**WRITTEN STATEMENT**

**BY**

**THE WELSH GOVERNMENT**

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| **TITLE** | **Welsh rates of income tax** |
| **DATE** | **14 May 2019** |
| **BY** | **Rebecca Evans AM, Minister for Finance and Trefnydd** |

Welsh rates of income tax (WRIT) were introduced on 6 April this year. In readiness for this, HMRC worked with employers and payroll providers and identified income tax payers living in Wales to whom the new ‘C’ tax code should be assigned. HMRC then issued the new tax codes and the accompanying technical guidance and test data to employers prior to 6 April, to ensure they had all of the information needed to implement the change.

HMRC has alerted the Welsh Government to an error that has occurred in the application of the new codes for a number of employers, including some UK government departments and agencies. This has meant that some taxpayers living in Wales have received a Scottish ‘S’ code and, as a result, have paid Scottish rates of income tax in April,. HMRC is unable to confirm the full extent of the error at this time or the total number of taxpayers affected. However, for those organisations we know have been affected, taxpayers will have over or underpaid tax by relatively small amounts only. Typically, where taxpayers have underpaid tax (or have been overpaid) this will have been by no more than £2. Where taxpayers have overpaid tax (or have been underpaid) this will have been by no more than £10. In some cases taxpayers will have paid the correct amount of tax despite being assigned a ‘S’ code.

I have spoken to HMRC officials and have asked for further details on the cause of the issue, its extent and the numbers of taxpayers affected and sought assurances on the action being taken to rectify the problem. Jim Harra, the Second Permanent Secretary at HMRC has today written to me to confirm HMRC’s response and plans for correcting and monitoring the situation looking ahead.

HMRC will be able to undertake a comprehensive check in early June at which point an assessment of the full extent of the issue will be made. Where there is a discrepancy between the correct ‘C’ code issued by HMRC and the code applied by the employer, the tax code will be re-issued by HMRC to the employer. A second check will take place in September to help prevent any persistent errors in ‘C’ code allocation.

Since this error has come to light, HMRC has been working with the affected organisations to rectify the issue. HMRC has confirmed that the error will be resolved ahead of the processing of the payrolls for May, with any over or underpayments incorrectly applied in April being rectified at that point. As a result, there will be no substantial under or over payment of tax by any individuals. Any errors in the amount of tax paid will be resolved through HMRC’s standard tax reconciliation process for PAYE, and no action will need to be taken by Welsh taxpayers. There will be no effect on the block grant adjustment.

As a government, we rightly chose to be cautious in our approach to tax reform at the beginning, to prevent as far as possible the risk of problems while the new system is bedding in. WRIT is a significant development in Welsh devolution, and the Welsh Government is determined that Welsh taxpayers are provided with a service which is both reliable and efficient. It is disappointing that in this case some Welsh taxpayers have been inconvenienced.

The Welsh Treasury will continue to work with HMRC as part of our formal management and coordination arrangements including through our Memorandum of Understanding and forthcoming Service Level Agreement. HMRC has committed to continue to provide progress reports on implementation and administration to Welsh Ministers and to report to the Assembly’s Finance Committee to help ensure there is full transparency in relation to the management of this partially devolved tax.

I will provide a further statement to the Assembly on this issue once HMRC has completed its check in June.