



National Audit Office



REPORT

Administration of Welsh rates of income tax 2023-24

HM Revenue & Customs

SESSION 2024-25
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HC 542

Summary

Introduction

1 The Wales Act 2014 gave the Senedd (Welsh Parliament) power to determine the rates (excluding the personal allowance) paid by Welsh taxpayers on all non-savings, non-dividend income, from 6 April 2017.

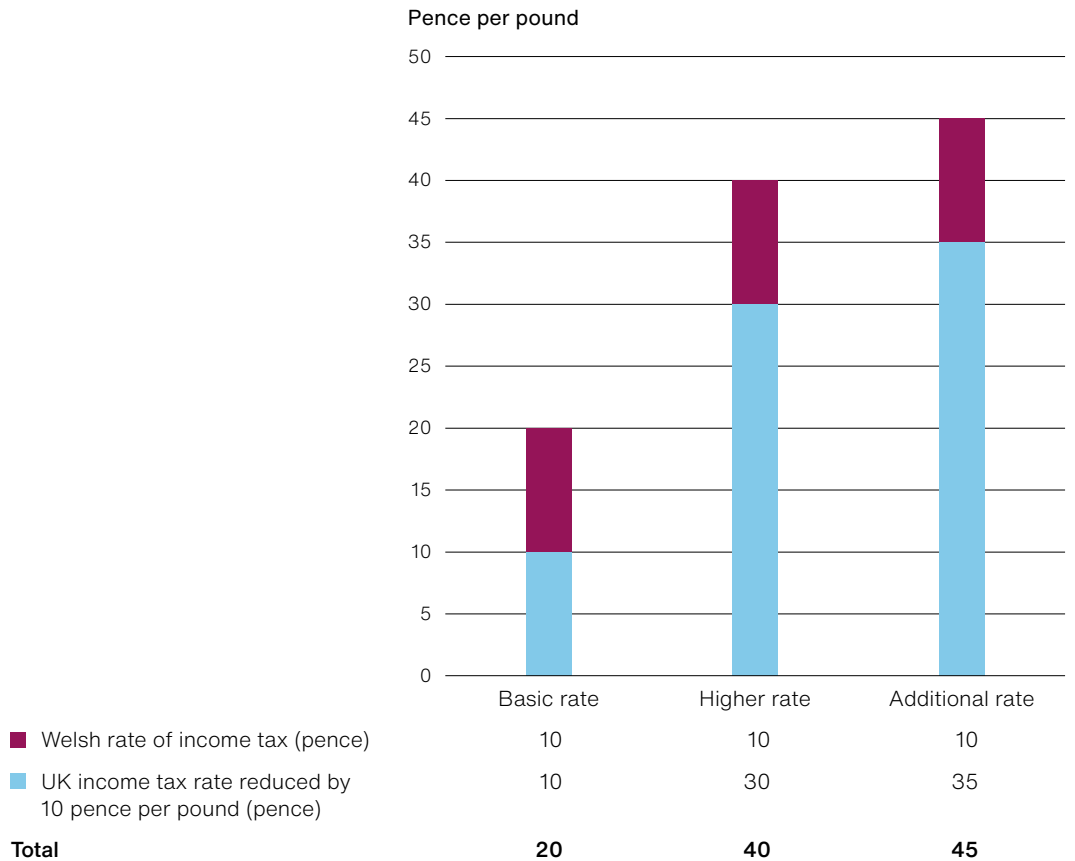
2 Since April 2019, the UK government has reduced the UK basic, higher and additional income tax rates by 10 percentage points for Welsh taxpayers, and the Senedd has had the power to apply Welsh rates in addition. For each tax band, the rate of income tax paid is the sum of the reduced UK rate and the Welsh rate set for the year (**Figure 1**). As in previous years, for 2023-24 the Senedd set the Welsh rates of income tax at 10% across all bands, which meant that the total rates for taxpayers in Wales matched the UK rates at 20% (basic rate), 40% (higher rate) and 45% (additional rate).

3 In this report, we describe the amount collected under the Welsh rates of income tax, which represents approximately 43% of the total income tax collected from Welsh taxpayers. The Welsh Government's resource block grant from the UK government is reduced by this amount and HM Treasury is responsible for paying these amounts to the Welsh Government. The balance of remaining income tax contributions is paid to the UK Government.

Figure 1

Welsh rates of income tax for 2023-24

The UK income tax rate is reduced by 10 pence per pound in Wales, with the Welsh government determining an additional amount to be paid as the Welsh rate of income tax

**Notes**

- 1 For each tax band (basic, higher and additional), the UK government reduces the amount of tax it will collect by 10 pence per pound and the Senedd (Welsh Parliament) sets the Welsh rate of income tax to be added to the UK rates of tax.
- 2 For 2023-24, the Senedd set each Welsh rate of income tax at 10 pence, meaning that Welsh taxpayers pay an amount of tax equivalent to the UK rate for each tax band.

Source: National Audit Office analysis of data from the Welsh Government

Roles and responsibilities

4 HM Revenue & Customs (HMRC) administers and collects the Welsh rates of income tax as part of the UK tax system. HMRC identifies taxpayers living in Wales by applying a 'flag' in its systems that indicates they are subject to Welsh income tax rates. HMRC has calculated that there were 1.5 million Welsh taxpayers in 2022-23 (2021-22: 1.4 million).

5 Following the end of each tax year, HMRC produces a provisional estimate of tax revenue for that year from the Welsh rates of income tax. It calculates the final outturn the following year, once it has received further information from taxpayers and employers. This report covers the final outturn for 2022-23 and the provisional estimate for 2023-24. HMRC expects to publish the outturn for 2023-24 in its 2024-25 Annual Report and Accounts.

6 The Government of Wales Act 2006, as amended by the Wales Act 2014, requires the Comptroller and Auditor General to prepare a report for each financial year on:

- the adequacy of HMRC's rules and procedures, in consequence of the Welsh rate provisions, to ensure the proper assessment and collection of income tax charged at rates determined by those provisions;
- whether HMRC is complying with these rules and procedures;
- the correctness of the sums brought to account by HMRC which relate to income tax that is attributable to a Welsh rate resolution; and
- the accuracy and fairness of amounts reimbursed to HMRC as administrative expenses.

7 This report assesses:

- HMRC's calculation of the 2022-23 Welsh rates of income tax revenue (the 'outturn') and assurance on the correctness of amounts brought to account (Part One);
- HMRC's estimate of the 2023-24 Welsh rates of income tax revenue and our view on the estimate methodology (Part One);
- key controls operated by HMRC to assess and collect income tax (Part Two);
- HMRC's approach to assessing and mitigating the risk of non-compliance with Welsh tax requirements (Part Two); and
- the cost of administering Welsh income tax. We provide assurance on the accuracy and fairness of these amounts in the context of costs incurred by HMRC (Part Three).

8 Appendix One sets out our audit evidence base.

Key findings

Welsh rates of income tax 2022-23 final outturn and 2023-24 estimate

9 HMRC calculated the final outturn for the Welsh rates of income tax in 2022-23 as £2,618 million, representing amounts collected under Welsh income tax policy. This represents an increase of 10.8% compared with the outturn for 2021-22. HMRC largely based the outturn calculation on established tax liabilities where HMRC has finalised the tax owed and fully reconciled the taxpayer records. The calculation includes some areas of estimation and adjustments, for instance where HMRC had not yet received returns from taxpayers or where HMRC does not have Wales-specific data. In these areas, we have evaluated the basis of HMRC's estimates, including the relevant assumptions and available data. The gross total of the estimates and adjustments made by HMRC constituted 7.6% of the reported outturn in 2022-23, a proportion which was similar in 2021-22. Based on our audit work, we have concluded that the outturn for the Welsh rates of income tax for 2022-23 is fairly stated (paragraphs 1.2 to 1.13 and Figure 2).

10 HMRC has estimated revenue from the Welsh rates of income tax for 2023-24 as £2,938 million. This represents an increase of £320 million (12.2%) compared with the 2022-23 outturn. Income tax for the whole of the UK increased by 11.9% in 2023-24. These increases reflect rises in earnings, the reduction of the threshold at which taxpayers pay the top rate of income tax (from £150,000 to £125,140) and the freezing of most other thresholds. This increased the size of the taxpayer population and moved some taxpayers into higher tax brackets. HMRC expects to calculate the finalised 2023-24 income tax outturn attributable to the Welsh rates of income tax by July 2025. The estimate HMRC produces is solely for financial reporting purposes in its annual accounts. Based on the performance of the estimate in recent years, it has proved to be a reasonable indicator of the amount of income tax likely to be collected from Welsh taxpayers. The outturn in 2022-23 was £51 million (1.9%) higher than HMRC's provisional estimate. The estimate does not affect the amount of revenue that the Welsh Government ultimately receives (paragraphs 1.14 to 1.17 and Figure 4).

Administration of the Welsh rates of income tax

11 HMRC has adequate rules and procedures in place to ensure the proper assessment and collection of the Welsh rates of income tax and it is complying with those rules. Our work on Welsh income tax builds on our wider assessment of HMRC's rules and procedures, completed as part of our annual audit of HMRC. As part of that audit, we concluded that HMRC had framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that these regulations and procedures are being duly carried out (paragraphs 2.2 to 2.15).

12 Maintaining an accurate and complete record of the addresses of Welsh taxpayers remains HMRC's key challenge in administering the system.

HMRC relies on taxpayers notifying it of a change of address, although there is no legal requirement for them to do so. The number of Welsh residents with taxable income in 2023-24 found to have a missing or invalid postcode through HMRC's address-cleansing work remained relatively low at 807 (2022-23: 770). As part of its assurance work, HMRC updated all these records. HMRC last compared the Welsh address records it holds with third-party data in August 2023, when it successfully matched 75.8% of address records (paragraphs 2.17 to 2.22 and Figure 8).

13 HMRC continues to assess the risk of non-compliance in relation to the Welsh rates of income tax as low because there is no divergence between Welsh tax rates and the rest of the UK.

HMRC produces an annual Strategic Picture of Risk (SPR) for the Welsh rates of income tax. In 2023-24, it considered the main areas of risk to Welsh income tax to be the same as those compliance risks which it assesses at the whole-of-UK level. In this SPR, HMRC identifies no risks as specific to Wales as HMRC assesses that compliance risk in Wales is consistent with the rest of the UK (paragraphs 2.23 and 2.24).

14 HMRC calculated a compliance yield of £110 million relating to Wales for 2022-23, the most recent data available. HMRC measures the effectiveness of its enforcement and compliance activities through compliance yield: its estimate of the additional revenues it has generated, and the revenue losses it has prevented. HMRC estimated that the Welsh share of net losses from compliance risks for 2021-22, the most recent data available, was £390 million. HMRC calculates these figures as a proportion of the equivalent UK figure, rather than using Wales-specific data to quantify the risks. HMRC does not consider or report on geographical variations in the level of compliance risk, or the relative success of compliance activity in Wales compared with the rest of the UK (paragraph 2.27).

Costs

15 In 2023-24 HMRC incurred £0.43 million for the cost of administering the Welsh rates of income tax, and re-charged this to the Welsh Government.

We examined HMRC's method for estimating the costs of collecting and administering the Welsh rates of income tax for the year ended 31 March 2024. Based on our audit work, we have concluded that the amount paid by the Welsh Government was accurate and fair in the context of the agreement between HMRC and the Welsh Government (paragraphs 3.4 and 3.5).