

## Speaking notes for Paul Silk: ICAEW lunch on 21 March

Thank you for inviting me today. I am grateful to the ICAEW for hosting this lunch and for bringing together such an impressive range of people representing Welsh business interests.

I very much welcome your interest in our report on tax devolution and borrowing. We attached a lot of importance to the evidence we received from business. We were particularly grateful for the evidence from the ICAEW, which I shall refer to again later.

We are now engaged on the second part of our remit looking at how well devolution is working more generally and how it might be improved. We look forward to evidence from the Welsh business community on that as well.

Our Commission was established by the UK Government in 2011, following a coalition commitment to establish for Wales a commission like Scotland's Calman Commission on improving their devolution settlement. I am pleased to say that our Commission was not only supported by the UK Government and Welsh Government but by all the political parties in the Assembly.

Our approach to our work in both Part I and Part II is guided by a desire to be consensual; to be evidence based and listen to views across all of Wales and beyond; and to base our recommendations on principles, including informed by the international evidence.

We published our report on Part I in November. Our work on that is now complete. The Assembly has endorsed our recommendations and we now look forward to seeing the UK Government's response in the spring.

The main thing that struck us in Part I was that Wales appears to be unique in the world in having legislative and spending powers but no tax and borrowing powers. We felt that this was anomalous and that Wales should have some tax and borrowing powers.

Our key theme was reflected in the title of our report. Along with more empowerment goes more responsibility with a view to using financial powers to create a stronger Wales. But this should be subject to not undermining either the UK Government's macro-economic responsibilities, or the fiscal transfers which underpin the successful UK fiscal and monetary union.

One message that we heard very frequently was that the top priority for Wales should be improving economic growth. We agree. But our report argued that constitutional reform will strengthen growth – we see no conflict of priorities here.

Perhaps I could elaborate on this point.

The desire to maintain and improve Welsh competitiveness was important in informing what we did not recommend. We did not recommend devolution of a whole range of taxes where we felt devolution would increase tax complexity and avoidance and distort behaviour. Our report echoed the cautious message we heard from the ICAEW. You want a simpler not a more complex tax system. You are concerned about tax avoidance and unfair tax competition.

So we did not recommend devolution of corporation tax, unless devolved in both Northern Ireland and Scotland, capital taxes, and excise duties. Nor did we recommend devolution of VAT, which is very much a EU based tax, and National Insurance, which is linked to the GB wide social security system.

We did however recommend the full devolution of business rates, so that rates paid in Wales are set, collected and spent in Wales; the devolution of some smaller taxes including stamp duty land tax, landfill tax, aggregates levy and APD for long haul flights; a sharing of the income tax base and the power to set income tax rates for each tax band; a power to introduce new Welsh taxes; and some powers to prudently borrow for capital and current spending.

We recommended that the income tax changes should be subject to a referendum; and that this package should be taken forward alongside the intergovernmental talks on the so called fair funding issue.

We also recommended a range of other changes such as improved information on Welsh public finances, and developing the Welsh Government's finance department into a strong Welsh Treasury.

So how exactly would our proposals strengthen the Welsh economy and business?

In three main ways.

First, it would incentivise growth by providing the Welsh Government with a share of increasing tax receipts. This is only fair – if the Welsh economy does relatively well including as a result of successful Welsh Government economic policies (such as the ReAct and ProAct employment grants for businesses which it introduced a few years ago), Wales should reap a share of the benefits.

Second, it would provide the Welsh Government with a new set of fiscal policy tax levers.

Third, it would enable the Welsh Government to borrow to increase economically worthwhile investment such as transport, strengthening the economy and tax base for the future.

Perhaps I could elaborate.

Our proposals would enable Welsh political parties and any future Welsh Government to develop a Welsh fiscal policy to promote the Welsh economy and Welsh business, working alongside the UK Government.

Our income tax proposals would further incentivise growth, even if the Welsh Government decided not to vary the rate of income tax from the United Kingdom's rate. If income tax revenues grow in Wales above those for the rest of the United Kingdom then the Welsh Government could increase public spending or reduce taxation elsewhere.

If the Welsh Government chose to reduce income tax rates, this could improve work incentives and make Wales a more attractive place to live and work; or alternatively if it chose to increase income tax rates, this could provide resources to increase public sector economic investment in Wales.

We discussed at length in our report the issue of the porous Welsh border to which you drew attention in your evidence. We recommended that the Welsh Government should give careful consideration to cross border effects when it makes decisions on Welsh income tax rates.

Our corporation tax proposals could facilitate enhanced capital allowances in more Enterprise Zones, possibly leading to increased investment in Wales.

Our proposals on business rates would give the Welsh Government complete control of business rates, providing greater flexibility to change rates and spending in Wales to meet Welsh economic circumstances.

If the Welsh Government incentivised local growth and investment by (for example) use of Tax Increment Funding, Business Improvement Districts and by use of the Community Infrastructure Levy or a Welsh variant, this could foster growth of the local economy. The Morgan review on business rates made a number of recommendations in this area.

Our proposals on stamp duty land tax would enable the Welsh Government to stimulate the housing market in Wales and align the devolved tax with its devolved housing policies.

Furthermore, if the Welsh Government carried out a more comprehensive review of residential and commercial property taxation, this could create a better functioning land and property market in Wales.

The Welsh Government could chose to introduce innovative taxes to improve the functioning of the economy, for example, by reducing undesirable environmental or health risks; and it could use the proceeds to reduce taxes on business. But your evidence was rightly cautious about new taxes and we did not recommend any specific new taxes.

If the Welsh Government were given the power to vary APD on long haul flights, it could use this as part of a Welsh airport development strategy.

Our proposals to devolve borrowing powers would enable the Welsh Government to increase investment in high return economic infrastructure projects, as the other devolved governments can.

In addition, we recommend that the Welsh and UK Governments work together to ensure that both devolved and non-devolved policies promote increased investment in Wales.

I know that businesses and tax practitioners are concerned to ensure that administration and business compliance costs are minimised. In this regard we found it reassuring that broadly similar changes are already being implemented in Scotland in consultation with business without undue difficulties.

But I do think that businesses and tax practitioners like yourselves will have an important role to play in any future consultation process by the UK Government and Welsh Government on implementing whichever of our recommendations they decide to accept.

Looking ahead, we are keen to hear what other modifications we should recommend in Part 2 to the Welsh devolution settlement to make Wales more competitive and prosperous.

Thank you for listening to me and I look forward to your questions and comments.