

# WALES ACT 2014

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## EXPLANATORY NOTES

### COMMENTARY ON SECTIONS (AND SCHEDULES)

#### Part 2: Finance

#### *Section 9: Welsh basic, higher and additional rates of income tax*

98. *Section 9* amends ITA 2007 and other legislation to calculate the rates of tax paid by Welsh taxpayers.
99. *Subsection (2)* amends section 6 of ITA 2007 to include a reference to the Welsh basic, higher and additional rates.
100. *Subsection (3)* inserts a new section 6B into ITA 2007, setting out the calculation to determine the Welsh basic, higher and additional rates of income tax.
101. Section 6B(1) sets out that to calculate the Welsh basic, higher and additional rates for a tax year, the UK basic, higher and additional rates will be reduced by 10 percentage points and the separate Welsh rates, set by the Assembly, will be added to each of the reduced rates. So, a Welsh rate of 10 per cent for the Welsh basic, higher and additional rates would mean the rates paid by Welsh taxpayers were the same as the UK rates. However the Welsh Assembly can introduce a different rate for each of the Welsh basic, higher and additional rates, meaning the rates could vary compared with rates in the rest of the UK. Section 6B(2) points to Chapter 2 of Part 4A (as amended) of GOWA 2006 for rate setting provisions.
102. *Subsection (4)* inserts an entry for new section 11B in section 10 of ITA 2007, which signposts provisions that apply different rates of tax to certain types of income.
103. *Subsection (5)* inserts new section 11B into ITA 2007 which explains the types of income that will be chargeable at the Welsh basic, higher and additional rates.
104. Section 11B(1)-(3) sets out that the Welsh basic, higher and additional rates apply to “non-savings income” that would otherwise be chargeable at the main basic, higher and additional rates if the individual were not a Welsh taxpayer.
105. Section 11B(4) defines “non-savings income” for the purposes of this section. The effect is that the Welsh basic, higher and additional rates do not apply to savings income as defined in section 18 of ITA 2007.
106. Section 11B(5) and (6) make new section 6B subject to section 13 of ITA 2007 and other cases where income may be charged at a different rate.
107. *Subsection (6)* of section 9 amends section 13 of ITA 2007, which applies the dividend rates to dividend income. The effect is that dividend income continues to be charged at the dividend ordinary, upper and additional rates rather than at the Welsh rates.
108. *Subsection (7)* amends section 16 of ITA 2007, which determines that income that is not savings or dividends is the first slice of taxable income; savings income is the second slice; dividend income is the third slice. The effect of subsection (7) is to apply

*These notes refer to the Wales Act 2014 (c.29)  
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these rules to determine the extent to which a Welsh taxpayer's non-savings income would otherwise be charged at the basic rate, higher rate or additional rate and so (with section 11B) determine which part of a Welsh taxpayer's income will be subject to the Welsh rates.

109. *Subsection (8)* amends section 809H of ITA 2007. Chapter A1 of Part 14 of ITA 2007 provides for an alternative basis of charge for individuals who are not domiciled in the UK. Such an individual, if resident for income tax purposes in the UK, may make a claim for the remittance basis to apply. Under the remittance basis, income and gains only come within the charge to UK income tax and UK capital gains tax when they are brought into the UK. However, an individual who has been resident in the UK for at least seven of the previous nine tax years, and who wishes to be taxed on the remittance basis, is subject under section 809H(2) of ITA 2007 to a minimum charge to income tax and capital gains tax of £30,000. An individual who has been resident in at least 12 of the previous 14 years is subject to a minimum charge of £50,000. For the purposes of calculating income tax charged under section 809H(2), subsection (8) treats Welsh taxpayers as being UK taxpayers.
110. *Subsection (9)* amends section 828B of ITA 2007. Sections 828A-828D of ITA 2007 provide for an income tax exemption for low income employees working in the UK who are resident (but not domiciled) in the UK and meet certain conditions (set out in section 828B). Such individuals will typically be migrant workers employed in seasonal work in the agricultural or service sectors in the UK and in other countries in the same tax year and whose overseas income is subject to tax where it is earned. This amendment ensures that any such individuals who are Welsh taxpayers would continue to benefit from that exemption.
111. *Subsections (10) and (11)* amend section 989 of and Schedule 4 to ITA 2007 to include the definitions of Welsh basic, higher and additional rates of income tax as separate entries. This means that, unless otherwise provided for, references to the basic, higher and additional rates mean the UK main rates in section 6 of ITA 2007.
112. *Subsection (12)* amends section 7 of the Taxes Management Act 1970 ("TMA 1970"). This section imposes requirements on individuals to notify HMRC if they are chargeable to income tax in a year. Section 7(6) of TMA 1970 includes an exemption from the requirement to notify for individuals whose income has either had (or been treated as having) income tax paid on it or who have received dividend income, and who are not "liable to tax at a rate other than the basic rate, the dividend ordinary rate or the starting rate for savings" for that year. The amendment made by subsection (12) ensures Welsh taxpayers would continue to benefit from this exemption.
113. *Subsections (13) to (15)* amend the Taxation of Chargeable Gains Tax 1992 ("TCGA 1992"). Section 4 of TCGA 1992 sets out the rates of Capital Gains Tax ("CGT") that an individual pays – this can be affected by the rates of income tax at which an individual is liable. *Subsections (14) and (15)* therefore make amendments to sections 4 and 4A of TCGA 1992 to ensure that Welsh taxpayers continue to pay CGT at the appropriate rate.