

Explanatory Memorandum to the Tax Collection and Management (Visitor Levy Costs) (Wales) Regulations 2026

This Explanatory Memorandum has been prepared by the Tax Strategy and Intergovernmental Relations Division and is laid before Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Cabinet Secretary's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Tax Collection and Management (Visitor Levy Costs) (Wales) Regulations 2026. I am satisfied that the benefits justify the likely costs.

Mark Drakeford MS
Cabinet Secretary for Finance and Welsh Language
16 December 2025

1. Part 1 – Explanatory Memorandum

2. Description

- 2.1. Under the Tax Collection and Management Act 2016 (“the TCMA”), Welsh Revenue Authority (“WRA”) will collect and manage the visitor levy. In each financial year, WRA will incur costs and disbursements in exercising its functions under the TCMA in relation to the visitor levy for a principal council’s area and must deduct those costs and disbursements from the visitor levy proceeds for that principal council’s area before paying those proceeds to a principal council.
- 2.2. The Visitor Accommodation (Register and Levy) Etc. (Wales) Act 2025: impact assessments | GOV.WALES Tax Collection and Management (Visitor Levy Costs) (Wales) Regulations 2026. (“the Regulations”) limits the amount of costs and disbursements that WRA can deduct to either 10% of the visitor levy proceeds in respect of a principal council’s area or a lower percentage if a 10% deduction would result in deductions, when aggregated for all principal councils, exceeding the amount of costs and disbursements incurred by the WRA in collecting and managing the visitor levy. In either scenario the same percentage deduction would be made to the visitor levy proceeds collected in a principal council’s area.

3. Matters of special interest to the Legislation, Justice and Constitution Committee

- 3.1. This instrument has been prepared outside the new software for Welsh statutory instruments; it may be the case that minor formatting improvements need to be made during the registration process if this legislation is approved by the Senedd and made by the Welsh Ministers.

4. Legislative background

- 4.1. Section 24A(5) TCMA (inserted into the TCMA by the Visitor Accommodation (Register and Levy) Etc. (Wales) Act 2025 (“the VARL 2025”) Schedule 2 Part 2 para 25) provides the Welsh Ministers with a regulation making power to make further provision about the deduction of amounts in respect of costs and disbursements including a power to limit the amount of costs and disbursements that the WRA may deduct from the levy proceeds before paying them to a principal council, and about how costs and disbursements are to be apportioned between principal councils. The Regulations are made under section 24A(5)(a) and (b).
- 4.2. Under section 189(2) TCMA, regulations made under section 24A(5) are subject to the affirmative procedure and as such the Regulations will need to be approved by Senedd Cymru before they are made.

5. Purpose and intended effect of the legislation

5.1. The Cabinet Secretary for Finance and the Welsh Language wrote to local authority leaders on 10 April 2025 stating that it was his intention to cap the costs local authorities incur so that all local authorities would keep at least 90% of the revenues collected in their area, and that the Welsh Government would pay the remaining costs of administration.

5.2. The purpose of the Regulations is to put this intention into effect and to provide for a lower percentage deduction if a 10% deduction would result in deductions, when aggregated for all principal councils, exceeding the amount of costs and disbursements incurred by the WRA in collecting and managing the visitor levy. In either scenario the same percentage deduction would be made to the visitor levy proceeds collected in a principal council's area.

6. Consultation

6.1. There is no statutory requirement to consult on the Regulations and consultation has not been undertaken.

PART 2 – REGULATORY IMPACT ASSESSMENT (RIA)

7. Options

Option 1: Business as usual

- 7.1. As the visitor levy is a discretionary local tax, there is a risk associated with the initial implementation of it due to the potential for low uptake by principal councils, especially in the early years. This risk is heightened by the timing of local elections in 2027, which may influence councils' willingness to introduce new local taxes.
- 7.2. If only a small number of councils opt into the levy, the WRA's operating costs could exceed the revenues generated from the levy. In such scenarios, principal councils could receive little to no net revenue, undermining the policy's core objective of raising resources to support local areas.

Option 2: Make the Regulations

- 7.3. The policy intent is that through limiting the costs that WRA can deduct with the 10% maximum, it will reduce the risk that the visitor levy will be less attractive to those principal councils that are considering implementing the visitor levy before other principal councils have implemented. As WRA is collecting on behalf of all principal councils who implement, as more principal councils implement the levy, the costs of collection for each of them would be reduced through greater cost-efficiency as more councils participate. WRA's costs will only ever be deducted from revenues so there are negligible up-front costs for a principal council seeking to introduce the levy.
- 7.4. Accordingly, making the Regulations will implement the VARL 2025 as agreed by the Senedd.
- 7.5. No other options were considered. A balance needs to be struck between the effective recovery of costs and ensuring costs are fairly distributed across principal councils. A higher percentage may disincentivise principal councils from introducing a levy, reducing the potential positive impacts.
- 7.6. A lower percentage would allocate too much cost on the Welsh Government, not recognising that some costs should be incurred locally for local decisions.
- 7.7. A maximum deduction of 10% strikes a balance between these potential outcomes and is considered as a sensible, straightforward approach following discussions with principal councils. There are of course numerous permutations of percentages that could be used, and it is not possible to predict the amount of costs that will be recovered without knowing which principal councils introduce the levy. Principal councils will need certainty around costs to support their consultation and decision-making activity. The approach taken in the

Regulations provides this certainty whilst ensuring proportionality around cost recovery and ensures Welsh Government supports early adopters of the visitor levy so that they don't face excess costs. Economies of scale will be achieved as more councils begin to use a levy.

7.8. Future Welsh Governments may wish to revisit the 10% figure, as the policy becomes embedded.

8. Costs and benefits

Option 1: Business as usual

8.1. Given the potential risk of initial low uptake, if the Regulations are not made, there is a risk for those principal councils that implement the levy before other principal councils that WRA's costs are higher than the visitor levy proceeds collected by it and from which it must deduct its costs. This could lead to nil revenues for those principal councils that first implement a levy, which would be counter to policy objectives about raising resources to support local areas.

8.2. Table 12 in the Regulatory Impact Assessment which was published alongside the VARL 2025 set out the estimated costs for WRA to develop and administer the levy. The Regulations relate to the funding of the operational costs incurred from 2028-29 onwards, subject to a principal council having introduced the levy by that financial year.

Table 12: Total Development and Operational Estimates for the Visitor Levy

	£000s									
	2025-26		2026-27		2027-28		2028-29		2029-30	
	Low	High								
Development Costs	1,374	1,874	1,743	2,243	1,538	1,713	-	-	-	-
Operational Costs	229	229	528	528	848	1,242	1,552	2,120	1,552	2,120
Total	1,603	2,103	2,271	2,771	2,386	2,955	1,552	2,120	1,552	2,120
	2030-31		2031-32		2032-33		2033-34		2034-35	
	Low	High								
Development Costs	-	-	-	-	-	-	-	-	-	-
Operational Costs	1,552	2,120	1,552	2,120	1,552	2,120	1,552	2,120	1,552	2,120
Total	1,552	2,120								

Source: Explanatory Memorandum and Regulatory Impact Assessment on LawWales

Option 2: Make the Regulations

- 8.3. The Regulations are not expected to result in any additional costs overall. Rather, they relate to how the WRA's costs for administering the visitor levy are apportioned between Welsh Government and principal councils. WRA will require ongoing funding to deliver the visitor levy. However, with the Regulations it should be recognised that WRA's operating costs for the visitor levy will be partially recovered through revenues. The Regulations mean that in the early years of implementing the levy, it is likely WG would be funding most of the costs, however this would ultimately be dependent on uptake of the levy by principal councils and overall revenues generated by the levy. Should more principal councils introduce a visitor levy, then there will be greater economies of scale and improved cost recovery. This approach promotes implementation and provides a fair and simple basis to apportion costs across principal councils.
- 8.4. This approach represents value for money as it ensures that principal councils contribute towards a service from which they are the net beneficiaries. However, it does not unfairly allocate costs to an individual council and recognises that there will need to be time for the policy to bed in before uptake increases.
- 8.5. The 10% costs cap for principal councils will mean that it is likely that a higher percentage of WRA's costs will be paid by Welsh Ministers in the first year of the levy's operation due to the different financial years in which visitor levy proceeds will be collected by the WRA due to the filing dates for tax returns. But this would in effect even out after the first year that the levy has been implemented for a given principal council. If several principal councils introduce the levy in the same year and the total costs deducted are less than 10%, then the costs will be shared equally among those councils at a lower rate. This means all councils pay the same reduced percentage, and WRA's costs are still fully covered.

9. Competition Assessment

- 9.1. The making of the Regulations has no impact on the competitiveness of businesses, charities, or the voluntary sector.

10. Post-Implementation Assessment

- 10.1. There is no set period for post implementation assessment. Future governments should have maximum flexibility with regard to when the levy must become wholly self-funding and be able to respond to unforeseen future budget pressures with continuing to cover any costs shortfalls.