

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT DEVOLVED INCOME TAX RATES
(CONSEQUENTIAL AMENDMENTS) ORDER 2018

Monday 4 February 2019

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The Committee consisted of the following Members:

Chair: MIKE GAPES

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| † Bebb, Guto (<i>Aberconwy</i>) (Con) | † Smith, Jeff (<i>Manchester, Withington</i>) (Lab) |
| † Campbell, Mr Ronnie (<i>Blyth Valley</i>) (Lab) | † Spelman, Dame Caroline (<i>Meriden</i>) |
| † Dodds, Anneliese (<i>Oxford East</i>) (Lab/Co-op) | † Stevenson, John (<i>Carlisle</i>) (Con) |
| † Double, Steve (<i>St Austell and Newquay</i>) (Con) | † Stride, Mel (<i>Financial Secretary to the Treasury</i>) |
| † Edwards, Jonathan (<i>Carmarthen East and Dinefwr</i>)
(PC) | † Walker, Thelma (<i>Colne Valley</i>) (Lab) |
| † Hall, Luke (<i>Thornbury and Yate</i>) (Con) | † Whittaker, Craig (<i>Lord Commissioner of Her Majesty's Treasury</i>) |
| † Hill, Mike (<i>Hartlepool</i>) (Lab) | † Yasin, Mohammad (<i>Bedford</i>) (Lab) |
| † Jones, Susan Elan (<i>Clwyd South</i>) (Lab) | Yohanna Sallberg, <i>Committee Clerk</i> |
| † McLoughlin, Sir Patrick (<i>Derbyshire Dales</i>) (Con) | |
| † Merriman, Huw (<i>Bexhill and Battle</i>) (Con) | † attended the Committee |

First Delegated Legislation Committee

Monday 4 February 2019

[MIKE GAPES *in the Chair*]

Draft Devolved Income Tax Rates (Consequential Amendments) Order 2018

4.30 pm

The Financial Secretary to the Treasury (Mel Stride): I beg to move,

That the Committee has considered the draft Devolved Income Tax Rates (Consequential Amendments) Order 2018.

It is a pleasure to serve under your chairmanship, Mr Gapes. The order makes changes to ensure that Welsh taxpayers obtain certain tax reliefs, or are taxed on certain types of income, at the appropriate Welsh rates once Welsh rates of income tax come into effect. The amendments follow as closely as possible the situation already in place for Scottish taxpayers, providing consistency of treatment of taxpayers across the United Kingdom to the extent that the different devolution settlements allow. The order makes two parallel amendments affecting Scottish taxpayers. These two changes make it certain that Scottish taxpayers will obtain tax reliefs or be taxed at the appropriate Scottish rates.

The amendments are minor and technical and affect a small number of people in a limited set of circumstances. The Wales Act 2014 introduces Welsh rates of income tax, which will be implemented in April 2019 and mean that anyone living in Wales and paying income tax will, from 6 April next year, pay the new Welsh rates. Members of Parliament for Welsh constituencies, Assembly Members and Members of the European Parliament for Wales will also pay Welsh rates, regardless of where they live. The Welsh rates will be set by the National Assembly for Wales and will apply to the non-savings, non-dividend income of Welsh taxpayers. Her Majesty's Revenue and Customs will continue to collect income tax from Welsh taxpayers as usual.

The introduction of the Welsh rates will have implications for other parts of the income tax system. This instrument makes consequential amendments to those aspects of the income tax regime that are not devolved, to ensure that taxpayers obtain reliefs or are taxed at the appropriate rates.

Jonathan Edwards (Carmarthen East and Dinefwr) (PC): Anybody reading the explanatory notes will understand that a tax-sharing arrangement between the British Government, Welsh Government and Scottish Government, which is what these measures deal with, is a complicated business. The driver of tax devolution was accountability for the devolved institutions and to incentivise them to develop the economies in Wales and Scotland. If those are the two drivers—accountability and incentivisation—would it not be better to devolve a tax in its entirety than to have a tax-sharing arrangement?

Mel Stride: I think that is an ingenious attempt to open up a wider debate about the provisions of the 2014 Act and the basis on which taxation, or income tax in this instance, will be devolved. However, as the hon. Gentleman will be aware, what we are about this afternoon is some of the consequential changes that need to be made to UK-wide income tax legislation.

The changes made by this instrument will establish that Welsh taxpayers receive tax relief or tax credits at the appropriate Welsh rates on their pension contributions to relief-at-source pension schemes; on their contributions to charities under gift aid rules; from settlor-interested trusts; or when calculating deficiency relief available when a life insurance policy ends. The changes will also ensure that Welsh taxpayers are taxed on income from some trusts and deceased estates, or subject to certain special tax charges, at the appropriate Welsh rates. The amendments will provide for the Welsh basic rate to be used when calculating the tax reduction available under the tax allowance for married couples and civil partners who are Welsh taxpayers.

In the case of charitable donations under gift aid rules and residuary income from deceased estates, we are taking this opportunity to make similar changes to ensure that Scottish taxpayers are taxed or entitled at the correct rate in the event of the Scottish basic rate differing from that in the UK.

HMRC is on track to deliver the Welsh rates of income tax in time for the start of the next tax year, as required by the 2014 Act. These minor technical changes are necessary to ensure that all Welsh taxpayers continue to pay income tax or obtain relief at the correct rates following the introduction of the new Welsh rates and that the devolved income tax rates operate as intended. I commend the order to the Committee.

4.34 pm

Anneliese Dodds (Oxford East) (Lab/Co-op): It is a pleasure to serve on this Committee with you in the Chair, Mr Gapes. I am grateful to the Minister for his helpful explanation. As he set out, this is a relatively straightforward set of measures that are consequential on the 2014 Act and the current situation with Scottish income tax. We obviously needed to have some of this secondary legislation laid before the House, to ensure that income tax reliefs, deductions and PAYE continue to operate with the Welsh rates of income tax component and also with the changes that have occurred in the Scottish situation.

Obviously, this instrument is in keeping with the established procedures relating to devolved powers and we will therefore not oppose it. However, I have one question for the Minister—it might be easier for him to write to me afterwards—about the arrangements for gift aid donations. The explanatory note states that the approach being taken will ensure that no donor will be made worse off as a result of having made a gift aid donation. Similarly, the impact assessment states that there will be no or negligible impact on charities as a result of these measures. Presumably, however, there would be some impact on the Exchequer, given that there is an assumption that individuals would be treated in practice as if they were still UK basic rate taxpayers, and obviously we already see some changes in the Scottish system around the income tax structure. It

might therefore be helpful to have a little more information on this. However, that is really the only question I have about these measures.

4.36 pm

Mel Stride: It is a pleasure to respond to the hon. Member for Oxford East on this occasion, because normally she has 20 or 30 questions. Today there is but one, which is a great relief—although that denies me the opportunity of selecting which of the 20 or 30 questions I will respond to. I will respond directly to the one question that she has put, on the matter of gift aid, which is a perfectly reasonable question.

The way that gift aid will operate under these circumstances will be that the charity, or the recipient, of the gift will receive relief at the UK rate, that being 20%,

as our current basic rate tax is set at that level. The relief that will fall due to the donor under those circumstances, given that they would be a Welsh taxpayer, would be the difference between that and whatever the Welsh higher tax rate or additional tax rate was at that time. At the moment there is no change about to occur due to the decisions taken by the Welsh Assembly in respect of its own tax rate. However, I will write to the hon. Lady on her question about the potential Exchequer impacts from the way in which that system works. On that note, I hope that the Committee can agree to the order.

Question put and agreed to.

4.37 pm

Committee rose.

