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Dear Professor Drakeford,

We are preparing HMRC's contribution to this year's report for the National Assembly for Wales and UK Parliament on the implementation of the fiscal aspects of the Wales Act 2014. Before that report is published, I wanted to bring to your attention a recent change in the estimate of costs which HMRC will be charging to the Welsh Government for that work.

In June we gave the Welsh Government an early high-level estimate of £1 million for the work to transition to Land Transaction Tax in Wales (there is no charge for the work to transition to Landfill Disposals Tax). That estimate was in line with the cost of the transition to Land and Buildings Transactions Tax in Scotland in 2015. At that stage there was still considerable uncertainty surrounding the scope and nature of the work required to implement the necessary changes. The changes are needed to ensure that our SDLT systems will no longer accept returns and payments for transactions in Wales and to receive essential Welsh land transaction data (as set out in legislation) into our systems for statistical, valuation and compliance purposes.

We have had to revisit some of our early assumptions to take account of the fact that a different IT approach is needed from that taken in 2015, due largely to changes to HMRC's IT platform and increasingly sophisticated cybersecurity systems and processes. A large part of the systems used for the solution for Scotland has since begun to be decommissioned. This changing IT landscape has made it more difficult for HMRC to provide accurate cost estimates.

Our current best estimate, which we have shared with your officials, is £1.8m and we will continue to look for ways to reduce this. There are however still some uncertainties and we believe that the final figure will be in the range of £1.75m to £2m. I realise that this is a considerable difference and can only apologise for our earlier underestimate.

The work is being closely monitored and challenged to ensure that our charge to the Welsh Government is only for the essential additional costs directly attributable to devolution and that those costs are minimised wherever possible. Since the new estimate emerged in the last few weeks, we have kept your officials informed and given them detailed information on the reasons for the changes.

Part of the IT solution serves to bring data from the Land Transaction Tax onto HMRC's new Enterprise Data Hub (EDH). EDH links across HMRC's IT estate and enables data from different taxes and functions to be matched and linked, providing the ideal infrastructure for HMRC's planned collaboration with the Welsh Revenue Authority on compliance. It is a robust and future-proofed solution, not only in terms of HMRC's own systems but to enable vital joint working between our respective tax authorities. We expect to see the benefit of this in the coming years as we embed our collaboration.

In accordance with the Command Paper accompanying the Wales Act 2014, HMRC will pass onto the Welsh Government the savings to HMRC of no longer administering Stamp Duty Land Tax and Landfill Tax in Wales. We currently estimate this saving to be between £115,000 and £160,000 per year, to be rolled up into a baseline adjustment in HMRC's accounts. The final cost savings figure will be confirmed to Welsh Government shortly.

HMRC estimates that the overall cost of implementation for Welsh Rate of Income Tax (WRIT) will be between £5 and £10 million. This is an early estimate based on our experience of implementing the Scottish rate of income tax (SRIT). Costs are lower than those for SRIT (currently estimated at £20-25 million) because we are able to take advantage of system changes already made to accommodate SRIT. We will be actively reviewing and challenging the estimates and assumptions for WRIT costs through the governance of the monthly WRIT project board.

I have accepted an invitation to attend a meeting of the Finance Committee of the National Assembly for Wales on 25th January 2018, to discuss HMRC's implementation of WRIT. I hope that I might have the opportunity to meet you while I am in Cardiff to discuss the work that HMRC is doing to implement fiscal devolution and to share our plans for working together on devolved taxes in the future. Meanwhile, if you would like to have more detail of the HMRC projects, senior members of the team would be happy to come to Cardiff to meet you.

Yours sincerely,



JIM HARRA

Director General, Customer Strategy and Tax Design