FUNDING PROSPERITY: CREATING A NEW TAX SYSTEM IN WALES

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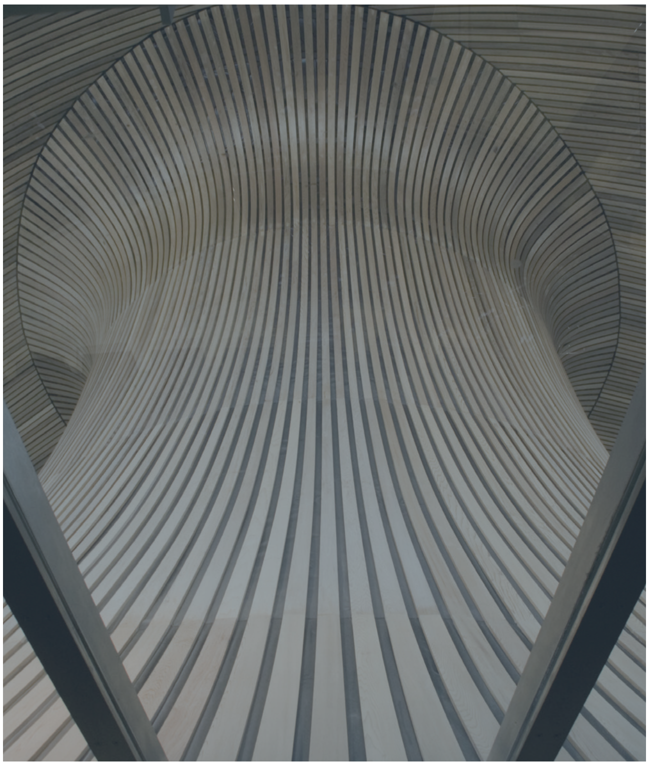

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FOREWORD

In April 2019 income tax will be devolved to the National Assembly for Wales, part of a process of tax devolution leading to the first Welsh taxes to be levied since the days of Llewelyn the Great in the 13th Century. Along with key business taxes such as non-domestic rates, stamp duty land tax and landfill tax, how the Welsh Government chooses to use these new powers will have a significant impact on SMEs across Wales.

But it's not just the rates and bands of these taxes that are important. It's also how they are administered. Previous FSB research in our report *Taxing Times* found that the average UK business loses three weeks a year to tax administration and spends around £5,000 on tax administration. 55 per cent of businesses also feel uninformed about potential tax reliefs on offer that could benefit their business.

To combat this, many turn to professional advisors to get their taxes right. We found 77 per cent of firms did this with accountants being particularly important to businesses and in relation to more technical taxes also legal advisors. In this context, how Welsh Government goes about administering its devolved taxes, and how it works with tax professionals, is crucial to reducing the administrative impact.

With proposals such as a tourism bed tax and a vacant land tax being suggested in some quarters, we felt it was important that FSB Wales outlines the needs and issues for small businesses in dealing with devolved taxes. This research provides this overview and it's clear that the initial experience has been mixed. On the one hand, many simply aren't aware that taxes have been devolved. This is a concern as it's an issue that will impact on almost every business once income tax is devolved.

On the other hand, those that have experienced the newly devolved Welsh taxes have largely positive things to say about the Welsh Revenue Authority (WRA). We hope this report helps Welsh Government and the WRA to continue its positive start and shape a tax administration system that works for Wales' 250,000 micro, small and medium sized businesses.

Ben Francis
Chair, FSB Wales Policy Unit

INTRODUCTION

"The tax system plays a central role in all modern economies... The way in which these huge sums of money are raised matters enormously for economic efficiency and for fairness" (Mirrlees, 2011:470).

Two new devolved taxes became operational from April 2018, Land Transaction Tax (LTT) and Landfill Disposal Tax (LDT). Changes to tax policy and administration create challenges for taxpayers and practitioners, in addition to potentially influencing taxpayer behaviour. Therefore, understanding the way new taxes are communicated and implemented, and the way they are administered in practice, is important.

In the first year of operation there is little practical experience to draw on; however, over time, the approach, actions and public statements made by the WRA set precedents and inform expectations for future tax administration and enforcement (Bangor University, 2017). Therefore, understanding the way taxes are communicated and administered during their introductory year is important as it offers early indications as to what to expect in future.

This report focuses on LTT because:

- LTT will raise the most revenue for the Welsh Government;
- LTT is forecast to raise approximately 6 times as much as LDT in 2018/19 (see Appendix 3).
- LTT is paid by taxpayers who engage in land or property transactions in Wales, and so has relevance to many small businesses and taxpayers generally.

Also, the number paying LTT is significantly higher than the small number of landfill site operators that pay LDT (the WRA website lists eighteen registered landfill site operators). Typically, LTT is not paid directly by the property purchaser to the tax authority. Rather, LTT is directly paid and dealt with by an intermediary: those "caught in the middle are practitioners" (Drysdale, 2017). The presence and role of tax intermediaries can affect the tax system (OECD, 2008) and most small firms rely on practitioners to determine their tax liabilities (FSB, 2018). In the case of LTT, a solicitor usually takes on this role, and undertakes the administrative and tax compliance work on behalf of the taxpayer. Therefore, the views of intermediary solicitors are important, particularly during the first year of new tax rules and policy changes.

BACKGROUND

On 1 April 2018, two new Welsh-specific taxes came into effect, the first taxes to be introduced by a Welsh Government in nearly 800 years. In this report we present and discuss some observations on a survey that was completed by small business owners, FSB members, in August 2018 to review their awareness and understanding of the new devolved taxes. This is supplemented by interviews with solicitors based in Wales and England with first-hand experience of dealing with devolved taxes. This gives insights into initial reactions, perspectives and levels of understanding from FSB members and practitioners.

- The two newly devolved taxes are:
  - Land Transaction Tax (LTT), replacing UK Stamp Duty Land Tax (SDLT) on property transactions (see Appendix 1 for information on rates and bands); and
  - Landfill Disposals Tax (LDT) replacing UK Landfill tax, on waste disposed to landfill.
- A new Welsh tax authority, the Welsh Revenue Authority (WRA), was created to administer and collect these two new devolved taxes.
- From April 2019, income tax will be partially devolved to Wales (see Appendix 2 for information on rates and bands). All income tax paid by taxpayers resident in Wales will continue to be administered and collected by Her Majesty's Revenue and Customs (HMRC), but part of this tax will be allocated to the Welsh Government (see Appendix 2). At the time of publishing, the Welsh Government proposes to leave next year's income tax rates as they currently stand (Welsh Government, 2018).

This study into the first year of their administration in Wales by the WRA, focuses on FSB members as taxpayers and practitioners working in the field:

- Level of awareness of new devolved taxes; and
- Perspectives on the potential impact of devolved taxes, specifically LTT.

BACKGROUND – DEVOLVED TAXES TIMELINE

On 1 April 2018, Wales' new devolved taxes came into effect, alongside the creation of a new Welsh tax authority (WRA) to administer them, with the further partial devolution of income tax, and other taxes on a case-by-case basis, to follow.

These important measures are the result of long and continuing debates on increased devolved powers for Wales: devolution being "a process not an event" (Torrance, 2018). This section offers a brief timeline of this, detailing key events in the on-going process, followed by a brief analysis of the work of the WRA.

2010	The Holtham Commission's final report in July 2010 called for the devolution of tax varying powers and recommended devolution of other taxes (Holtham, 2010).
2011	The Silk Commission was set up in November 2011, charged with making recommendations of improved financial accountability. Silk Part I (2012) recommended the devolution of certain taxes together with increased borrowing powers, in part to help manage volatile tax revenues.
2014	The Wales Act 2014 received Royal assent in December 2014, implementing Silk's recommendations. It gave new powers to the National Assembly for Wales, including powers to introduce two new Welsh taxes to replace UK stamp duty land tax and UK landfill tax; and partial devolution of income tax. The Act also gave general power to introduce other devolved taxes, on a case-by-case basis (Bevan Foundation, 2016).
2015	In February 2015, the Welsh Government began a consultation exercise on Welsh LTT which received generally positive responses (the largest proportion of responses coming from practitioners and professional bodies) and indicating support for the new devolved LTT (Welsh Government 2015).
2016	The National Assembly established the WRA (the first non-ministerial department created by the Welsh Government), responsible for the administration and collection of devolved taxes either directly, or by outsourcing to a third party.
2017	In October 2017 a shortlist of four potential tax ideas to test the Wales Act 2014 was published: a levy to support social care; a vacant land tax; a disposable plastic tax and a tourism tax. In December 2017, the rates and bands for LTT were announced, differing from UK Stamp Duty (see Appendix 1).
February 2018	In February 2018 the Welsh Government announced it would put forward the vacant land tax idea to test the Wales Act 2014 powers.
April 2018	In April 2018, the WRA became fully operational, administering LTT, levied on commercial and residential property transactions in Wales, and LDT.
November 2018	In November 2018, HMRC posted letters to all taxpayers it had identified as Welsh taxpayers, together with a flyer from the Welsh Government about the partial devolution of income tax (National Audit Office, 2019).
January 2019	The National Assembly for Wales approved the 2019/20 Welsh Budget, leaving the Welsh rates of income tax unchanged.

DEVOLVED TAXES AND THE WELSH REVENUE AUTHORITY

Before April 2018

As the timeline shows, the WRA was established in 2016, responsible for the administration and collection of LTT and LDT, replacing UK stamp duty land tax and Landfill tax from April 2018; a similar transfer from Westminster to Scotland took place in 2015. Stamp duty was widely seen as appropriate for devolution as, the less mobile a tax base the more suitable it is to devolve (Melding, 2013). Although in terms of total tax revenue LTT and LDT are relatively small (see Appendix 3), they are closely linked to key devolved areas such as housing and the environment (Phillips, 2016).

Some of the WRA's key staff members had previously worked for HMRC (Auditor General, 2018), providing a degree of continuity and shared experience. One of the stated main aims of the WRA is to establish a "New Approach" which

> *"involves working in partnership to administer taxes efficiently and effectively […] work[ing] with taxpayers and their representatives, membership bodies and the public" (WRA, 2018).*

The WRA focus on achieving effective customer engagement occurs against the backdrop of some tax agencies in other countries taking steps to become more customer-oriented (Aberbach and Christensen, 2007). This approach is important as it can help foster trust in the tax authorities, (Gayer and Mourre, 2012) especially for a newly established tax authority.

The WRA's approach has been endorsed by the Law Society as a "Twenty-first century approach to engagement" (Powell, 2018). Since its establishment it has run, and continues to run, events for practitioners, and other interested parties, such as Tax Forum meetings and other communication and guidance work. This has involved working closely with key stakeholders, including the Law Society, which commented that key members of Welsh Government and WRA staff "were open and receptive to the views of solicitors with experience of the old taxes and who were keen to improve the system for the new one" (Powell, 2018).

In the months before April 2018 some practitioner publications commended the WRA; for example, noting that the WRA's online calculator is slightly more sophisticated than the one they were currently using (CLP, 2018), with some more circumspect comments for example: "LTT is clearly not perfect at present but, as with stamp duty land tax (SDLT), we expect this to be alleviated via further WRA guidance and to evolve as time progresses. In the meantime, taxpayers will need to make do with what is available to them" (BLP, 2018). Some practitioner commentaries also raised the issue of transactions straddling a border that "remains essentially a rural region" (Rowley, 2001:212) and the potential difficulties for solicitors in dealing with these (for example, Hugh James, 2017).

After April 2018

Since April 2018 the WRA has announced it will be making changes to the LTT online forms, in response to comments by solicitors (WRA Tax Forum presentation). It has also published statistics relating to its work, including some information on tax collected and costs. The Auditor General confirmed the implementation cost of establishing the WRA stood at £6.246 million (Auditor General, 2018). In terms of ongoing costs, the WRA reports, "a revenue budget of £6 million for the first financial year (2018-19)" (WRA Corporate plan 2018/19). The Auditor General also commented that the WRA has responded appropriately to feedback by making relevant changes to its process and guidance and concluded that "the Welsh Revenue Authority is operating effectively to administer devolved taxes in Wales." (Auditor General 2018: 7). As regards the partial devolution of income tax, according to the Auditor General (2018) the forecast project cost to be incurred by HMRC and the Department of Work and Pensions (DWP) for implementing this is between £7,689,000 and £9,689,000; and the forecast project cost for engagement and awareness activities by the Welsh Treasury is between £36,000 and £41,000.

In the next sections we present and discuss our key findings. Each section first describes the self-reported opinion of small business owners (derived from their questionnaire answers) and secondly provides the additional views of practitioners (derived from focused interviews). Finally, a separate section provides new information on of solicitors' views on the particular challenges posed by LTT.

FINDINGS FROM THE FSB MEMBER SURVEY AND INTERVIEWS WITH SOLICITORS

Context for the findings

This report offers insights into firstly, the views of FSB members in Wales, and then professional legal practitioners, on the newly devolved taxes in Wales. We sought to include the views of professional advisers as previous research has highlighted that small businesses overwhelmingly rely on tax specialists (FSB, 2018) for support and guidance on tax administration and compliance. Indeed this was reflected in our own survey work that showed around 60 per cent of firms used an accountant to deal with tax administration

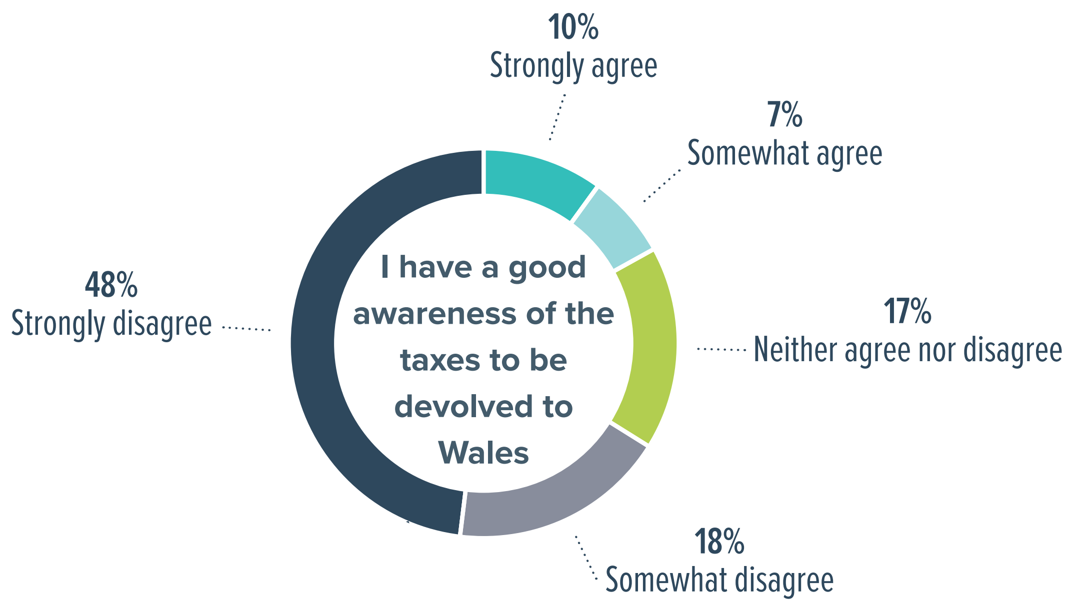
In August 2018, halfway through the first year of the new devolved taxes becoming operational, 264 FSB members responded to a web-based survey questionnaire delivered to FSB members with a series of questions about their awareness of devolved taxes, the WRA and its administration of LTT. The questionnaire also included opportunities for respondents to use free text boxes to offer additional comments on particular issues. We then supplemented this data with 16 interviews with practitioners/solicitors based in both Wales and England. In the case of LTT, hardly any taxpayers will have direct contact with the WRA as they depend on the services of solicitors to act on their behalf. Thus, the views of, and knowledge held by, solicitors about LTT are important, because these practitioners deal with the LTT system in practice and act as an interface between the WRA and taxpayers, passing information and their perspectives on to their taxpayer clients.

1. Awareness of Welsh devolved taxes

FSB Members

The majority, 66%, of FSB members responding to the survey in August 2018, halfway through the first year of the new devolved taxes, reported a lack of awareness of new Welsh devolved taxes (see Graph 1). Many had no awareness, with one commenting that the survey was “the first I have heard of it” (ID 267). Another reported “there has been no/too little information” (ID. 717) provided to them. Another added they could not rely on their accountant to inform them because their practices are based outside of Wales and have “no knowledge of the new devolved powers [in Wales]” (ID. 181).

Graph 1: To what extent do you agree with the following statement:

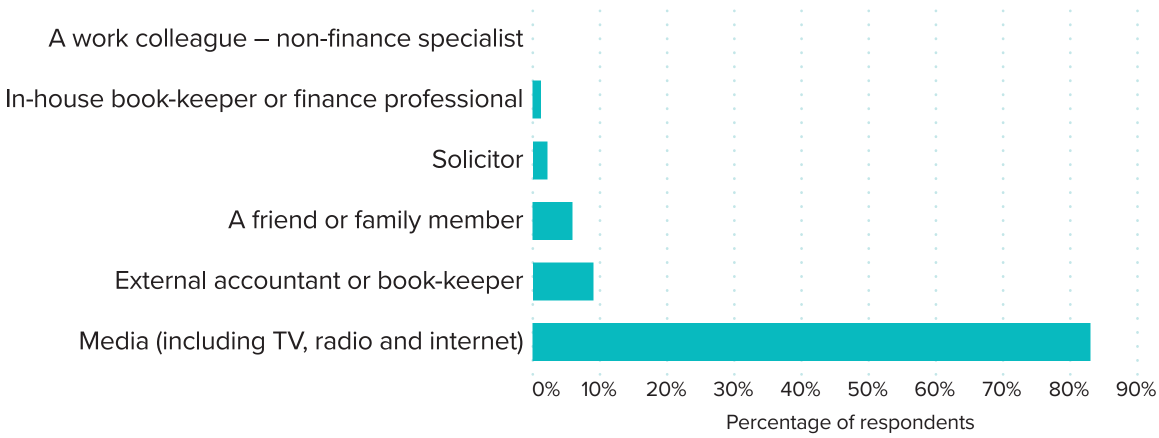


This lack of knowledge may in part be due to the fact that the fully devolved taxes do not raise a significant amount (see Appendix 3). Nevertheless, being the only fully devolved taxes within the Assembly's power means these taxes have a significance beyond the amount of money they raise. However, research from Scotland (Scottish Taxes Policy Forum, 2018) and the responses of FSB members indicate devolved tax issues remain largely unknown. This is in the context of low tax awareness in the UK generally, partly due to a tax system where the majority of UK residents do not file tax returns and so do not actively engage with the system (Alexander and Balavac, 2018).

The minority of respondents that did report some awareness of Welsh devolved taxes, generally showed good awareness of the types of taxes devolved to Wales in response to further survey questions on the nature of devolved taxes. These findings suggest there exists a small, well-informed minority of small business owners, and a larger group lacking information and knowledge of new devolved taxes in Wales.

The majority of respondents who reported some awareness, stated they had received information about devolved taxes via the media (83%). Whilst only 9% reported receiving information from their accountant or bookkeeper (see Graph 2). This is surprising in the light of an earlier FSB report which found that most FSB members depend on their accountant to inform and help them deal with their taxes (FSB, 2018).

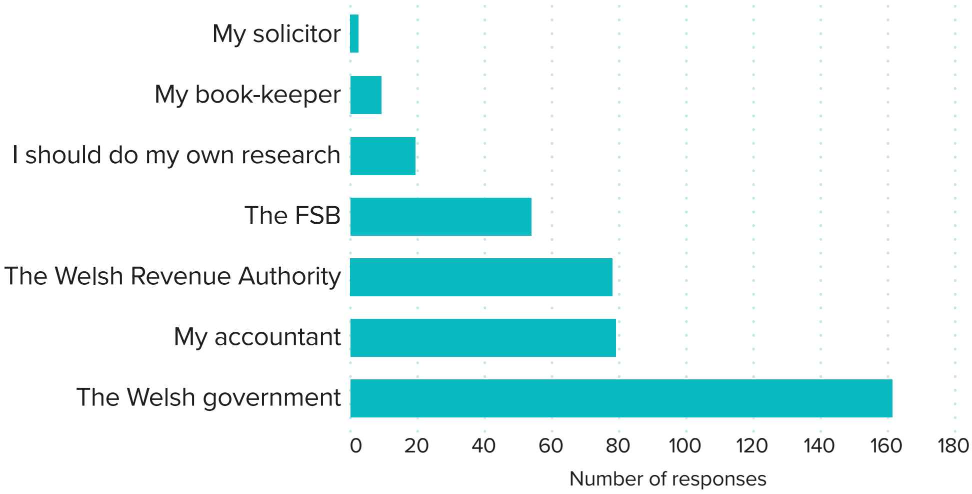
Graph 2: From where did you get your information and awareness of the new Welsh Taxes?



103 answered this question out of a total of 264 respondents

We asked members who they thought should be informing them about Welsh devolved taxes. 80% of all respondents reported they expect the Welsh Government to inform them (see Graph 3). One FSB member commented, “something as important as this should be announced clearly and concisely by the WAG” (ID. 527) and another stated that the “Welsh Government have a duty of care to members/electorate to ensure changes are understood” (ID. 825). Nearly 40% of respondents reported they expected their accountant and/or the WRA to inform them.

Graph 3: Who do you think should be informing you about devolved taxes in Wales?



201 answered this question out of a total of 264 respondents

Solicitors

The interviews with solicitors also highlighted a lack of awareness of devolved taxes amongst their clients when purchasing property in Wales, which is consistent with the survey findings, for example:

> *“I don’t think many people are aware that there’s two different systems” (Int 6).*

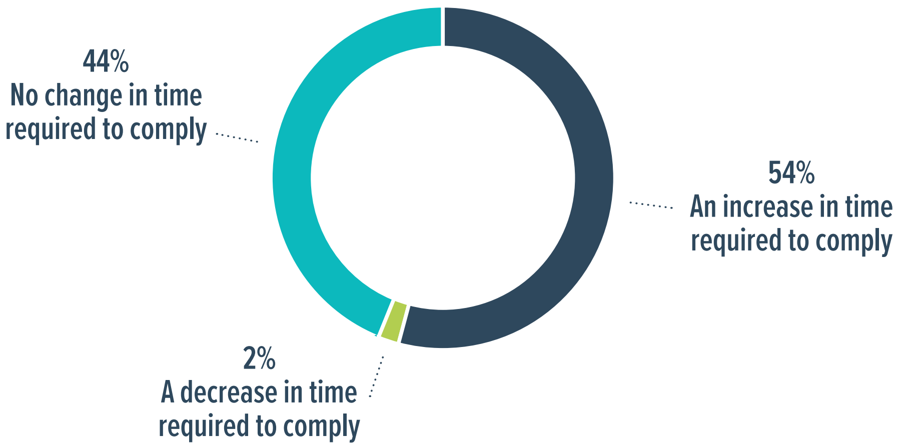
None of the FSB survey respondents expected solicitors to inform them of the newly devolved taxes in Wales, although in practice all solicitor interviewees reported they had undertaken this role in their dealings with client’ property transactions falling under LTT.

2. Views on the potential impact of devolved Welsh taxes

FSB members

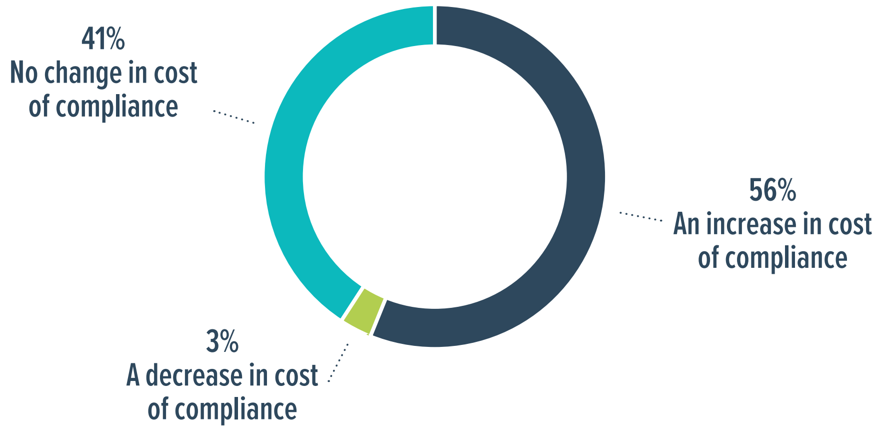
We asked FSB members about the impact they thought newly devolved taxes would have on their business, in terms of time and costs of compliance. Graphs 4 and 5 shows a small majority of respondents reported that devolved taxes would increase the time (54%) and costs (56%) of tax compliance. These responses should be interpreted in the context of the low awareness of these taxes. However, it does not seem unreasonable to suppose that further taxes would make the tax system more complex. Some respondents commented that the introduction of devolved taxes in Wales would: create “duplication between UK and Welsh administrations” (ID. 769); add “another layer of bureaucracy” for businesses to deal with (ID. 527); and when changes are made, it makes tax “too difficult to understand” (ID 235). Although the impact on compliance of the newly devolved taxes is limited for most taxpayers in practice, having better information on the taxes could provide reassurance for small business owners, and perhaps lead to a different view of the impact of the newly devolved taxes, thus highlighting the benefits of increased information and awareness among taxpayers.

Graph 4: What impact do you expect the newly devolved Welsh taxes to have on the tax administration of your business, in terms of time required to comply?



201 answered this question out of a total of 264 respondents

Graph 5: What impact do you expect the newly devolved Welsh taxes to have on the tax administration of your business, in terms of cost of compliance?



201 answered this question out of a total of 264 respondents

A significant minority of FSB respondents reported that devolved taxes would not impact on their time (44%) or costs (41%) of compliance. For instance, commenting on income tax, one respondent noted, “once the initial changes to identify Welsh residents are completed and rates entered, it should not cost any more to comply with.” (ID. 493). It should also be noted that most respondents (61%) use the services of accountants to deal with their tax compliance and this might be the reason why some respondents do not feel devolved taxes will have an impact on their time because their accountant deals with it on their behalf.

The majority of FSB survey respondents reported they would prefer to deal with Welsh Government tax officials (64%) rather than non-Welsh Government tax officials (36%). This chimes with prior research which highlighted difficulties in dealing with HMRC, for example many small businesses were “unable to reach knowledgeable HMRC advisors after long waiting times” (FSB, 2018: 38).

Solicitors

The interviews with legal practitioners were an opportunity to explore their attitudes to tax devolution. Although many did not give a view, some were opposed, and some were in favour, with most noting it would take some time for the impact to become clear: “Whether it will represent Welsh government having more of a revenue or less of a revenue, I’m not sure. Time will tell.” (Int 2)

The findings suggest that tax devolution is expected to have an impact, the exact nature of which will become apparent in future years.

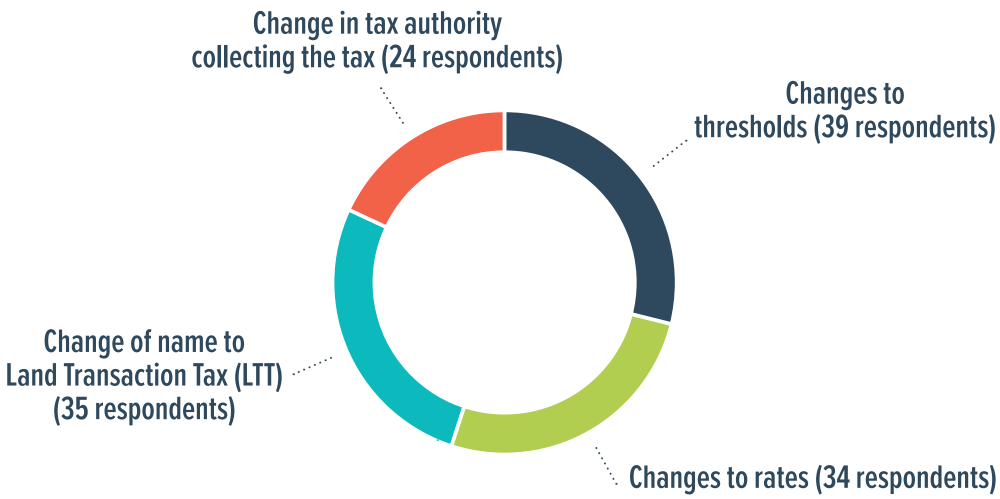
3. Awareness of new Land Transaction Tax (LTT)

FSB members

The survey was conducted in August 2018, five months after LTT came into force. We asked members to what extent they were aware of changes to SDLT. In line with the reported low awareness of devolved taxes generally, the majority of respondents had low, or no, awareness of LTT. Only 64 respondents answered the question to probe awareness of LTT. Of these 61% were aware of changes to the thresholds, 55% of the change to the name LTT, 54% of changes to rates and a minority, 38% were aware of the change in tax authorities collecting the tax.

Graph 6 shows the proportion of respondents who were correctly aware of the specific changes to SDLT.

Graph 6: With regards to changes to stamp duty land tax in Wales, which of the following changes are you aware of?



64 answered this question out of a total of 264 respondents

Solicitors

Solicitors were unsurprisingly well informed about LTT, having been targeted to receive information. One solicitor commented:

> *"we were bombarded with emails. You could not miss the fact that they [the changes to SDLT] were coming and we needed to learn a new system. It was heavily advertised in the Law Gazette. We got direct emails from [...] the WRA [...] There were [WRA] workshops that you could do online" (Int 9).*

Consistent with the FSB members' views from the survey, solicitors reported low client awareness of LTT. Due to the administrative procedure for buying property, a solicitor is an important source of information on LTT to taxpayers, even though this was not recognised by survey respondents. Solicitors were asked about other potential sources of information for their clients, such as estate agents, a channel of communication that has been suggested by others (National Audit Office, 2019). In the main the suggestion was dismissed by comments such as "estate agents know very little [on this]" (Int 8).

Nearly all solicitors reported cases where, because of low client awareness and understanding of LTT, they had to educate their clients. This meant in some cases solicitors had to deliver bad news, for example where LTT would be higher than SDLT. A recurring issue was the absence of first time buyer's relief under LTT in Wales. One solicitor commented,

> *"They just assumed as they're first-time buyers, they get the first-time buyer relief that they would have heard about, because obviously that was trumpeted as a sort of nationwide policy decision to help first-time buyers. And I don't think the messages got through that it doesn't really apply in Wales anymore. Well, it doesn't apply in Wales anymore, first-time buyer relief is gone" (Int 5).*

and,

> *"They had no idea. No. It caused a few problems with some of our more wealthy first-time buyers because, back in December, the Revenue changed their First Time Buyers' Relief. Say a first-time buyer is buying a £200,000 house in December, it might have cost them £1,500 before the new rules kicked in, so they were delighted that they'd have £1,500 for their Christmas money, wouldn't they, in December last year. Fast-forward another five months, we have got people that have been saving and they're older first-time buyers. If they've got a house of, say, £240k, say, they would not pay any Stamp Duty but because they're over the border, you're looking at thousands. They didn't believe us. They wanted to pay HMRC, didn't they? They didn't want to pay the WRA. They didn't like it." (Int 15)*

Several solicitors reiterated that some clients "didn't believe" them when they were told they had to pay LTT on their first-time properties. Low awareness amongst their clients to the new changes to SDLT puts solicitors in the position of having to "deliver bad news" (Int 9) to clients. Conversely, solicitors also offered examples where they imparted "good news" under the LTT regime, where buyers were paying less than they would have under SDLT, for example:

> *"I've given good news as well, especially when I had a transaction scheduled before April where I gave them a quote for the SDLT, and then we completed end of May, and there was a huge difference... so clearly they were happy about that." (Int 4).*

It is using the tax system that brings awareness (Alexander and Balavac, 2018) and this awareness is heightened for the gainers and losers under the system. None of the survey respondents reported they would look to their solicitor to keep them informed of the new devolved tax changes. However, in practice, our interviews highlight the important role solicitors play as an interface between the WRA and taxpayers, raising awareness and informing taxpayers about devolved Welsh taxes.

4. Views on the potential impact of Land Transaction Tax (LTT)

Finally, the practitioner interviews allowed an opportunity to probe their particular opinions about the impact of LTT for their businesses and practice.

Solicitors: impact on administration

The solicitors we interviewed reported having had some initial concerns about the potential impact of having to deal with the new changes, with the anticipated transition to LTT from SDLT, something that had been raised in responses to the consultation exercise in 2015 (Welsh Government, 2015). However, solicitors reported they were satisfied with the actual transition to LTT from SDLT in April 2018, stating that in practice the procedures for LTT were "very closely streamlined to the SDLT regime" (Int 13), which helped avoid "chaotic" experiences and "turbulence" for solicitors (Int 13). Generally, solicitors felt the transition "was quite straightforward … [and] was really impressed because I was worried it was going to be difficult" (Int. 5), and "we'd honestly thought it was going to be a performance and it couldn't have been simpler" (Int 9). Some solicitors raised what thy acknowledged were small points in ways the layout of the LTT form could be improved.

As previously mentioned, most survey respondents expressed a preference for dealing with Welsh Government officials rather than non-Welsh Government officials, such as HMRC, and this was strongly echoed in our interviews with solicitors.

All but one solicitor interviewee expressed a strong preference for dealing with officials at the WRA, instead of HMRC. For example:

> *"WRA is better to contact. If you do have a query, they will usually come back to you the next day […] They're very, very fast and they do answer your question in full too […] I just wasn't sure about looking at the guidance. I emailed them and then I had an answer. So it was great. They're better to contact because if you go to HMRC you're on hold for over an hour. They don't say anything anyway" (Int 7),*

and,

> *"HMRC is ridiculously busy, over-stretched. There are not enough people answering phones and they're objectively very difficult to get hold of. Often, when you do get hold of someone [at the HMRC] you manage to progress something but it does take a long time to get to that point… with the WRA, my experience was that you got straight through to somebody and that they were very willing to ring back or provide a number to contact someone on. [I] speak directly with the relevant person which meant that this issue we did have was very quickly resolved" (Int 14).*

Solicitors: potential impact of LTT on taxpayer behaviour

We sought solicitors' expectations on the potential impact of the change to LTT from SDLT on taxpayer behaviour. It is possible for changes and differences in tax rates and bands between jurisdictions to influence taxpayer behaviour (Scottish Taxes Policy Forum, 2018). The potential of this had been raised by many of the respondents to the LTT consultation exercise (Welsh Government, 2015).

Several interviewees felt there would be minimal impact because LTT is a one-off and not recurring tax. However, several solicitors working close to the border between Wales and England felt changes to SDLT could influence taxpayer behaviour. For example, it was raised that higher tax rates in Wales for high-value properties could encourage taxpayers to buy properties outside of Wales. One solicitor had a client who had contemplated buying a property in Bristol (close to the Welsh border) instead of one in Wales, to avoid paying higher tax rates in Wales. The solicitor reported concern that clients would "go over the border rather than pay [LTT]" (Int 10) because of the differential tax bands and rates.

Solicitors: impact of the Wales-England border

Following on from this, some solicitors stressed the need for clarity as to the location of the border, in order to determine which rates apply.

The one solicitor who did not express a preference for dealing with the WRA (and expressly stated this was not a preference for HMRC either), commented there had been problems dealing with both HMRC and the WRA officials, who had not given helpful answers with regard to whether certain properties close to the border were in Wales or in England.

In terms of administration, many solicitors raised concerns about "border properties", properties situated close to, or straddling, the border between Wales and England:

> *"The biggest problem that we have is working out whether a property is – which side of the border it's on, because of the fact that there is very little information on the definitive position of the boundary line" (Int 6)*

Several solicitors working near the border expressed a wish for a straightforward way of quickly identifying whether a property is in Wales or England for LTT and SDLT purposes; several reported they would like to be able to do this through the WRA website, through some sort of database system to immediately identify which jurisdiction a property came within, or whether it was both.

Some solicitors reported the issue of properties that straddle the border had not been fully addressed by the WRA nor HMRC. One solicitor stated:

> *"every sort of [WRA training] session I've attended, the question has been raised: what about the border properties? [...] They said initially it was about thirty properties. But it's a larger number than that... but I don't think it's been resolved. So, to just say the solicitors can deal with it is unacceptable because we can't. So, these clients are going to have to employ surveyors to do that valuation. Then it's the lawyers who have to work out the calculation for it" (Int 10).*

Given the differential tax rates, the allocation of properties which straddle the border between Wales and England can have an impact on the amount of tax paid. Solicitors reported they felt unnecessarily responsible for making decisions about which area a (part of) property is located for tax purposes. In this context, our study highlights the impact of the change to LTT from SDLT, and differing tax rates and bands: it has placed an increased burden on solicitors having to deal with the uncertainty and discretion of the tax due for property transactions on the border.

KEY FINDINGS

1. The FSB survey responses and solicitor interview data indicate there is a low level of public awareness about Welsh devolved taxes, including LTT.
2. The majority of FSB member respondents reported they would like to receive information on devolved taxes from the Welsh Government. A small proportion reported they expect their accountants to make them aware of developing tax policy.
3. The WRA's approach of engaging with, and encouraging participation from, solicitors who deal with LTT, has worked well in that there are very good levels of awareness and understanding reported by this targeted group.
4. Some solicitors pointed to a lack of clarity and guidance on certain aspects, including properties on the border between Wales and England.
5. The majority of FSB respondents perceived that the newly devolved taxes would increase complexity, and so the time and cost of compliance. This should be interpreted in the context of the low awareness and understanding of the newly devolved taxes. It suggests that a lack of awareness increases uncertainty for small business owners with concerns about increased complexity. It also indicates the scope to counter some of these concerns by helping taxpayers become better informed.
6. Solicitors are an important channel for increasing awareness of devolved taxes and disseminating information about the new LTT to taxpayers. Some solicitors reported an increased burden for making taxpayers aware of the new LTT, in cases where they had to deliver bad news about an increase in the tax payable.
7. There was an overwhelming preference reported from small business owners and solicitors to deal with Welsh Government officials, such as the WRA, rather than non-Welsh Government officials, such as HMRC. Solicitors reported receiving timely, detailed and meaningful assistance from WRA officials in comparison with HMRC.
8. Concerns continue to be expressed about the potential for the different rates between LTT and SDLT to influence taxpayer behaviour, and lead to distortions in the property market, particularly close to the border.
9. The survey prompted some respondents to become aware of devolved taxes in Wales for the first time. This reinforces the importance of the work carried out by the FSB in keeping members up-to-date on important issues affecting them.

RECOMMENDATIONS

1. Further work is needed to increase the level of awareness of devolved taxes in Wales. This is challenging, as tax is a subject in which people generally have little interest, unless they are financially implicated.
2. It is recommended that the Welsh Government and WRA focus their communication and approach to raising awareness of future changes to tax in Wales, towards small business owners and the public, particularly in view of the upcoming devolved income tax powers in Wales. The findings indicate that there has been much focus and investment of resources in informing and training practitioners (such as solicitors and accountants), and less on small business owners. Consequently, this shifts some of the burden of making taxpayers aware of such changes onto practitioners, and increases cost and time for practitioners, when in fact our study shows that taxpayers reported a preference for this information to be communicated direct from the Welsh Government and WRA.
3. Definitive easily accessible guidance is needed on the border, both for properties near the border and 'border properties' so that correct taxes are calculated and paid in the correct jurisdiction. This will also reduce uncertainty for solicitors and taxpayers. We recommend the investigation of an online facility which can quickly inform users whether LTT or SDLT is due on a property transaction.
4. This report highlights the effectiveness in the way the WRA delivers its services to most small business owners and all, but one, of the solicitors who participated in this study. WRA officials provided timely, detailed help and advice. We recommend the WRA continues to build on and develop these practices, delivering meaningful and effective guidance to service users.
5. Drawing on the findings of this report, further work should be undertaken to assess any impact on taxpayer behaviour of the differential tax rates between LTT and SDLT.
6. The research presented in this report has indicated low levels of awareness among taxpayers of Welsh devolved taxes. The partial devolution of income tax presents a good opportunity to increase awareness of Welsh devolved taxes. Once Welsh rates of income tax become operational further research work should be carried out to explore awareness and understanding of the partial devolution of income tax in Wales and its impact on taxpayers and small businesses.

METHODOLOGY

We used a mixed-research method approach to conduct this study. The FSB Wales survey on devolved Welsh taxes was conducted in the summer of 2018, to review members' awareness and understanding of the newly devolved taxes in their first year of operation and the newly formed WRA. FSB Wales members were invited to participate in the survey via email. In total, 264 individuals responded to the survey, of which 180 members fully completed the survey. In cases where some respondents did not answer all questions, we provide details in the Findings section of the report. The majority of respondents were based in South Wales (52%), followed by North Wales (31%) and Mid-Wales (17%). The survey included opportunities for comments. Each respondent has been given a randomly assigned identification (ID) number for any direct quotes taken from members' comments.

In order to underpin the survey results, and to obtain an initial insight into potential areas for further attention and research, interviews were conducted with property solicitors and conveyancers who regularly deal with Land Transaction Tax (LTT). 16 interviews were conducted with practitioners working within a range of different firms, ranging from one-office to multiple-office based firms and one large international-based firm. Interviewees were based in Wales and England. According to the WRA, 27% of all registered LTT applicants were based in Wales and 72% in England as at 15 April 2018 (WRA Registration statistics). 9 solicitors were based in different parts of Wales; 7 solicitors were based in England, along different parts of the border, except for 1 based in London. All but 2 interviews were conducted at the solicitors' place of work, and all but 1 were recorded and transcribed (for the other 1, detailed notes were taken). Interviews began with an assurance of anonymity and each interviewee has been given a randomly assigned number which is shown for direct quotes included in this report.

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APPENDICES

- **Appendix 1: Rates and bands for LTT**
- **Appendix 2: Rates and bands for income Tax and forecast revenue from devolved taxes**
- **Appendix 3: Forecast revenues from devolved taxes**

Appendix 1: Rates and bands for LTT

LTT is a tax applied to residential and commercial land and buildings transactions (including commercial purchases and commercial leases) where a chargeable interest is acquired. Different rates and thresholds apply for the four different segments; residential main rates, additional residential property, non-residential main rates and non-residential lease rents. There are some other differences, for example with non-residential leases, but these relate to a very small minority of transactions.

Of the 4 segments, LTT from residential main rates transactions raises the most revenue (Bangor University, 2018), and the rates for LTT and also for UK SDLT are set out below to show the main differences between two systems.

Appendix Table 1[1] : LTT rates and bands for residential transactions

PURCHASE PRICE/LEASE PREMIUM OR TRANSFER VALUE	LTT RATE	ADDITIONAL PROPERTY RATE
Up to £180,000	Zero	3.0%
Above £180,000 to £250,000	3.5%	6.5%
Above £250,000 to £400,000	5.0%	8.0%
Above £400,000 to £750,000	7.5%	10.5%
Above £750,000 to £1,500,000	10.0%	13.0%
Above £1,500,000	12.0%	15.0%

Appendix Table 2: UK Stamp Duty land Tax rates and bands for residential transactions

PURCHASE PRICE/LEASE PREMIUM OR TRANSFER VALUE	LTT RATE	ADDITIONAL PROPERTY RATE
Up to £125,000	Zero	3.0%
Above £125,000 to £250,000	2.0%	5.0%
Above £250,000 to £925,000	5.0%	8.0%
Above £925,000 to £1,500,000	10.0%	13.0%
Above £1,500,000	12.0%	15.0%

1 Tables in the appendices are drawn from the Report of the Independent scrutiny and assurance of devolved tax forecasts for Wales (Bangor University, 2018).

Appendix table 3: UK Stamp Duty land Tax rates and bands for residential transactions – Discount rates for first time buyers in England

PURCHASE PRICE/LEASE PREMIUM OR TRANSFER VALUE	SDLT
Up to £300,000	Zero
Above £300,000 to £500,000	5.0%
Above £500,000	Standard rates apply to entire price

No first-time buyer relief is available if the property is in Wales

Appendix 2: Rates and bands for income tax and forecast revenue from devolved taxes

From April 2019, the UK Government will reduce each of the three rates of income tax (basic, higher, and additional rates) paid by Welsh taxpayers by 10p. The Welsh Government will then decide the three Welsh rates, which will be added to the reduced UK rates. The overall rate of income tax paid by Welsh taxpayers will be determined by the combination of the reduced UK rates plus the new Welsh rates. For example, if the Welsh Government decides that each of the Welsh rates be 10p, this will mean that the overall rates of income tax paid by Welsh taxpayers will continue to be the same as those paid by English and Northern Irish taxpayers.

In January 2019 the National Assembly confirmed the Welsh rates of income tax would be set so that in 2019/20 Welsh taxpayers continue to pay the same rate as those paid by English and Northern Irish taxpayers. The WRIT rates are set out below in Table 4.

Appendix table 4: Income tax rates, 2019/20

TAX RATES	UK	WALES	TOTAL	WALES/TOTAL
Basic	10%	10%	20%	0.50
Higher	30%	10%	40%	0.25
Additional	35%	10%	45%	0.22

Appendix 3: forecast revenues from devolved taxes

The Welsh Government forecast of revenues to be raised for devolved taxes is as follows:

Appendix Table 5: Welsh Government tax revenue forecasts for 2018/19 to 2022/23 (£ millions)

PERIOD	2018/19	2019/20	2020/21	2021/22	2022/23
Landfill Disposals Tax	44	40	36	34	32
Land Transaction Tax	240	258	269	287	309
Welsh Rates of Income Tax	-	2,099	2,164	2,237	2,320
Total	**284**	**2,397**	**2,469**	**2,558**	**2,661**

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