

Y Gwir Anrh/Rt Hon Rhodri Morgan AC/AM
Prif Weinidog Cymru/First Minister for Wales



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Ein cyf/Our ref: MB/FM/0788/08

David Melding AM
The National Assembly for Wales
Cardiff Bay
Cardiff

7 January 2009

Dear David

During First Minister's Questions on 2 December I agreed to write to you regarding your query on recent VAT figures and the challenges facing the Welsh economy.

I have now had the opportunity to further study these figures, which highlight a number of points including that there were 6,800 VAT registrations in Wales during 2007, 4.5 per cent more than in 2006, compared to the increase of 13.0 per cent between 2006 and 2007 in the UK as a whole. The lower rate of increase of registrations in Wales may partly reflect the impact of changes to tax rules related to composite managed service companies in April 2007. Managed service companies are a form of intermediary company through which workers provide their service to the end client, which were set up as they could be used to gain tax advantages.

The figures released also reveal that there were 5,700 VAT de-registrations in Wales during 2007. However, the total VAT registered stock in Wales increased by 1,100 (1.3 per cent) during 2007, to stand at 87,300 at the start of 2008, which is the highest level in the current series of data which began in 1994. The figures also highlight that the total VAT stock in Wales has grown in each year since 1997, so that the level at the start of 2008 was 9.5 per cent higher than in it was in 1997 and 8.5 per cent higher than in 1999. Wales also had a higher VAT stock rate (488 per 10,000 working age population) than the North East (330), Scotland (442), Yorkshire and the Humber (454) and the North West (460). VAT de-registrations in Wales do not necessarily mean that the businesses have closed but that their turnover may have reduced below the VAT threshold.

There is no argument about the need to sustain, start and grow enterprises in Wales during this period of economic downturn. The suite of interventions in place to expand enterprise in Wales, include services delivered under the Flexible Support for Business model supported with EU funding over the next six years. The range of services include support for individuals wishing to start a business, Relationship Management support and advisory and mentoring services for SME's, access to finance from the Single Investment Fund and continued and additional support for Construct Wales and the FS4B Supplier Development Service to ensure support for SMEs to compete for private and public sector contracts.

We will also continue to explore further actions in the Economic Summit to support enterprises in Wales during this economic downturn and ensure that we do all that we can to sustain, start and grow businesses in Wales.

Yours & a Happy New Year!

Rhodri