal allowance was £11,500:

Scottish Band	Scottish Rate (%)	Scottish Band (£)
Scottish Basic	20	£11,501 to £43,000
Scottish Higher	40	£43,001 to £150,000
Scottish Additional	45	Over £150,000

#### 2018/19

Scotland used their 1998 Act powers more radically in 2018/19 and the Income Tax regime for Scottish taxpayers is significantly different compared to rUK taxpayers. Accounting for the UK-wide personal allowance of £11,850:

Scottish Band	Scottish Rate (%)	Scottish Band (£)
Scottish Starter	19	£11,851 to £13,850
Scottish Basic	20	£13,851 to £24,000
Scottish Intermediate	21	£24,001 to £43,430
Scottish Higher	41	£43,431 to £150,000
Scottish Top	46	Over £150,000

## Welsh Rates of Income Tax (WRIT)

### Overview

There are no immediate comparisons to the current Scottish Income Tax system but it has similarities to the previous Scottish Rate of Income Tax. There are direct comparisons to both in the following areas:

### Income

The WRIT will be on payable on all non-savings non-dividend (NSND) income. This is the income with which employers will come into contact with and why WRIT impacts them.

Income Tax is also payable on savings and dividends income. However, the tax regime on this is not shared with the devolved administrations and the rates and bands will continue to be set at Westminster.

### Taxpayers

Scottish Income Tax requires HMRC to define the Scottish Taxpayers that will be subject to the sharing regime. Welsh Taxpayers will pay Income Tax at the WRIT and these are defined as:

- A UK taxpayer who lives in Wales for more of the year than any other part of the UK
- Where there is no sole or main residence, the legislation requires HMRC to apply the “closer connection” test. If the UK taxpayer has a closer connection to Wales as opposed to any other part of the UK they will be a Welsh taxpayer
- Some people will be Welsh Taxpayers irrespective of where they live. These are parliamentarians elected to serve the people of Wales (Members of Parliament (MPs), Members of the National Assembly (AMs) or Members of the European Parliament (MEPs))

Identifying taxpayer status is never an employer function and they must only take direction from HMRC or via the P45 for a new starter.

### Tax Codes

UK taxpayers identified as Scottish Taxpayers will have personal allowances allocated as this part of the Income Tax system is not shared. Their tax codes will be prefixed with a country indicator S which must be entered into the payroll system and declared to HMRC via Real Time Information (RTI) on the Full Payment Submission (FPS).

UK taxpayers identified as Welsh taxpayers will also have personal allowances allocated but HMRC will identify them with a tax code prefixed C (C for Cymru). This is also entered into the payroll system and declared via RTI.

The employer only operates a country prefixed tax code when advised by HMRC or via the P45 for a new employee.

## The Legislation

The Wales Act 2014 inserted provisions into the overriding Government of Wales Act (GOWA) 2006. All of the provisions for the WRIT are contained within GOWA. At the time of writing, note there is a need for secondary legislation to make provisions for the WRIT and tax relief on pension contributions and gift aid.

## The How

Although there may be similarities to the SRIT it should be regarded completely differently and so stands alone from:

- The Income Tax regime applying to rUK Taxpayers in 2018/19 (all taxpayers except those identified as Scottish)
- The Scottish Rate of Income Tax (SRIT) regime for Scottish taxpayers in 2016/17
- The Scottish Income Tax (SIT) regime for Scottish taxpayers from 2017/18

From April 2019, the UK government will reduce the three rUK rates of Income Tax by 10 percentage points for Welsh Taxpayers and the block grant that is paid to Wales by the UK government will be reduced. After this reduction, the tax rates applying to Welsh Taxpayers will be as follows, shown in red:

Band	rUK Rate (%)	Less 10%	Rate (%)
Basic	20	10	<b>10</b>
Higher	40		<b>30</b>
Additional	45		<b>35</b>

If these are not incremented as the WRIT regime allows, Welsh Taxpayers will pay less Income Tax and the money available to the Welsh Government for spending on public services will be reduced. So part of the annual Welsh Budget process will allow for the Welsh Government to set a Welsh Rate Resolution which will decide the rates to be added back to the reduced rates. The Welsh rates may be from zero to any number of pence or half-pence in the pound.

For example, if the Welsh government wanted no change to the tax rates for Welsh taxpayers compared to rUK taxpayers, a Rate Resolution would need to specify:

- The Welsh Basic rate for 2019/20 at 10% (i.e. 10% + 10% = 20%)
- The Welsh Higher rate for 2019/20 at 10% (i.e. 30% + 10% = 40%)
- The Welsh Additional rate for 2019/20 at 10% (i.e. 35% + 10% = 45%)

The Welsh Labour Government [said](#) in their 2016 manifesto that it will not increase Income Tax for Welsh taxpayers in the current Assembly term and that it will be for the next administration to decide what they will do. So whilst it does not look as though the rates will increase, it is conceivable that they could be reduced or adjusted, for example so that the lower paid pay less tax.

What is certain is that regardless of whether rates stay the same or are reduced (for some or for all), there will still be a need for a Welsh Rate Resolution. If there isn't, the tax intake for the Welsh administration will reduce substantially.

## The Welsh Budget

The Resolution will be part of the annual Budget process. The Cabinet Secretary for Finance will set out high-level taxation plans at the draft Budget yet it will be for the National Assembly for Wales to vote on this and ultimately decide the Welsh rates that will be added to the reduced rUK rates.

The [Memorandum of Understanding](#) between the UK and Welsh Governments states:

*“The Assembly must pass a Resolution before the start of the tax year to which it relates, that is by 5 April in any year”*

And

*“The Welsh Government and HMRC will work together to ensure that, in preparation for 2019-20 and beyond, these administrative steps are planned and carried out efficiently and in a timely way (taking into account the Budget cycles of both Governments) to minimise costs, including costs to employers. This will include agreeing an assumption to be used in the main issue of tax codes, if the rate has not been determined by the end of November.”*

This implies that the tax rates may be known by the end of November each year even though the Welsh Rate Resolution might not have been made or passed into law. It is useful to know the Welsh Government’s Draft Budget timetable for 2019/20:

- Summer / Autumn 2018 – scrutiny of information by the Finance Committee
- 2<sup>nd</sup> of October 2018 – “Outline” draft Budget published, subject to more scrutiny by the Finance Committee
- 23<sup>rd</sup> of October 2018 – “Detailed” draft Budget published
- 22<sup>nd</sup> of November 2018 (assumed) – UK Budget
- 27<sup>th</sup> of November 2018 (based on the above assumption) – deadline for policy committees
- 4<sup>th</sup> of December 2018 (based on the above assumption) - Budget debate
- 18<sup>th</sup> of December 2018 – “Final” Budget published followed by debate

This timetable does not indicate when we will know the WRITs to be applied in 2019/20.

## Administration, Collection and Payment of Income Tax

The Welsh and the UK Governments agreed in December 2016 on a new fiscal [framework](#) regarding the annual block grant given the devolution and sharing of tax powers. This recognised that devolution and sharing had two major benefits for the people and services in Wales:

1. The Welsh government becomes responsible for funding more of its spending, and
2. The Welsh government has more choices over the level of tax needed

The framework should be read alongside the above Memorandum of Understanding that also talks about the roles and responsibilities of both the Welsh government and HMRC.

Regardless of this agreement and the adjustments to the block grant funding from the UK government, payroll professionals can be comforted with the following points:



## Administration

- Tax allowances will continue to be set by the UK government as this does not form part of Income Tax sharing (in Scotland or in Wales)
- Tax thresholds will be the same as those for rUK taxpayers (all UK Taxpayers that have not been classified as Scottish taxpayers)
- HMRC will be issuing specifications to software companies and payroll systems will be updated from 2019/20 to calculate Income Tax under the WRIT using rUK tax thresholds
- Payroll systems (front end) will not require any adjustments except for ensuring Welsh taxpayers can be correctly flagged with the country indicator C
- RTI submissions will be updated in payroll software and HMRC's systems will be updated to accept them

## Collection

- Tax will be calculated in payroll systems and collected by the employer
- There is no requirement to separate the "UK" element of Income Tax and the WRIT element
- There is no change to employee payslips format, the P45 or the P60

## Payment

- Employers will continue to make payments of Income Tax to HMRC

## Preparing for the WRIT

Much of this is out of our hands and it is a question of waiting for HMRC communication and the Welsh Rate Resolution. But there are some things that employers can do while we are waiting:

### Check your Software

A Welsh taxpayer will be identified by HMRC and allocated a tax code prefixed C. As a first step, it is good to check with your software provider that their systems have been updated (or will be to allow for the C codes when they start arriving early in 2019).

### Update Addresses

The C code will determine whether HMRC have identified the individual as a Welsh taxpayer. Even if the rates stay the same as the rest of the United Kingdom (which will only be England and Northern Ireland), it is important for the Welsh government that people are identified correctly.

HMRC will begin writing to people that it has identified as Welsh taxpayers in November 2018. Ahead of this, employees should be reminded that Income Tax is a personal responsibility so they should be encouraged to check their address and update it if necessary via their [Personal Tax Account](#). This will update HMRC's systems.

Employers should remind individuals to ensure that the payroll system is holding the correct address. The reason for this is that HMRC will also update their systems if the FPS contains the same address for three successive submissions.

## Communicate

Even though Income Tax is a personal responsibility, it is employers who will often have to deal with queries.

Therefore to pre-empt this, employers may consider that it is responsible to try and pass on information about WRIT using some of the information that is already available:

- The Welsh government [website](#)
  - The Gov.UK [website](#)
  - The Gov.UK [website](#) (Welsh language version)
  - The August 2018 [Employer Bulletin](#)
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