



Welsh Government 2019/20 Draft Budget Call for Information

31 July 2018

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Cintra HR and Payroll Services

Cintra HR & Payroll Services are a multi award-winning provider of HR and Payroll solutions. With this in mind, we never look at a new customer as a closed sale, rather the beginning of a relationship.

We have been providing elegant and reliable solutions to a wide range of clients throughout the UK for many years. They range from simple, single site installations, to operations spread across multiple sites, including complex and varied scenarios, ranging from 5 to over 20,000 employee records.

Core to Cintra HR & Payroll Services is to create a company that, put simply, is the best in our industry judged by our customers. This is the backbone of everything we do as a company and is reflected in our vision and mission:

“Our vision is to be the natural choice for HR and Payroll solutions in the UK. Our mission is simple, to keep our customers happy”

We do this by building strong, lasting and mutually beneficial partnerships and specifically by:

- Anticipating our customers' needs
- Responding to those needs
- Seeking always to do what is best for our customers
- Creating a company where each employee can make a difference
- Encouraging learning and innovation
- Seeking and applying innovative solutions which add value to the needs of our customers
- Creating an environment of empowerment, fairness and trust
- Always seeking to improve on best practice in everything we do

We develop our own, quality tested and independently approved products to help clients take advantage of the latest technology and make it a pleasure to use. We believe our distinctive personal touch and partnership approach helps clients get the very best value out of those products.

Overview

We are pleased to provide our views to the Finance Committee in response to the July 2018 [‘Call for Information’](#) regarding the draft Welsh Budget 2019/20. Cintra’s business is payroll and HR software development and a provider of outsourced payroll and HR services to private and public sector clients of all sizes across all countries that comprise the United Kingdom. Therefore, our comments are largely made regarding the Welsh Rates of Income Tax (WRIT), as this sharing of Income Tax powers will directly impact us and our clients.

Our comments were sent by E-Mail to the Clerk of the Committee at seneddfinance@assembly.wales and we will be happy to provide further information and comments, if required, at any time. In all communication, please contact our Head of Legislation and Compliance Ian Holloway at ian.holloway@cintra.co.uk.

Executive Summary

From Ian Holloway, Head of Legislation and Compliance.

Cintra HR and Payroll Services is grateful for the opportunity to feed comments into the Finance Committee for pre-Budget consideration. As stated above, these comments mainly concern the successful implementation of the WRIT effective April 2019. As a Welsh Taxpayer myself, perhaps, this fact has influenced me to prepare this short document.

I have ensured that this document contains the information provided by HMRC to software developers. A separate attachment contains a pdf copy of a recent HMRC presentation on which I have some comments. The intention here is to ensure that you are aware and familiar with what the UK tax collection agency is saying to developers and the UK payroll profession.

As a summary of Cintra's comments:

- HMRC have started engaging with software developers and this is encouraging
- HMRC are also engaging with the payroll profession and, again, this is to be welcomed
- However, regardless of this communication, there is still a lot more that needs to be done, especially to ensure that the Welsh Government recognise the importance of Welsh Taxpayers identifying themselves as such and ensuring HMRC's systems are robust in this process

In addition, I comment that the sharing of the Income Tax regime requires on-going communication, engagement and education and this has to be a priority for the UK Government, HMRC and the Welsh Government.

Ian Holloway
31 July 2018

Welsh Rates of Income Tax

HMRC software specifications and Communication

This is provided for information purposes only. On 19 June 2018, HMRC's Software Developer Support Team sent the following E-Mail to software developers:

Dear Developer

Tax is changing in Wales

From April 2019 the Welsh Government will be able to vary the rates of income tax paid by taxpayers who live in Wales (Welsh taxpayers).

The UK government will reduce each of the three rates of income tax – basic, higher and additional rate paid by Welsh taxpayers – by 10p. The Welsh Government will then decide the three Welsh Rates of Income Tax, which will be added to the reduced UK rates. The combination of reduced UK rates plus the Welsh rates will determine the overall rate of income tax paid by Welsh taxpayers. Revenue from the Welsh Rates of Income Tax will go to the Welsh Government.

Welsh Taxpayers employed or in receipt of a taxable pension will have the letter 'C' (Cymru) as a prefix to their tax code.

Responsibility for many aspects of income tax will remain with the UK government, and the Welsh Rates of Income Tax will continue to be collected by HMRC.

Details of the proposed rates will be announced in the Welsh Government Budget later this year.

In scope

- *PAYE (basic, higher and additional rates)*
- *Income from pensions and other non-savings sources*
- *Self-Assessment*

Out of scope

The following powers are not devolved to Welsh Government by the Wales Act 2014:

- *Ability to vary the tax free allowance*
- *Ability to vary the threshold of the existing tax bands*
- *Ability to introduce further tax bands*
- *Ability for an individual to self-declare their residency status via a change to the starter checklist*

Next Steps

To enable you to support these changes in your payroll software product, HMRC will provide revised technical specifications, updated test services and payroll guidance. Current plans are:

- *Summer 2018 – revised schemas for the FPS, P6 and P9 to allow for a 'C' value in the Tax Regime*
- *October 2018 – LTS, TPVS and OXG test services updated*
- *January 2019 – payroll guidance (following Ratification of Welsh rates).*

HMRC Presentation to the British Computer Society (BCS) 23 July 2018

We attended a presentation at the BCS on 23 July where a series of slides were presented – we attach these for information. Whilst the slides are pretty much as per our understanding of the legislation (the Government of Wales Act 2006, as amended by the Wales Act 2014), they have generated a number of queries and observations that we believe it is responsible to point out:

Tax to the Welsh Government

On slide 2, the comment ‘receipts go to Welsh Government’ on slide 2 is an over-simplification of the way in which funds are allocated to Wales via the Block Grant adjustment.

The Welsh Taxpayer

On slide 2, the comment about the definition of a Welsh Taxpayer being ‘residency based’ is not a true reflection of who could be a Welsh Taxpayer. For example, Assembly Members will be Welsh Taxpayers regardless of where they live.

We hope the Welsh Government will publish documentation about the definition of a Welsh Taxpayer plus HMRC include this on Gov.UK in much the same way as they have with their Scottish Taxpayer Technical [Guidance](#).

Further, BCS members were advised that HMRC will contact Welsh Taxpayers by letter in November of 2018. This will advise that they have been identified as a Welsh Taxpayer. We were also advised that HMRC will not be issuing P2 tax code notification to the individual. We query this, as the time span between November 2018 and the start of the tax year in April 2019 is long and individuals will expect the P2.

Plus, employers and individuals need clarification that Taxpayer status notifications will be an ongoing process for new starters from November and people that change address after November.

Address Information at HMRC

We are concerned about the statement on slide 3 that Welsh Taxpayers will be ‘identified via address information held by HMRC’. According to a National Audit Office [publication](#) on 27 November 2017, maintaining accurate address records has been a significant issue with regard to identifying Scottish Taxpayers, with 420,000 not correctly identified in 2015. Whilst HMRC have ‘rectified’ the issues that led to the non-identification, they acknowledge that maintaining accurate details is the biggest risk to ensuring the shared Income Tax regime with Scotland is correct.

We point this out as a concern, as we are aware of employers and individuals that are expecting a Scottish ‘S’ code but have still not received one. Or, S codes have been inexplicably removed rather than left in place. Whilst HMRC say that they will update their system addresses on receipt of 3 Full Payment Submissions (FPS) that contain the same address, exactly what system will be updated? Will this be the one that identifies / indicates residence for Income Tax purposes? Further, the address field on the FPS is not mandatory, save for new employees.

We believe HMRC and the Welsh Government need to communicate the fact that updating the address is a personal responsibility and point individuals to their Personal Tax Account to advise HMRC of any change. Or, guide individuals to HMRC’s [Notification](#) of a change in personal details’.

Incorrect address information is an issue of risk for the Welsh Government and HMRC need to demonstrate they have learned from the experience of identifying and maintaining address for Scottish Taxpayers.

Whilst HMRC seem to recognise this in their 'key delivery areas' on slide 5, we still believe it is responsible to point this out.

Welsh Tax Codes

The Agent Forum Weekly Email update (w/e 27/07/18) included the following message from the Chartered Institute of Taxation (CIOT):

We have come across an issue in relation to PAYE tax codes for Scottish taxpayers who have second jobs. It appears that a number of individuals with more than one employment have been issued with a Scottish 'S'-code in respect of their main employment, but a UK flat-rate code, for example a D0 code, rather than a Scottish flat-rate code, in respect of their second job.

Perhaps if you have come across this problem you could post details here, and we'd also be grateful if you can send any feedback to scottech@ciot.org.uk

This is a concern, as HMRC's systems appear to allow a Taxpayer to be in the Scottish and Rest of the UK (rUK) regimes simultaneously. If it happens with Scottish Taxpayers, it seems likely that it could happen with Welsh Taxpayers, though HMRC's slide 6 is clear that 'you can only have one status for a full year'.

Legislation

Slide 5 points to the fact that there will be a need for legislation coming from Westminster to update legislation to accommodate WRIT and 'wider aspects of the Income Tax system'. We are aware that these will be open for technical consultation mid-September 2018.

Communication and Guidance

Whilst HMRC have committed to providing guidance to software developers and through a range of channels (on slide 5), we believe that communication, guidance and education is essential from the Welsh Government as well. There is significant ignorance surrounding the WRIT, some likening it to the SRIT regime in Scotland and the current Scottish Income Tax regime. In truth, there is no similarity and this needs to be made clear.

If the Welsh and rUK Income Tax rates do differ in 2019/20 or in years to come, there are two areas where employers and software developers will require guidance:

1. The completion of the annual PAYE Settlement Agreement process, where employers and software is required to consider the marginal Income Tax rate of the employee, and
2. The implications of different rates and national / international mobility. Employers may want to consider tax equalisation packages, as they do with assignments to and from Scotland

Other

Student Loans

On 06 July 2018, Shirley-Anne Somerville MSP, Minister for Further and Higher Education, made two [announcements](#) regarding Student Loans repayable via the PAYE process:

1. The repayment terms in Scotland will reduce to 30 years by the end of 2018 and
2. The Plan 1 repayment threshold will increase to £25,000 from April 2021

The complication of the devolution of skills policy could lead to a Plan 1 (Scotland) with a higher repayment threshold than the Plan 1 (everywhere else in the UK).

We are not sure that anyone truly understands how this will / could work but want to draw your attention to the fact that any Student Loans threshold change that is not uniform in all the UK nations will require software development. Plus, HMRC will need to be able to identify the affected borrowers and issues the notifications to employers (who will then use the amended software).



HM Revenue
& Customs

Welsh rates of income tax (WRIT)

Key facts

WHEN

- Introduced from 6 April 2019

WHAT

- Reducing the UK basic, higher and additional tax rates by 10p in the pound
- National Assembly for Wales will then set three rates each year that will be added to the basic, higher and additional rates. No powers to change thresholds or bands
- Even if no difference in rates, still important – receipts go to Welsh Government

WHO

- Paid by Welsh taxpayers - residency based – where you live not where you work

HOW

- Administered by HMRC as part of UK income tax system, so no difference for customers i.e. through existing PAYE or self-assessment systems



Welsh taxpayers

- Welsh taxpayer status applies for a whole tax year (you can't be one for part of a year) and is based on whether you live in Wales or not
- For the majority of taxpayers this will be a simple yes/no issue. If you move house across the border during the year, your status will be decided on which home you lived at for the longest in that year.
- Guidance will soon be available, including for those with more complicated living arrangements, such as those with multiple homes.
- Welsh taxpayers identified via address information held by HMRC. Communications will therefore stress the importance of correct address data from our customers



Customers impact

- HMRC will contact potential Welsh taxpayers (by letter) later this year
- Welsh tax codes for those working for an employer will be prefixed by a “C”
- Tax codes will be issued as part of the annual coding routines to employers so the correct rate of income tax can be deducted, based on the individuals taxpayer status
- Employers / pension providers will **not** be expected to judge/decide an individual’s Welsh taxpayer status



Key Delivery Areas

Taxpayer identification & HMRC Process/IT systems – ensure customers with address in Wales are flagged as Welsh taxpayers and appropriate Welsh rates collected. Builds on updates made to accommodate Scottish income tax powers

Legislation – amending UK tax law to ensure aspects of the wider income tax system (e.g. pensions & gift aid) accommodate Welsh rates

Communications – Guidance on Gov.uk and notification letter, in addition to key messages via wide range of existing HMRC channels for employers, agents & taxpayers



New Starters

- At the time of employing a new starter or by the time the first RTI submission is due, employers may not be aware of the full residency history of a new employee.
- As stated previously you can only have one status for a full year.
- Once we receive a new starter notification we will look at the residency for that year to date and evaluate that persons status. The assumption at this point will be that the individual will live at their current address for the remainder of that tax year.
- We will then issue a P2 and P6 coding notices with the new “C” prefix were appropriate as per our business as usual processes.
- We did not want to add additional burden to employers to identify the residency status of all of their employees.

