Dear Mr Gruffydd,

Thank you for your letter of 2 May 2019.

As you know, Welsh taxpayer status is determined by residency. Identification of Welsh taxpayers starts from postcode information. If a HMRC customer lives in a Welsh postcode, as determined by Office of National Statistics postcode data, they will be flagged on our systems as a Welsh taxpayer. We have learned lessons from the devolution of income tax to Scotland in identification and assurance of taxpayers, and we are confident we have a robust approach.

When a customer is identified as a Welsh taxpayer on HMRC’s systems they are given a ‘C’ code. HMRC then issues tax codes to employers for them to make the relevant deductions on their employees’ behalf. It is therefore important both that the correct code is issued and that it is correctly applied by the employer.

We are confident that HMRC sent correct ‘C’ codes to employers for Welsh taxpayers. It is possible that some taxpayers resident in Wales have not yet received a ‘C’ code, where they have only recently moved to Wales or where they have not updated their address details with HMRC. This will always be true for new Welsh taxpayers and HMRC systems will pick them up and apply the correct code as soon as possible.

However, we have been made aware that some employers have not correctly applied the ‘C’ codes that HMRC has provided. HMRC has engaged with extensively employers and payroll software providers throughout preparations for the introduction of Welsh rates of income tax (WRIT), using our established communication channels and bespoke presentations. We provided technical specifications and test services to ensure employers and payroll software providers had all the information they needed.

Our experience from the introduction of the Scottish rate of Income Tax was that some employers did not initially operate the S-code correctly. We therefore put plans for further mitigation activity in place for WRIT, which include running a scan in early June to test how
well employers are applying the ‘C’ codes issued to them by HMRC. Where there is a discrepancy between the code issued by HMRC and the code applied by the employer, HMRC will re-issue the ‘C’ code to the employer. This mitigation was discussed and agreed at the WRIT Project Board, which includes colleagues from the Welsh Government.

It is disappointing that despite the engagement we had with employers, some have not applied codes correctly. In some cases, individuals have had the wrong amount of tax deducted. I understand that this was due to issues with the payroll software used by some employers and that employers affected in this way are correcting their systems and explaining the error to their employees.

You will appreciate that there is a limit to what HMRC can do to ensure employers correctly apply the codes they are given for their employees in these circumstances. We believe we have a comprehensive programme of engagement and assurance and will keep this under review.

I can also reassure you that any discrepancies in the codes applied by employers will be corrected in year or at end of year reconciliation. This will ensure that the Welsh Government receives the correct revenue.

I am copying this response to Rebecca Evans AM, Minister for Finance and Trefnydd.

I hope this response is helpful.

Kind regards

Jim Harra
DEPUTY CHIEF EXECUTIVE AND SECOND PERMANENT SECRETARY