

# The Welsh Tax Base

## Risks and Opportunities after Fiscal Devolution



**Guto Ifan**

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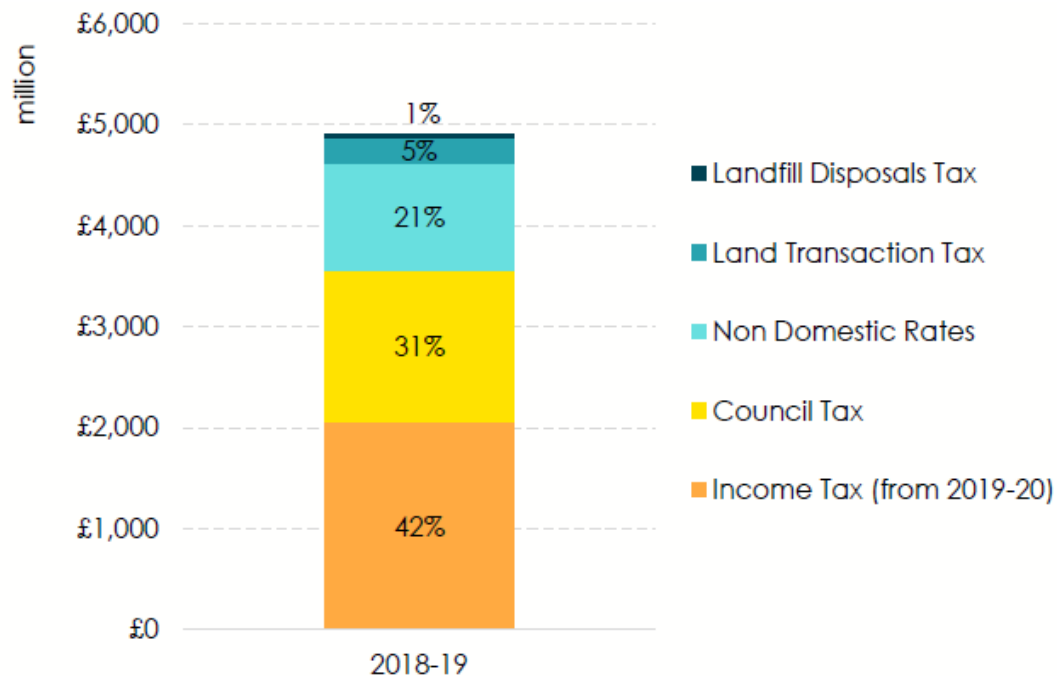
# The Welsh Tax Base

- Determining the Welsh Tax Base
- Risks and opportunities
- Options and implications for Welsh Government policy



# Local and devolved taxes after fiscal devolution

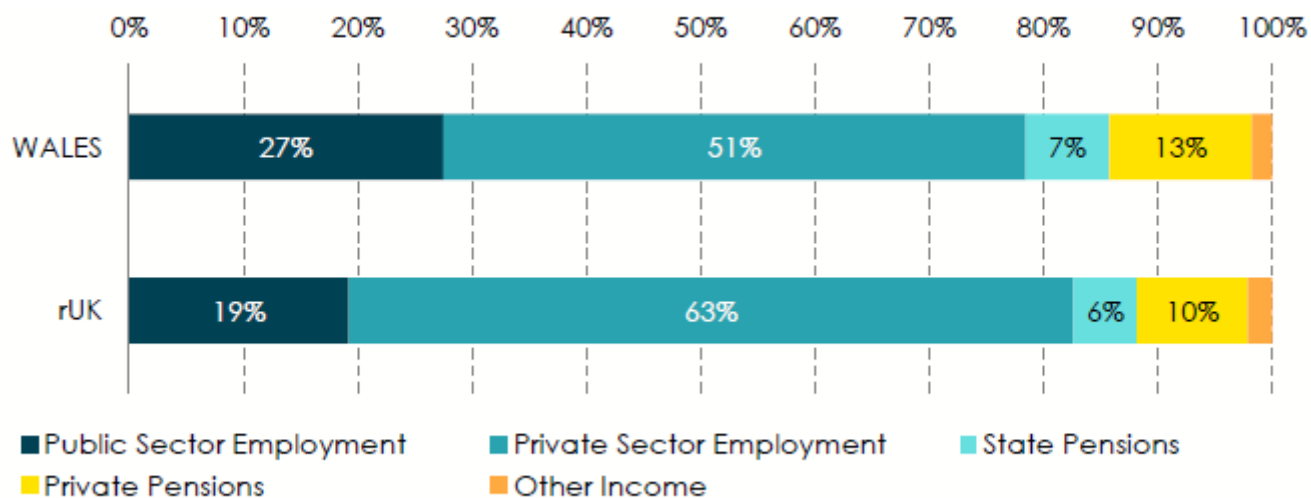
Figure 1.2: Tax revenues under Welsh Government control, 2018-19



Source: OBR (2018) Devolved taxes forecast; Bangor University (2017); Statswales and authors' calculations

# Devolved Income Taxes

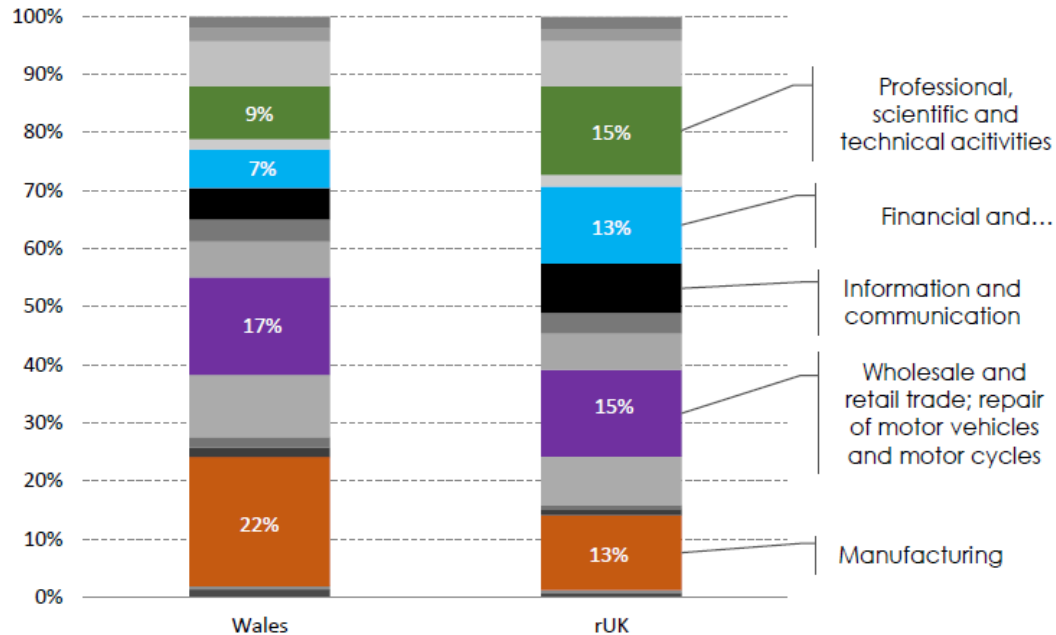
Figure 2.1: NS-ND income tax base by source for Wales and rUK, 2014-15



Source: HMRC (2017) and author's calculations

# Devolved Income Taxes

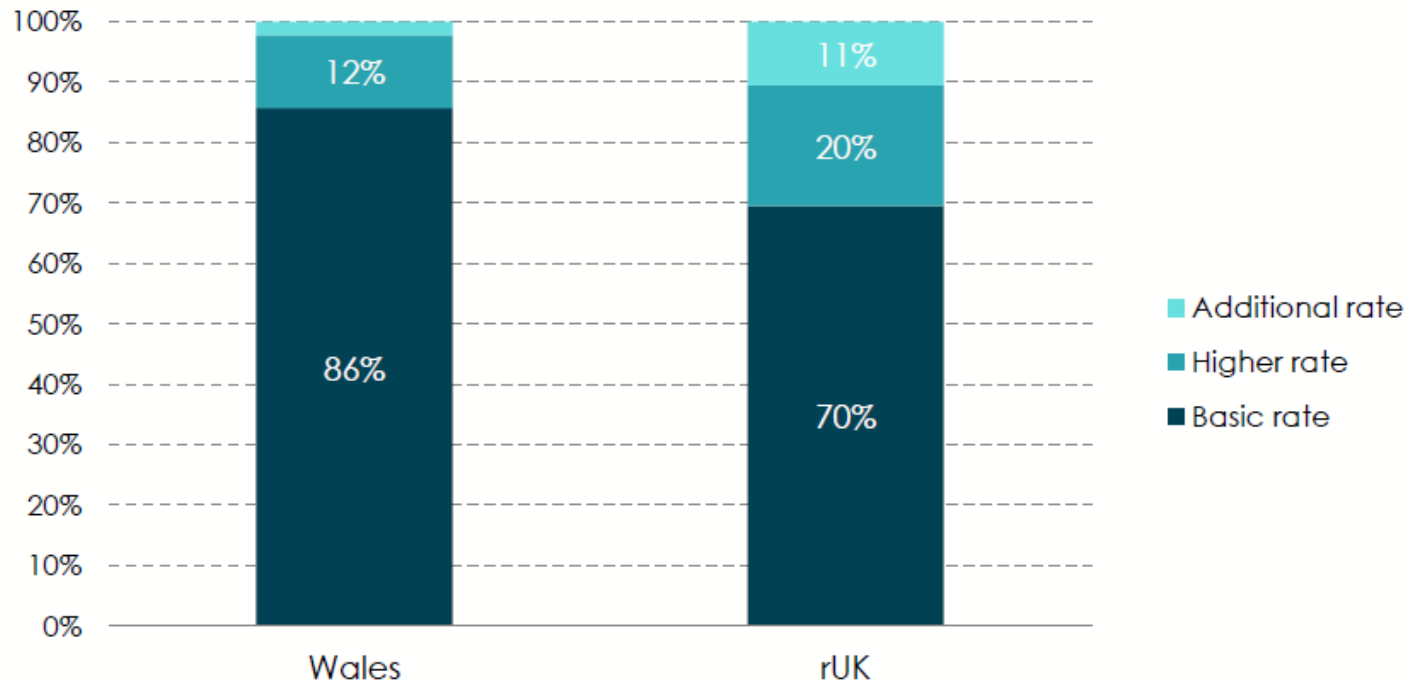
Figure 2.2: Private sector employment income by industry classification (SIC 2007)



Source: HMRC (2017) and authors' calculations

# Devolved Income Taxes

Figure 2.5: Devolved income tax revenue by income tax band, 2014-15



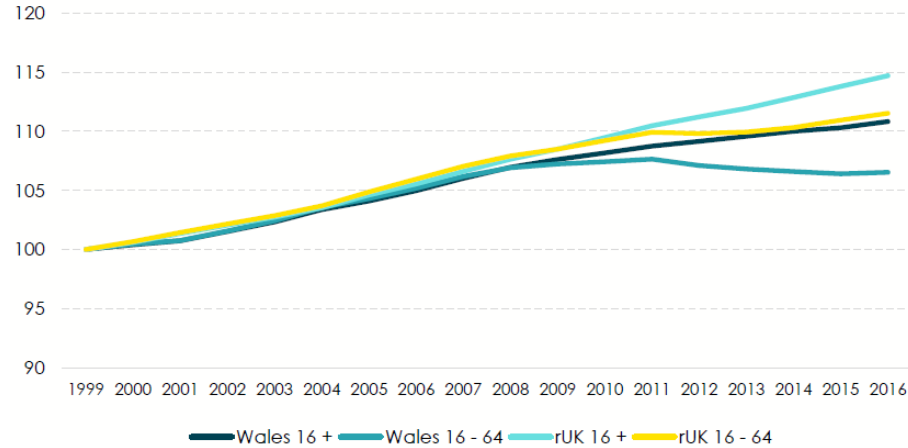
Source: HMRC (2017) and author's calculations

# Risks and opportunities

- Income tax base
  - Demographic risks
  - Employment growth
  - Wage growth
- Miro-simulation model of devolved taxes
  - Survey of Personal Incomes, 2014-15
  - Assumptions on taxpayer growth (population, employment rates)
  - Assumptions on growth of incomes (employment, pension)

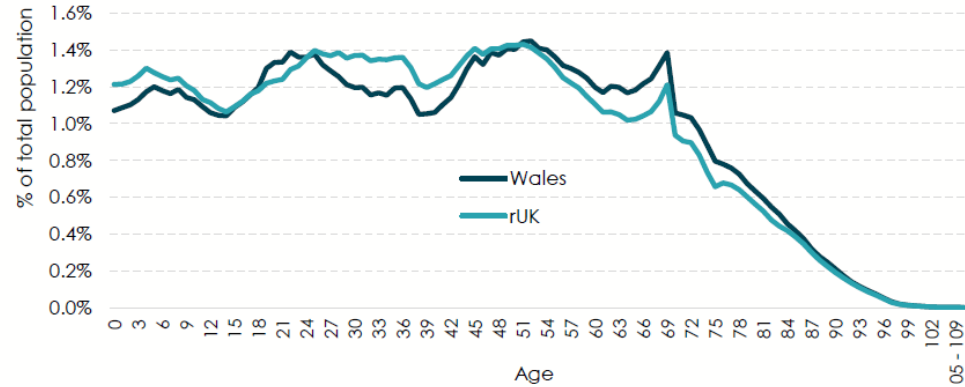
# Demographics

Figure 2.8: Population aged 16+ and 16-64, Wales and rUK (1999=100)



Source: ONS (2017)

Figure 3.8: Population by single year of age, Wales and rUK, 2016

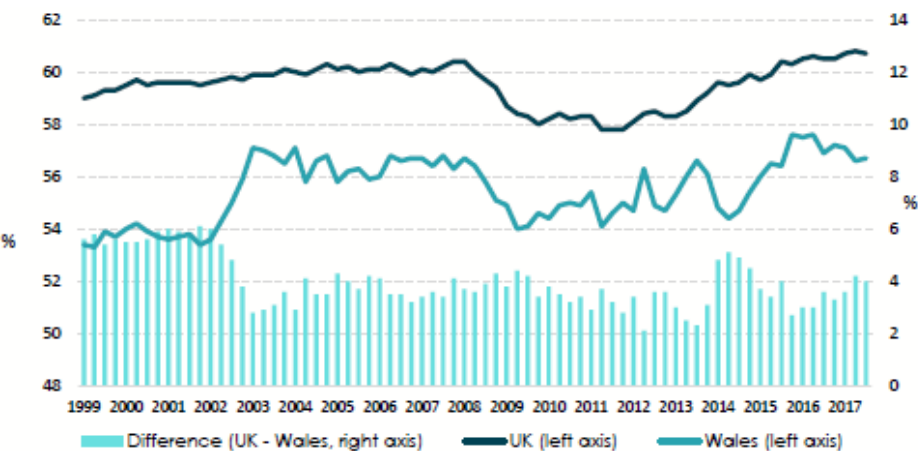


Source: ONS



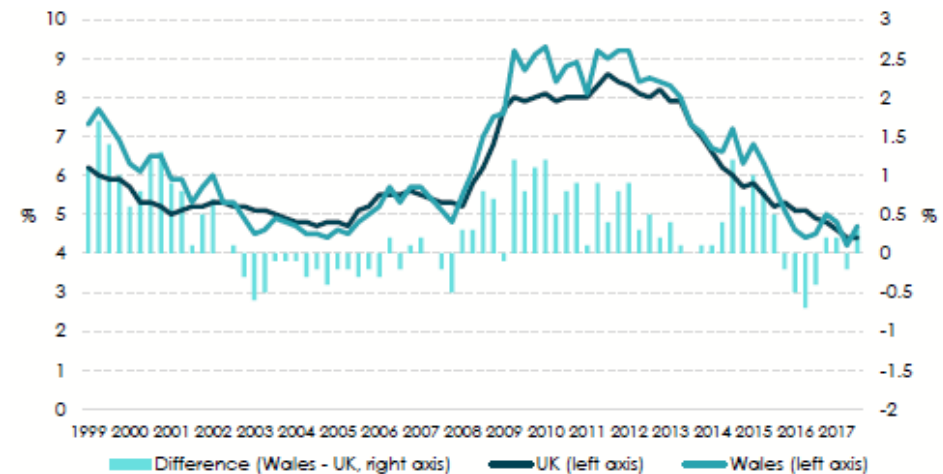
# Employment rate

Figure 2.9: Quarterly employment rate (16+) in Wales and UK, 1999-2017



Source: Statswales (2017)

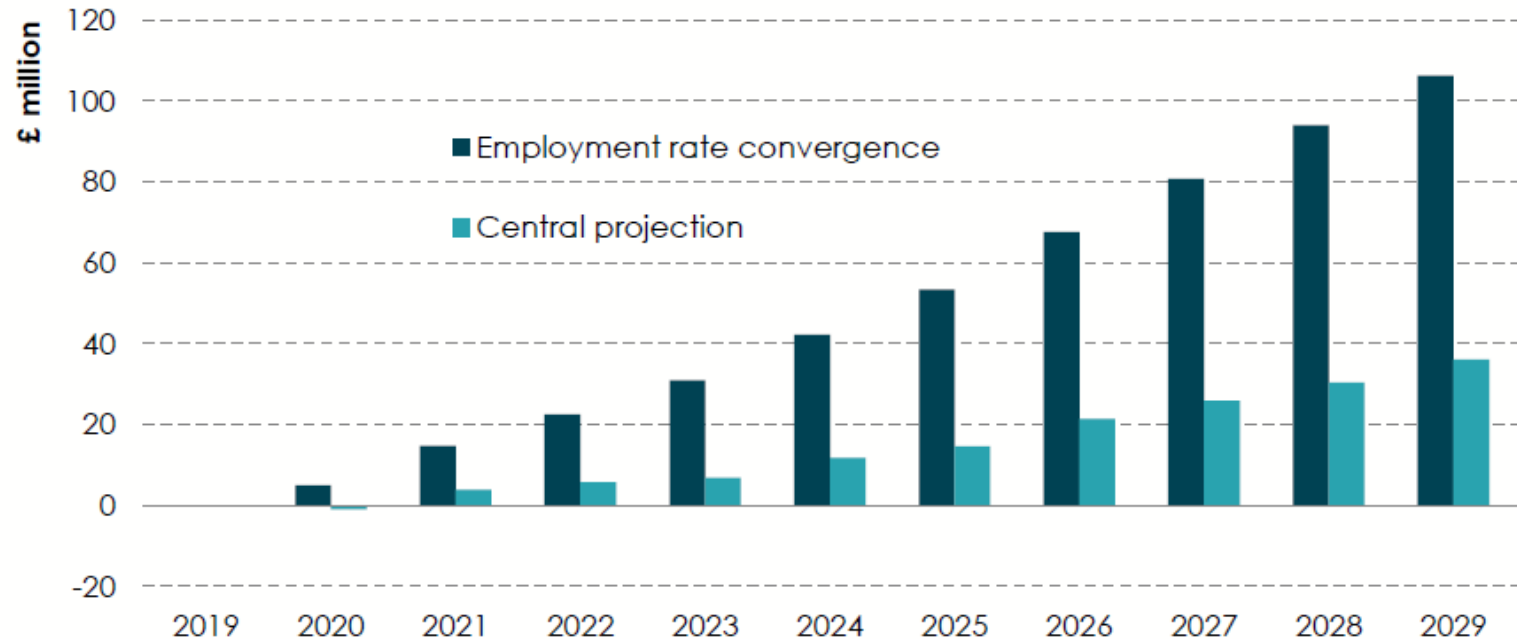
Figure 2.10: Quarterly unemployment rate (16 - 64) in Wales and UK, 1999-2017



Source: Statswales (2017)

# Employment rate convergence

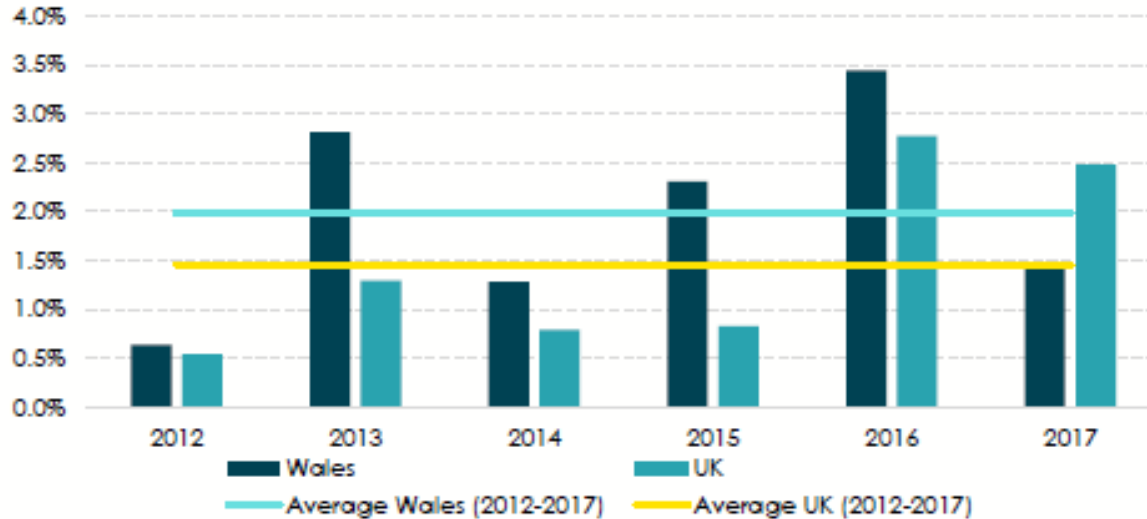
**Figure 3.3: Projected effect on the Welsh Government budget under two assumptions on the employment rate in Wales**



Source: Authors' calculations

# Wage growth

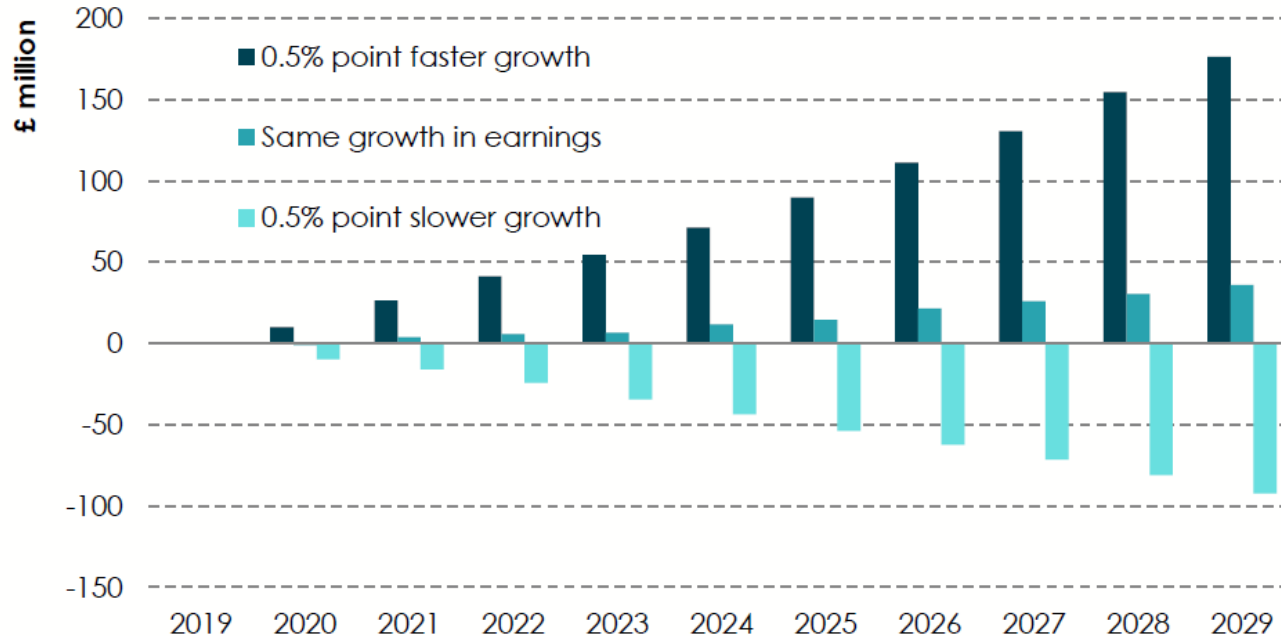
Figure 2.11: Mean annual percentage increase in pay, Wales and UK (2012-2017, nominal)



Source: ONS (2017) Annual Survey of Hours and Earnings

# Wage growth

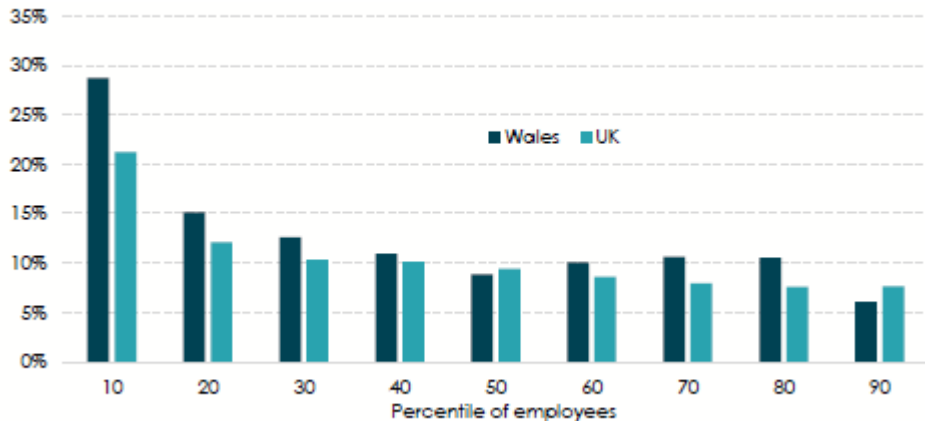
**Figure 3.5: Projected effect on the Welsh Government budget under three assumptions on private sector earnings growth in Wales**



Source: Authors' calculations

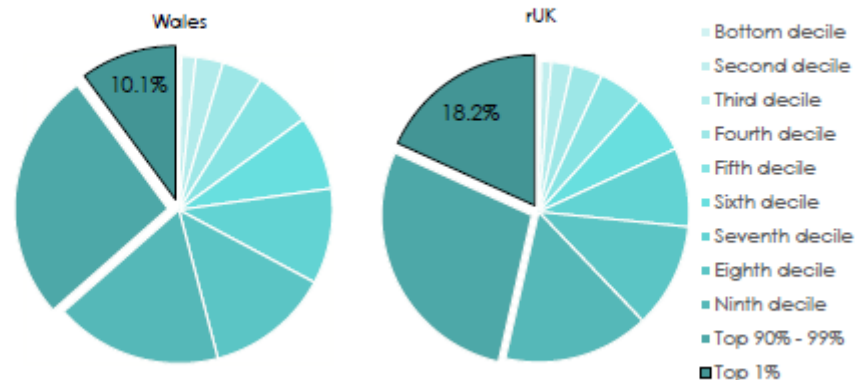
# Wage growth

Figure 2.12: Total increase in pay by percentile from 2011 to 2016, Wales and UK (nominal)



Source: ONS (2017) Annual Survey of Hours and Earnings

Figure 2.4: Devolved income tax liabilities (with 10p rate in each band) by taxpayer decile (and top one per cent) in Wales and rUK, 2014-15

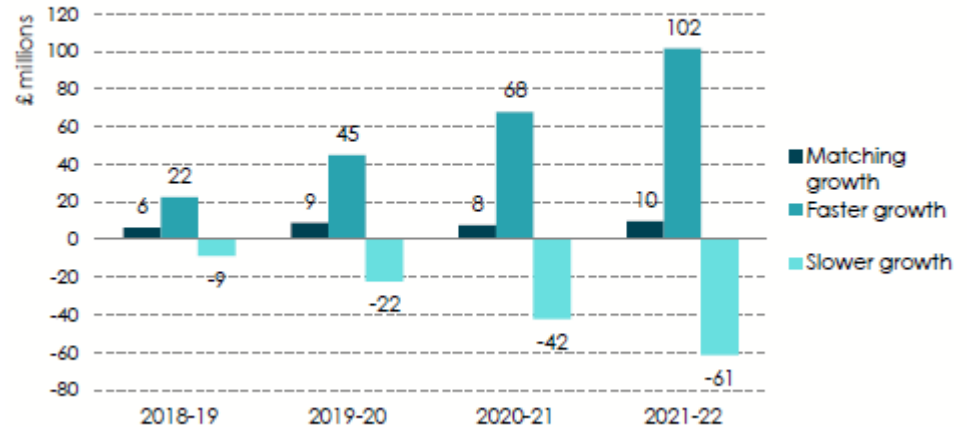


Source: HMRC (2017) and authors' calculations

# Other risks and opportunities

- Commuting and migration flows
- Property market trends
- Brexit

Figure 3.16: Projected effect on the Welsh budget of a 2.5 percentage point deviation in transaction and price growth



Source: Authors' calculations

# Policy implications - income tax rates

Figure 4.1: Revenue effect of changing each rate by 1p in the pound, with no behavioural response



Source: Authors' calculations

- 1p increase on basic rate would generate around £184 million
- Welsh Government relatively shielded from behavioural response
- Migration response highly uncertain; most likely among high earners

# Policy implications - income tax rates

**Table 4.2: Modelling a 5p cut in the additional rate in Wales: revenue effects of varying migratory responses from additional rate (AR) taxpayers from rUK**

<i>Share of rUK AR taxpayers migrating to Wales</i>	<i>Number of AR taxpayers migrating to Wales</i>	<i>Number of AR taxpayers in Wales</i>	<i>Welsh share of all UK AR taxpayers</i>	<i>Budget effect of migratory response</i>	<i>Budget change after tax cut</i>
<b>0.0%</b>	0	5000	1.4%	£0m	<b>£-27m</b>
<b>0.1%</b>	334	5334	1.5%	£8m	<b>£-18m</b>
<b>0.5%</b>	1669	6669	1.9%	£42m	<b>£16m</b>
<b>1.0%</b>	3337	8337	2.3%	£85m	<b>£58m</b>
<b>1.5%</b>	5006	10006	2.8%	£127m	<b>£100m</b>
<b>2.0%</b>	6674	11674	3.3%	£170m	<b>£143m</b>
<b>2.5%</b>	8343	13343	3.8%	£212m	<b>£185m</b>
<b>3.0%</b>	10011	15011	4.2%	£254m	<b>£228m</b>

*Note: rUK Additional Rate taxpayers refers to non-Welsh, non-Scottish taxpayers with NS-ND incomes above the additional rate threshold.*



# Policy implications

- Debate around income tax rates
- An integrated approach to tax policy; e.g. council tax reform alongside income tax rate changes? New taxes?
- Cross-departmental challenges for the Welsh Government; wider policies on higher education, transport, housing etc. could have knock-on effects on the tax base

Diolch am wrando...

Thanks for listening...

