



Llywodraeth Cymru
Welsh Government

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Welsh rates of income tax reconciliation 2022 to 2023: Joint technical note by Welsh Government and HM Treasury

An explanation of how the first Welsh rates of income tax reconciliation process affects the Welsh Government's budget.

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Introduction

This statement, jointly agreed by HM Treasury and the Welsh Government, shows both governments' continued ambition to ensure full transparency in, and to improve wider understanding of, the Welsh Government's Fiscal Framework and specifically the reconciliation process. This statement provides an explanation of how the income tax reconciliation process for 2022-2023 affects the Welsh Government's budget in 2025-2026.

Reconciliation for 2022-2023 income tax

On 11 July 2024, HMRC published [income tax outturn statistics for the tax year 2022-2023](#).

The publication provides the figures for both the Welsh Rates of Income Tax revenues, and the equivalent income tax revenues for the rest of UK that are used to calculate the Welsh Government's income tax Block Grant Adjustment (BGA), as set out in the Fiscal Framework agreed between the Welsh and UK Governments. This allows the income tax reconciliation applying to the 2025-2026 Welsh Government budget to be calculated. The reconciliation is a normal part of operating the Fiscal Framework and ensures the Welsh Government's funding is based on actual income tax revenues, rather than forecasts.

Calculating the reconciliation requires comparing the forecast and outturn figures for the Welsh Rates of Income Tax revenues and for the Block Grant Adjustment for the year 2022-2023. The difference between the forecasts and the outturns is applied to the Welsh Government's Budget and funding in 2025-2026. Further background is set out below, after the calculations.

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The Welsh Government's Fiscal Framework sets out that the Block Grant Adjustments are calculated on a 'by band' basis (for each of the basic, higher, and additional rates). The table below summarises the total impact of the reconciliation, while a more detailed presentation of the figures with a breakdown 'by band' can be found in the background section.

The 2 reconciliation components will have the following effects, as summarised in the table below:

- Block Grant Adjustment: The outturn is higher than was forecast at the time of the 2022-2023 Welsh Budget so this will increase the Block Grant Adjustment (and by implication reduce the Welsh Government's block grant) by £87 million in 2025-2026.
- Welsh Rates of Income Tax: The outturn is higher than was forecast at the time of the 2022-2023 Welsh Budget so this will increase Welsh Government self-funding by £140 million in 2025-26.

The net reconciliation effect is a £53 million increase in the Welsh Government's funding for 2025-2026.

Reconciliation for 2022 to 2023 Welsh Rates of Income Tax which will impact the 2025 to 2026 Budget

2022 to 2023 Income Tax (£m)	Revenues	Block Grant Adjustment	Net Budget Position
Forecasts as of Welsh Government Budget 2022 to 2023	2,478	-2,447	+30
Outturn	2,618	-2,535	+83
Change/reconciliation	140	-87	+53

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Note: numbers may not sum due to rounding.

Revisions to previous outturn years

In 2024, an inconsistency with National PAYE System (NPS) data was discovered by HMRC. This issue arose where individuals had submitted unsolicited self-assessment (SA) returns and had therefore been reconciled in both the NPS (PAYE) system and in the SA system, leading to double-counting of their PAYE liabilities. This caused figures for Scottish, Welsh and rest of UK non-savings non-dividend (NSND) income tax data to be overstated by roughly 1% in each historic year. No taxpayers have paid the incorrect tax. The process of producing the outturn figures has been corrected for the 2022-2023 outturn. The figures from the previous outturn years (2019-2020 to 2021-2022) have been corrected in HMRC's 2022-2023 statistical release.

Welsh and rest of UK NSND income tax outturn is integral to the calculation of Block Grant Adjustments as it informs an assessment of the comparability of tax revenues in Wales and the rest of the UK at the point of devolving a tax, and the indexation of the Block Grant Adjustment over time. In light of the revised outturn published by HMRC, HM Treasury and the Welsh Government have consequently updated the comparability factors used to calculate the Block Grant Adjustments to ensure that they reflect the most accurate understanding of tax revenue at the point of tax devolution. The impact of this is shown in the tables below.

Income Tax Band	Pre-corrected comparability factor	Post-corrected comparability factor
Basic	81.3%	81.9%

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Income Tax Band	Pre-corrected comparability factor	Post-corrected comparability factor
Additional	39.0%	39.0%
Additional	11.4%	11.4%

This inconsistency had a small funding implication for the Welsh Government. Use of the corrected outturn statistics would have reduced the positive reconciliation by £0.37 million across the 2 years. It has been agreed by the UK and Welsh Governments that no further reconciliation will be made to years which have already been reconciled.

Background

Following the Wales Act 2017, additional tax powers were devolved to the Welsh Government. In April 2019, the UK rates of income tax on non-savings non-dividend income were each reduced by 10 pence in the pound for Welsh residents. The Welsh Government gained the power to set a Welsh rate in each band in Wales. To date, the Welsh Government has set those rates at 10 pence in the pound. HMRC is responsible for the collection of all Income Tax, including the Welsh rates.

The Welsh Government is partly funded by the UK government block grant, and partly self-funded through raising revenue from devolved taxes and borrowing.

The block grant is determined by the longstanding Barnett formula.

The block grant is now adjusted to reflect the impact of the transfer of greater fiscal powers to the Welsh Government. These Block Grant Adjustments are

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deductions for tax powers. Alongside this, the Welsh Government retains all revenues from devolved taxes, has a Welsh Reserve and has capital and resource borrowing powers with agreed limits.

For resource borrowing, the Welsh Government has the power to borrow for forecast error in relation to devolved taxes arising from forecasts of Welsh receipts and corresponding UK forecasts for the Block Grant Adjustments, with an annual limit of £200 million.

The revenues from the Welsh rates and the associated Block Grant Adjustments used in Welsh Government budgets are based on forecasts produced by the Office for Budget Responsibility. These are both fixed in advance of the year in question.

As set out in the Welsh Government's Fiscal Framework, income tax outturn published in HMRC's Annual Report and Accounts, which is normally published around 16 months after the end of the financial year, will then be used to determine adjustments to account for forecast error through a reconciliation process. Any adjustments required are then applied to the Welsh Government's funding for the following financial year.

Under this process, a reconciliation for 2022-2023 Welsh Rates of Income Tax will be applied to the 2025-2026 Welsh Budget. The reconciliation covers both Welsh Rates of Income Tax revenues and the Block Grant Adjustment.

Detailed breakdown of Welsh Government's Income Tax outturn reconciliation.

£m		Basic	Higher	Additional	Total
Block Grant Adjustment	Forecast	-2,102	-294	-51	-2,447

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	Outturn	-2,156	-317	-62	-2,535
	Reconciliation	-55	-22	-11	-87
Revenues	Forecast	2,098	318	61	2,478
	Outturn	2,225	333	61	2,618
	Reconciliation	126	15	-1	140
Net funding	Forecast	-3	24	10	30
	Outturn	68	16	-1	83
	Reconciliation	72	-7	-11	53

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