Office for
Budget Responsibility

Devolved tax and spending forecasts

March 2022

1 Introduction

Background

1.1 The Office for Budget Responsibility (OBR) was established in 2010 to provide independent and authoritative analysis of the UK's public finances. Alongside the UK Government's Budgets and other fiscal statements, we produce forecasts for the economy and the public finances, which are published in our *Economic and fiscal outlook* (*EFO*).

1.2 In this document we present our forecasts for the fully devolved taxes and for devolved elements of income tax. We also present illustrative projections for some taxes that are yet to be devolved. And we provide forecasts that the UK, Scottish and Welsh Governments use as part of their agreed block grant funding mechanisms.

1.3 Further information on fiscal devolution in the UK and our role is available in the *Scotland, Wales, and Northern Ireland* section of our website.

Methodology

1.4 It is not possible to replicate in full the methodologies we use to produce our UK-wide forecasts when producing these devolved tax forecasts. This is largely because we lack sufficiently detailed or timely data required to produce forecasts for Scotland or Wales on the same basis. As a result, we therefore generally use approaches based on estimating and projecting representative shares of relevant UK-wide tax streams in Scotland and Wales. We usually assume that the shares will remain close to recent levels, though we typically adjust for differences in population growth or other factors where evidence suggests we should. The exception to this approach is where taxes have been fully devolved and we are able to take account of outturns and use models specific to the tax in question.

1.5 The methodologies and the forecasts represent the collective view of the three independent members of the OBR's Budget Responsibility Committee (BRC). The BRC takes full responsibility for the judgements that underpin them. We have also drawn heavily on the work and expertise of numerous officials in preparing these forecasts, including in the Welsh Government, Scottish Fiscal Commission, Scottish Government, HM Revenue and Customs, HM Treasury and the Department for Work and Pensions. We are grateful for their expertise, hard work, and patience.

1.6 Our devolved tax and spending forecasts are consistent with the central forecast for the UK economy and public finances presented in our March 2022 *EFO*. Since our October forecast, the Omicron Covid variant has emerged and declined, but hospital admissions have been rising, the risk of vaccine-escaping variants and waning immunity remains, and the longer-term behavioural legacy of the pandemic will affect economic and fiscal outcomes for many years. In addition, the Russian invasion of Ukraine on 24 February and the international response resulted in dramatic movements in key market determinants, especially energy prices, with the longer-term implications of the invasion far from certain. It is clear that risks to our forecast are unusually elevated at present, with the Russian invasion now added to the financial crisis and the pandemic as the latest in a series of global shocks to have significantly disrupted our economic lives in the first quarter of this century.

1.7 The original timetable for our March 2022 *EFO* anticipated finalising energy and financial market determinants in the 10 working days to 17 February. In the event, the invasion of Ukraine resulted in dramatic market movements after this date. As a result, we reopened the pre-measures forecast to reflect average market prices in the first week of the invasion, including the sharp rises in wholesale gas and oil prices. Our forecast is therefore based on financial and energy market prices in the five working days to 2 March, which have been incorporated into our full economy and fiscal forecast models. Our final economy forecast – which incorporated both the latest financial market movements and the effects of the UK Government's Spring Statement policy package – was closed on 15 March. Our fiscal forecast, reflecting the Chancellor's final policy decisions, was finalised on 18 March.

1.8 The process for producing these devolved forecasts has been as follows:

- officials in HMRC, the Scottish Fiscal Commission and the Welsh Government produced **draft Scottish and Welsh tax forecasts** using our preliminary UK economy and fiscal forecasts;
- these were **scrutinised by the BRC** in two challenge meetings attended by those officials on 18 and 22 February; and
- a **final set of forecasts** was produced on 18 March, using our final economy forecast and including the impact of UK Government policies.

1.9 The rest of this document is structured as follows:

- Chapter 2 covers non-savings non-dividend **income tax** in Scotland and Wales;
- Chapter 3 covers **land and buildings transaction tax** and **land transaction tax**;
- Chapter 4 covers **landfill taxes** in Scotland and Wales;
- Annex A provides illustrative forecasts for **taxes not yet devolved** – aggregates levy, air passenger duty, and VAT assignment; and
- Annex B presents forecasts that the respective Governments use as **inputs to the block grant calculations**.

2 Income tax

Introduction

2.1 Scottish income tax (SIT) and the Welsh rates of income tax (WRIT) are levied on non-savings, non-dividend (NSND) income, assessed on a liabilities basis. This includes earnings from employment, self-employment, pensions and property. Income tax on savings and dividends is reserved to the UK Government and accounts for around 10 per cent of total income tax revenue at the UK level, and somewhat less than that in Scotland and Wales.

2.2 Income tax has been partially devolved to Scotland since April 2016. Since April 2017 the Scottish Government has received full NSND income tax liabilities from taxpayers in Scotland. The Scottish Parliament has the power to vary all rates and thresholds separately (other than the personal allowance) and to create new bands paying different rates.

2.3 The Welsh rates of income tax have been devolved since April 2019. The existing basic, higher and additional rates of income tax levied by the UK Government are reduced by 10p in the pound for those individuals defined as Welsh taxpayers. The Welsh rates levied on top of these reduced UK rates are set by the Welsh Senedd. The Welsh rates were kept at 10p for each band of income tax for 2022-23, thereby keeping income tax rates in Wales at the same levels as those that are paid by taxpayers in England and Northern Ireland.

2.4 This chapter presents our approach to forecasting SIT and WRIT revenues and our latest forecasts for each of them.[1] Throughout the chapter we compare our March 2022 forecasts to our October 2021 forecasts published alongside our previous UK-wide forecasts.

Methodology

2.5 The three main stages in generating our forecasts for Scottish and Welsh income tax are:

- first, we generate a **UK-wide forecast for NSND income tax liabilities** from the full UK income tax forecast published in our *Economic and fiscal outlook* (*EFO*);
- second, we calculate the **Welsh and Scottish shares** of UK-wide NSND liabilities and apply these to the UK forecast; and
- third, we add the effects of **policy measures** announced since our previous forecast.

[1] For more detailed explanation of the structure of both Scottish income tax and the Welsh rates, and of how we produce our forecasts for each, see our March 2019 *Devolved tax and spending forecasts*. Further discussion of the Welsh rates can also be found in our *Welsh taxes outlook* and in Mathews, P., *OBR Working Paper No.14: Devolved income tax: forecasting by tax bands,* September 2018.

2.6 Unlike fully devolved taxes, comprehensive and timely information on income tax is only available for UK-wide receipts. Outturn data on liabilities, for Scotland, Wales and the UK as a whole, are published with a long lag reflecting the time it takes for self-assessment income tax to be paid (largely in the January of the tax year that follows the year in which liabilities were incurred). This means that our estimates for past years can change as a result of new data becoming available, as well as the forecasts themselves changing. The latest outturn year for which Scottish and Welsh income tax liabilities are available is 2019-20 – and while full liabilities data for the UK in 2020-21 are not yet available, provisional information about self-assessment income tax payments in respect of that year are.

2.7 The Welsh Government's fiscal framework agreement requires us to forecast income tax liabilities associated with each band of income tax for Wales.

UK forecast

2.8 Despite the wider economic impact of the pandemic, UK-wide NSND income tax liabilities *increased* by £9.9 billion (5.6 per cent) in 2020-21 – a figure that has been revised up by £4.6 billion relative to our October forecast. This reflects much stronger-than-expected self-assessment payments in January and February 2022 in respect of 2020-21 liabilities. As detailed in our March 2022 *EFO*, it appears that self-employment incomes – supported by the self-employment income support scheme (SEISS) – held up much better than is apparent in the latest vintage of ONS National Accounts data for 2020-21.

2.9 Revenues have been revised up by a larger margin in 2021-22 (reflecting strength in PAYE income tax receipts this year, particularly among higher- and additional-rate taxpayers) and larger still in 2022-23 (thanks to faster wage growth amid high inflation and a tight labour market). Stronger wage growth, alongside frozen income tax thresholds, means that fiscal drag adds significantly to revenues as more individuals move into tax and a greater share of incomes is taxed at the 40 or 45 per cent rates (as discussed in Box 3.2 of our March *EFO*). Overall, revenues have been revised up by £12.6 billion a year on average between 2022-23 and 2026-27. This is more than explained by upward revisions to wages and salaries since October as a result of higher average earnings growth, albeit tempered by the near-term reduction in GDP growth caused by the spike in energy prices and consequent hit to real incomes that has followed Russia's invasion of Ukraine.

2.10 The effect of individual UK Government policies announced in the Chancellor's Spring Statement on NSND income tax liabilities is dominated by the 1 percentage point cut to the basic rate of income tax from April 2024 onwards. This reduces the basic rate of income tax in England, Wales and Northern Ireland from 20 to 19 per cent and reduces overall NSND income tax receipts by an average of £5.5 billion a year between 2024-25 and 2026-27. Because of the different scopes of tax devolution between Scotland and Wales, this policy has very different effects in each as detailed below.

2.11 Other policies affecting UK-wide NSND income tax liabilities have modest net effects. These include the impact on incentives to incorporate that result from aligning the NICs primary threshold with the personal allowance and HMRC's latest compliance measures. The fiscal easing announced in the Spring Statement also boosts income tax receipts modestly. Taken together, these factors raise NSND liabilities by £0.3 billion a year on average.

Table 2.1: UK NSND income tax forecast

	£ billion							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
October forecast	176.8	182.0	198.0	212.0	223.7	233.8	248.1	261.8
March forecast	176.8	186.7	208.4	226.7	238.2	245.2	259.4	272.8
Change	**0.0**	**4.6**	**10.4**	**14.7**	**14.4**	**11.4**	**11.3**	**10.9**
of which:								
UK NSND outturn alignment		0.2	0.4	0.4	0.4	0.5	0.5	0.5
Pre-measures forecast		4.4	10.1	14.1	13.6	16.0	16.0	15.7
Basic rate cut		0.0	0.0	0.0	0.0	-5.5	-5.5	-5.6
Other UK policies		0.0	0.0	0.2	0.4	0.4	0.3	0.3

Scottish and Welsh shares

2.12 We forecast the shares to apply to the UK NSND forecast by starting from HMRC's latest Survey of Personal Incomes (SPI), which currently relates to the 2019-20 fiscal year. This is an annual sample of around 822,000 individuals in contact with HMRC during the year through the PAYE, self-assessment or repayment claim systems. Table 2.2 shows that the SPI-based Scottish and Welsh shares of all UK income tax liabilities declined steadily up to 2017-18, but that they then rose in 2018-19 and were stable in 2019-20.

Table 2.2: Scottish and Welsh shares of all income tax liabilities

	Per cent					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Scotland	7.1	6.9	6.8	6.5	6.7	6.7
Wales	2.8	2.7	2.7	2.6	2.7	2.7

2.13 We use the 2019-20 SPI data to calculate an initial share of UK NSND income tax liabilities for both Scotland and Wales. We then project these SPI-based shares over the forecast period, making adjustments for:

- **Population.** We use an index based on the latest ONS population projections to reflect the different projected growth rates of the adult population in Scotland and Wales. For this forecast we have incorporated the ONS's '2020-based' principal population projections that were released in January 2022. We have also refined the way we calculate the population index, by calculating separate indices for the working-age population (those aged 16 to 65) and the pension-age population (those aged 66 and over) and weighting them by the proportion of NSND income tax paid by each group. This begins to capture the effects of different trends in population ageing on top of different trends in the overall population size on the Scottish and Welsh shares.

- **Earnings.** We adjust the shares in line with the share of total employee earnings as reported in HMRC's real-time information (RTI) from the PAYE system, enabling us to draw on more up-to-date information for the majority of income taxpayers. This includes judgements based on data for the first nine months of 2021-22 and assumptions about the final three months that reflect both historical patterns of RTI shares through the fiscal year and our judgements about year-end bonus growth (where particularly strong growth is expected to skew receipts towards England).

- **Previously announced policies.** Any effects of these that are expected to alter the Scottish or Welsh shares are incorporated – for example, personal allowance freezes.

- **Outturn.** We align our forecasts to the 2019-20 outturn.

2.14 Table 2.3 reports our latest forecast for the Scottish share and the change since October. It has been revised down fractionally (by less than 0.01 percentage points on average) across the forecast. This mostly reflects the updated growth path for Scotland's share of the UK population. While the trajectory has been revised up for 2021-22 and 2022-23, by the end of the forecast the index ends up 0.3 per cent lower than previously projected. Moving to the new ONS population projections had little impact, with the revision largely explained by the revised methodology for calculating the population index that better captures the effect of population ageing (which is a little faster in Scotland than in the UK as a whole).

2.15 Our October forecast also assumed the Scottish share would fall relatively steeply in 2020-21 and 2021-22 on the basis of RTI data, with a partial recovery in 2022-23. We have added a further 0.05 percentage point reduction in the Scottish share in 2021-22 in this forecast to reflect our assumption that very strong year-end bonus growth will skew income tax payments towards England (which accounts for a disproportionate share of the highest-paid employees in the financial and business services sectors where bonus payments are typically largest). This adjustment partially reverses in 2022-23 as bonus growth subsides and the rise in oil and gas prices boosts Scottish incomes disproportionately.

Table 2.3: Scottish share of NSND income tax

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
October forecast	6.69	6.59	6.51	6.50	6.46	6.42	6.37	6.35
March forecast[1]	6.69	6.59	6.48	6.53	6.46	6.41	6.37	6.34
Change	**0.00**	**0.00**	**-0.02**	**0.03**	**0.00**	**-0.02**	**0.00**	**0.00**
RTI Index (2019-20=100)		*98.2*	*96.8*	*97.5*	*97.5*	*97.5*	*97.5*	*97.5*
Index of relative population growth (2020-21=100)		*100.0*	*99.7*	*99.3*	*98.9*	*98.6*	*98.3*	*98.0*

[1] Calculated on a pre-measures basis.

2.16 The incorporation of updated population projections in our share modelling has shifted the Welsh share in all years of the forecast too but in the opposite direction, increasing the Welsh share by 0.01 percentage points by the end of the forecast. We have also revised the share down by 0.01 percentage points in 2021-22 with a partial reversal in 2022-23 to reflect very strong bonus growth. Overall, these changes combine to raise the Welsh share by less than 0.01 percentage points on average over the forecast (Table 2.4).

Table 2.4: Welsh share of NSND income tax

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
October forecast	1.15	1.17	1.16	1.17	1.18	1.18	1.17	1.17
March forecast[1]	1.15	1.17	1.16	1.17	1.18	1.18	1.18	1.18
Change	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.01**	**0.01**
RTI Index (2019-20=100)		*100.8*	*99.9*	*100.3*	*100.3*	*100.3*	*100.3*	*100.3*
Index of relative population growth (2020-21=100)		*100.0*	*100.0*	*100.0*	*100.0*	*99.9*	*99.8*	*99.8*

[1] Calculated on a pre-measures basis.

Scottish forecast

2.17 Table 2.5 presents our latest Scottish income tax forecast and the changes since October. Liabilities are up in all years, by an average of £873 million (6 per cent). This largely reflects the upward revision to pre-measures UK-wide liabilities, which adds over £200 million to 2020-21 and around £900 million a year from 2021-22 onwards. Our revised forecast for the Scottish share of income tax reduces revenue by an average of £100 million a year across the forecast. This broadly offsets the yield from the Scottish Government's one-year freeze to the higher-rate threshold announced in December 2021.

2.18 The UK Government's reduction in the basic rate from 20 to 19 per cent from April 2024 has no direct impact on Scottish income tax receipts due to the full devolution of rates and thresholds to the Scottish Government. And there are no knock-on effects from changes to taxpayer behaviour in response to the rate change as the Scottish income tax band rates remain the same. Despite this, there are some indirect impacts arising from broader Spring Statement measures, which increase Scottish receipts by £27 million a year on average.

Table 2.5: Changes in Scottish NSND income tax since October

	£ million							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
October forecast	11,833	12,004	12,883	13,789	14,451	15,019	15,811	16,621
March forecast	11,833	12,310	13,511	14,810	15,385	16,091	16,898	17,689
Change	**0**	**306**	**628**	**1,021**	**934**	**1,072**	**1,086**	**1,068**
of which:								
Scottish share modelling		1	-52	-68	-131	-164	-143	-149
UK NSND outturn alignment		15	24	29	28	32	32	32
UK NSND forecast and other		290	655	909	869	1,017	1,014	990
Scottish Government policies		0	0	137	132	135	140	147
UK Government policies		0	1	13	35	51	43	48

Comparison with Scottish Fiscal Commission forecasts

2.19 Our forecasts for NSND income tax in England and Northern Ireland are used in calculating the Scottish Government's block grant adjustments (BGAs). The income tax BGA reduces the funding received by the Scottish Government to reflect the devolution of income tax revenues themselves. The Scottish Government bases its spending decisions on both the BGAs, which reflect our forecasts, and the Scottish Fiscal Commission's forecasts for tax revenues in Scotland. As a result, differences between our respective forecasts for growth in revenues can affect the overall budget in any given year – although ultimately resources are aligned to revenue outturns via a reconciliation process over subsequent years.

2.20 Differences in modelling approaches, data used, and judgements applied can all contribute to differences between our forecasts. This is overlaid by the fact that we produce our forecasts at different times, so the latest data will have moved on in between each forecast – an important factor in rapidly evolving economic conditions. To facilitate comparisons, we have agreed with the SFC to publish a standard set of income tax comparison tables that will be updated each time either of us publish a new forecast. Tables 2.6 and 2.7 compare our current forecast to the SFC's latest forecast, which was published in December.

2.21 Table 2.6 compares the determinants used in our respective forecasts. Ours relate to the UK as a whole, whereas the SFC's are specific to Scotland. Our forecast for wages and salaries is stronger than the SFC's, with cumulative growth between 2019-20 and 2025-26 that is 6.5 percentage points stronger. That largely reflects a combination of stronger employment growth in outturn years and stronger average earnings growth in the initial years of the forecast, with the gap between our respective forecasts stable from 2023-24 onwards. Our stronger outlook for average earnings growth is likely to partly reflect the timing of our respective forecasts, with increasing signs in recent months of labour market tightness and that wage settlements could rise more materially in response to higher inflation. This stronger outlook for the tax base combines with strength in outturn receipts to explain our stronger forecast for Scottish income tax revenues over the medium term.

Table 2.6: SFC Scottish determinants compared to OBR UK-wide determinants

	Percentage change on a year earlier					
	Outturn	Forecast				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Employment						
SFC	-3.8	1.3	1.0	0.1	-0.1	-0.2
OBR	-1.7	0.5	0.8	0.6	0.5	0.4
Difference	2.1	-0.8	-0.2	0.4	0.6	0.6
Average nominal earnings						
SFC	3.8	3.8	2.6	3.0	3.2	3.3
OBR	2.6	6.1	5.1	2.4	2.7	3.0
Difference	-1.2	2.4	2.5	-0.6	-0.4	-0.3
Wages & salaries						
SFC[1]	0.8	5.7	3.6	3.1	3.1	3.1
OBR	2.6	7.5	6.0	2.7	3.0	3.1
Difference	1.8	1.8	2.4	-0.4	-0.1	0.0
	Index: 2019-20 = 100					
Employment						
SFC	96.2	97.4	98.4	98.5	98.4	98.2
OBR	98.3	98.8	99.6	100.2	100.7	101.1
Difference	2.1	1.4	1.2	1.7	2.3	2.8
Average nominal earnings						
SFC	103.8	107.7	110.5	113.9	117.5	121.3
OBR	102.6	108.9	114.5	117.2	120.5	124.1
Difference	-1.2	1.2	3.9	3.4	3.0	2.7
Wages & salaries						
SFC[1]	100.8	106.5	110.3	113.8	117.2	120.9
OBR	102.6	110.2	116.8	120.0	123.5	127.4
Difference	1.8	3.8	6.5	6.2	6.3	6.5

[1] Refers to the SFC's total nominal earnings series.

2.22 Table 2.7 breaks down our forecast for UK NSND income tax and compares our respective forecasts for Scottish income tax. We have faster growth in Scottish income tax revenues than the SFC in 2020-21, reflecting the strength of self-assessment receipts in recent months, and also in 2021-22 and 2022-23, reflecting strength in PAYE receipts and average earnings growth. While growth rates in our forecast are modestly slower than in the SFC's for 2023-24 and 2024-25, the level of our revenue forecast is still 9.4 per cent higher than the SFC's by 2025-26. That leaves our forecast £872 million a year higher on average than the SFC's. This reflects the fact that our stronger outlook for UK-wide wages and salaries is only partly offset by downward revisions to our forecast for the Scottish share, so implicitly our forecast for tax base growth in Scotland exceeds the SFC's.

Table 2.7: SFC Scottish income tax forecast compared to OBR UK NSND forecast

	£ million						
	Outturn	Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
SFC							
SIT (a)	11,833	11,938	13,002	13,671	14,313	15,056	15,790
OBR							
UK NSND	176,791	186,673	208,395	226,742	238,151	245,230	259,379
of which:							
UK ex. SIT and WRIT	162,917	172,183	192,472	209,288	219,961	226,178	239,348
WRIT	2,041	2,181	2,412	2,645	2,805	2,961	3,134
SIT (b)	11,833	12,310	13,511	14,810	15,385	16,091	16,898
OBR vs. SFC (b-a)		372	509	1,139	1,072	1,035	1,108
	Percentage change on a year earlier						
SFC							
SIT (a)		0.9	8.9	5.1	4.7	5.2	4.9
OBR							
UK ex. SIT and WRIT		5.7	11.8	8.7	5.1	2.8	5.8
SIT (b)		4.0	9.8	9.6	3.9	4.6	5.0
OBR vs. SFC (b-a)		3.1	0.8	4.5	-0.8	-0.6	0.1
	Index: 2019-20 =100						
SFC							
SIT (a)		100.9	109.9	115.5	121.0	127.2	133.4
OBR							
UK ex. SIT and WRIT		105.7	118.1	128.5	135.0	138.8	146.9
SIT (b)		104.0	114.2	125.2	130.0	136.0	142.8
OBR vs. SFC (b-a)		3.1	4.3	9.6	9.1	8.7	9.4

Welsh forecast

2.23 Table 2.8 sets out our latest forecast for the Welsh rates of income tax and a breakdown of the changes since October, while Table 2.9 shows the forecast by tax band. As with our Scottish forecast, we have revised the Welsh forecast up materially thanks largely to strength in UK-wide receipts. The forecast is up by £167 million (6.2 per cent) a year on average. Revisions to the Welsh share reduce receipts a little relative to our October forecast until 2022-23, after which the stronger relative population projection for Wales increases receipts by modest amounts (reaching a maximum of £29 million by 2026-27).

2.24 As with UK-wide liabilities, the reduction of the basic rate by 1 per cent reduces *total* NSND income tax revenues in Wales. But under the partial devolution of income tax to the Welsh Government via the Welsh rates, the basic rate cut applies to the UK portion of income tax raised in Wales, with no direct effect on NSND revenues for the Welsh Government. Welsh rates of income tax do benefit a little from the behavioural impacts from the rate reduction, with the reduced incentive to incorporate raising Welsh Government receipts by £2.8 million a year on average from 2024-25 onwards. Other effects of the Spring Statement policy measures are also modest, taking the total effect of UK Government policies to £6 million a year on average.

Table 2.8: Changes in the Welsh rates of income tax forecast since October

	£ million							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
October forecast	2,041	2,127	2,301	2,478	2,629	2,748	2,911	3,063
March forecast	2,041	2,181	2,412	2,645	2,805	2,961	3,134	3,291
Change	**0**	**53**	**111**	**167**	**175**	**212**	**223**	**228**
of which:								
Welsh share modelling		-1	-10	-4	7	14	22	29
UK NSND outturn alignment		3	4	5	5	6	6	6
UK NSND forecast and other		51	117	163	158	186	187	182
UK Government policies		0	0	2	5	7	8	10

Table 2.9: Forecast of Welsh rates of income tax by tax band

	£ million							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast	2,041	2,181	2,412	2,645	2,805	2,961	3,134	3,291
of which:								
Basic rate	1,762	1,856	2,024	2,194	2,315	2,428	2,549	2,662
Higher rate	233	273	319	372	405	443	487	522
Additional rate	45	52	70	79	85	90	98	107
	Per cent							
Basic rate	86.3	85.1	83.9	82.9	82.5	82.0	81.3	80.9
Higher rate	11.4	12.5	13.2	14.1	14.5	15.0	15.5	15.9
Additional rate	2.2	2.4	2.9	3.0	3.0	3.1	3.1	3.3

Box 2.1: Evaluating our forecasts for devolved income tax

In our October 2021 *Devolved tax and spending forecasts* document we evaluated successive final March forecasts for Scottish income tax against available outturn data. We concluded that our forecasts improved with time as we incorporated income tax outturn data and improved our use of RTI data. Because of the lag in publishing income tax outturn data for Scotland and Wales, we can only analyse our devolved income tax forecasts well after the end of the year to which they relate. Outturn data have now been published for 2019-20, representing the first year of outturn for Wales, meaning we can evaluate our devolved income tax forecasts for Scottish income tax and the Welsh rates in parallel. Doing so is important for transparency and helps us to understand and identify ways to improve our methodology and modelling.

Table A compares our March 2019 forecasts for Scottish income tax and the Welsh rates in 2019-20 to the eventual outturn. It shows that:

- **Scottish income tax liabilities** were £205 million (1.7 per cent) lower than forecast. The largest error related to economic determinants – the wages and salaries forecast that drives assumptions about tax base growth – which generated a shortfall of £123 million (1.0 per cent). Fiscal modelling contributed a further £82 million (0.7 per cent) to the shortfall, reflecting judgements in our forecast for UK-wide NSND liabilities beyond those captured by the tax base, as well as assumptions about the Scottish share.

- **Liabilities for the Welsh rates** were £60 million (2.8 per cent) lower than forecast. Again the largest error related to economic determinants, which generated a shortfall of £37 million (1.8 per cent). This was 0.7 percentage points greater than the Scottish determinant-related shortfall, indicating that our UK-wide determinant forecast was more in line with the growth of earnings and employment in Scotland than it was for Wales.[a] Fiscal modelling accounted for a further shortfall of £23 million (1.1 per cent), again reflecting judgements about movements in UK-wide liabilities and the Welsh share.

Table A: Scottish income tax and Welsh rates of income tax in 2019-20: March 2019 forecast versus outturn

	£ million					
	Forecast	Outturn	Difference	*of which:*		
				Economic determinants	Fiscal modelling	Policy changes
Scottish income tax	12,037	11,833	-205	-123	-82	0
Welsh rates of income tax	2,101	2,041	-60	-37	-23	0

[a] This is a topic we will return to in a forthcoming working paper on our devolved income tax forecasts.

3 Taxes on property transactions

Introduction

3.1 There are three different property transaction tax systems operating in the UK: stamp duty land tax (SDLT) in England and Northern Ireland; land and buildings transaction tax (LBTT) in Scotland; and land transaction tax (LTT) in Wales. This chapter summarises our approach to forecasting LBTT and LTT and presents our latest forecasts for each of them.[1]

Methodology

3.2 Our forecasts for property transaction taxes start with our UK-wide property market forecasts, and we assume that Scottish and Welsh prices and transactions will move in line with those for the UK as a whole unless there are clearly reasons to depart from that. As explained in our October 2021 *Devolved tax and spending forecast* document, we departed from that assumption in our October forecast for 2021-22 due to the different experiences in each property market during 2020-21 brought about by the pandemic and the various temporary tax holidays. We have maintained this approach in our current forecast.

3.3 Both forecasts involve three steps:

- first, we produce an **in-year estimate**, using the latest outturn and our forecasts for property market determinants in 2021-22;
- next, we produce our **pre-measures forecast**, drawing on several models to project the property market over five years and then calculate the expected revenue; and
- finally, we add estimates of the effects of any **new policy measures** to produce our post-measures forecast.

Latest property market forecasts

3.4 As we set out in October 2021, our forecasts for prices and transactions in 2021-22 in the Scottish and Welsh residential property markets diverge from our UK-wide forecasts. This reflects the fact that while UK-wide residential property transactions increased by 2 per cent in 2020-21, transactions fell in both Scotland and Wales (by 8 per cent and 13 per cent respectively). In addition, while transactions in 2020-21 increased much faster for higher-priced properties than for lower-priced ones across the UK, this change was especially marked in Wales but much less so in Scotland. Because all three tax systems have

[1] For more detailed explanations of the structure of these taxes and how we produce our forecasts for LBTT and LTT, see our March 2019 *Devolved tax and spending forecasts* or our December 2019 *Welsh taxes outlook*. Also see the 'forecast in-depth' section of our website.

progressive structures, this increased effective tax rates relative to what would have been seen had the distribution of transactions been unchanged from 2019-20.

3.5 In this forecast we maintain our October 2021 assumption that the differences in transactions growth are likely to be temporary, and so unwind over 2021-22. This means transactions bounce back strongly in both Scotland and Wales. From 2022-23 onwards we use the same determinants as in our UK-wide property market forecasts (Table 3.1).

3.6 Relative to October, we have revised up our forecasts for both house prices and transactions in Scotland and Wales in 2021-22 and for prices in 2022-23. This reflects the stronger-than-expected outturns in the year to date, which in the case of transactions amplifies the rebound from the sharp drop in 2020-21. From 2023-24 onwards we expect house price inflation to slow as a result of the hit to real incomes from higher energy prices, dropping below our October forecast from 2024-25 onwards. Transactions are expected to fall back in 2022-23, to a greater extent than we forecast in October, and to rise modestly thereafter.

Table 3.1: Forecasts for residential property prices and transactions

	Percentage change on a year earlier						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Scotland							
House prices							
October forecast	6.7	5.7	2.2	1.0	2.2	3.1	3.6
March forecast	6.7	7.6	5.7	1.0	1.8	2.6	3.2
Change		**1.9**	**3.4**	**0.0**	**-0.4**	**-0.4**	**-0.5**
Housing transactions							
October forecast	-8.0	22.0	-1.4	3.2	1.7	1.0	1.2
March forecast	-8.0	26.4	-4.2	2.9	2.0	1.2	1.2
Change		**4.4**	**-2.7**	**-0.3**	**0.2**	**0.2**	**0.0**
Wales							
House prices							
October forecast	6.7	7.8	2.2	1.0	2.2	3.1	3.6
March forecast	6.7	13.6	5.7	1.0	1.8	2.6	3.2
Change		**5.8**	**3.4**	**0.0**	**-0.4**	**-0.4**	**-0.5**
Housing transactions							
October forecast	-12.8	29.9	-1.4	3.2	1.7	1.0	1.2
March forecast	-12.8	33.4	-4.2	2.9	2.0	1.2	1.2
Change		**3.4**	**-2.7**	**-0.3**	**0.2**	**0.2**	**0.0**

Note: The outturn numbers displayed for 2020-21 are specific to Scotland and Wales. The forecasts for 2021-22 are also specific to Scotland and Wales as outlined in paragraph 3.5.

3.7 As with the residential markets, we assume a strong rebound in commercial transactions in both Scotland and Wales in 2021-22 (Table 3.2). Relative to October, commercial price growth in both Scotland and Wales is much higher in 2021-22, but then lower in 2022-23. Growth in transactions has been revised up more modestly in 2021-22 and is similar thereafter. These near-term forecasts are informed by the strength of receipts in outturn.

Table 3.2: Forecasts for commercial property prices and transactions

	Percentage change on a year earlier						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Scotland							
Commercial prices							
October forecast	-9.7	2.3	2.2	2.2	1.9	2.0	2.1
March forecast	-9.7	11.3	-0.7	2.4	1.8	1.9	2.0
Change		**9.0**	**-2.8**	**0.2**	**0.0**	**-0.1**	**0.0**
Commercial transactions							
October forecast	-13.6	16.7	-1.0	1.7	1.4	1.6	1.7
March forecast	-13.6	20.3	-1.1	2.1	1.7	1.7	1.7
Change		**3.6**	**-0.1**	**0.4**	**0.3**	**0.0**	**0.0**
Wales							
Commercial prices							
October forecast	3.0	2.3	2.2	2.2	1.9	2.0	2.1
March forecast	3.0	11.3	-0.7	2.4	1.8	1.9	2.0
Change		**9.0**	**-2.8**	**0.2**	**0.0**	**-0.1**	**0.0**
Commercial transactions							
October forecast	-8.7	10.4	-1.0	1.7	1.4	1.6	1.7
March forecast	-8.7	13.9	-1.1	2.1	1.7	1.7	1.7
Change		**3.5**	**-0.1**	**0.4**	**0.3**	**0.0**	**0.0**

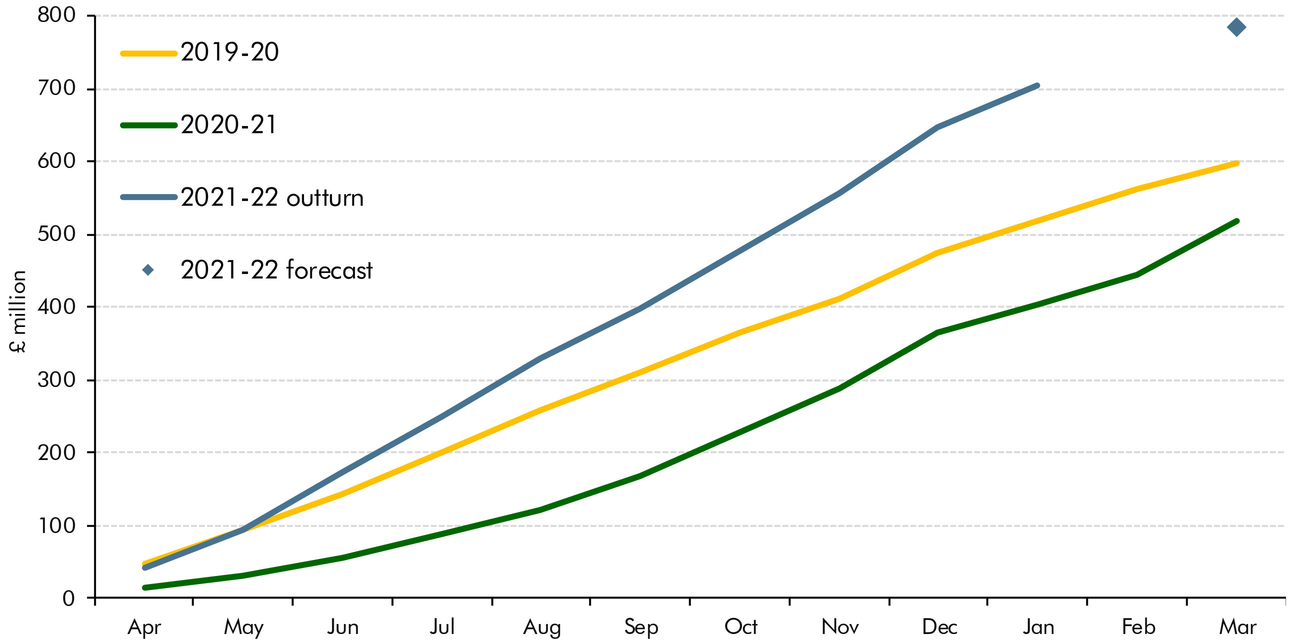
Note: The outturn numbers displayed for 2020-21 are specific to Scotland and Wales. The forecasts for 2021-22 are also specific to Scotland and Wales as outlined in paragraph 3.5.

Land and buildings transaction tax

Latest LBTT outturn data

3.8 Total LBTT receipts continue to rebound strongly. In the first half of 2021-22 they were over double the level recorded in the lockdown-depressed first half of 2020-21 and were up 23 per cent relative to 2019-20 (Chart 3.1). This strength has continued into the second half of the year, reflecting the continued momentum in both the residential and commercial markets. This leaves receipts in 2021-22 up £187 million (30 per cent) relative to 2019-20 and up £269 million (52 per cent) relative to 2020-21.

Chart 3.1: Cumulative monthly LBTT receipts: 2019-20 to 2021-22



Source: Revenue Scotland, OBR

LBTT forecast

3.9 Table 3.3 sets out our latest LBTT forecast compared to October. Receipts growth slows in 2022-23 as we assume the composition of transactions will revert to a less tax-rich pre-pandemic pattern. Even so, receipts have been revised up by £72 million (9 per cent) a year on average across the period. This reflects a stronger outlook for both residential main rates and commercial receipts. We describe each element of the forecast next.

Table 3.3: Land and buildings transaction tax forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total LBTT							
October forecast	517	731	773	811	849	895	949
March forecast	517	786	836	882	925	976	1038
Change		**55**	**63**	**71**	**76**	**81**	**88**
Residential LBTT (excluding ADS)							
October forecast	260	404	438	459	485	518	557
March forecast	260	418	470	494	523	559	604
Change		**14**	**31**	**35**	**38**	**41**	**47**
Additional dwellings supplement (ADS)							
October forecast	115	137	143	152	156	161	167
March forecast	115	135	138	148	153	158	164
Change		**-3**	**-5**	**-4**	**-4**	**-4**	**-3**
Commercial LBTT							
October forecast	143	189	192	200	208	216	225
March forecast	143	233	229	240	250	259	270
Change		**44**	**37**	**40**	**42**	**43**	**45**

Residential LBTT forecast

3.10 Table 3.4 shows the sources of revision to our residential LBTT forecast since October. Receipts have been revised up in each year of the forecast, by an average of £31 million a year (5 per cent). This largely reflects upward revisions to house prices, which more than offsets a weaker outlook for transactions from 2022-23 onwards, with the effect diminishing slightly from 2024-25 as the upward revision to prices diminishes. Stronger outturn data and modelling adjustments provide an additional medium-term boost relative to October.

Table 3.4: Changes to the residential LBTT forecast since October

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
October forecast	375	542	581	611	641	679	724
March forecast	375	553	608	641	675	716	767
Change		**11**	**26**	**31**	**34**	**38**	**43**
of which:							
Price changes		9	50	52	49	46	43
Transaction changes		10	-20	-21	-20	-21	-22
Outturn data and modelling		-8	-4	0	5	12	23

Commercial LBTT forecast

3.11 Table 3.5 sets out the changes to our commercial LBTT forecast since October. Receipts have been revised up in each year. Modest upward revisions to both prices and transactions have lifted receipts, but by far the largest contribution to the upward revision to receipts comes from aligning our forecast to stronger-than-expected in-year receipts data.

Table 3.5: Changes to the commercial LBTT forecast since October

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
October forecast	143	189	192	200	208	216	225
March forecast	143	233	229	240	250	259	270
Change		**44**	**37**	**40**	**42**	**43**	**45**
of which:							
Price changes		9	3	3	3	3	3
Transaction changes		4	3	4	5	5	5
Outturn data and modelling		31	31	33	34	35	37

Comparison with the Scottish Fiscal Commission's latest forecast

3.12 Table 3.6 compares the SFC's latest forecast, published in December, to ours. We both forecast using the same models, so differences between our respective forecasts largely relate to our different assumptions about property markets and differences in the latest data available at the time of each forecast. Overall, our forecast exceeds the SFC's by an average of £89 million a year, with LBTT receipts £114 million higher by 2026-27. This difference is largely in respect of residential main rates receipts, which arises from house prices in 2021-22 continuing to grow more strongly than expected, the effects of which diminish in subsequent years, and our stronger outlook for transactions growth. Differences in our forecasts for the additional dwellings supplement and commercial receipts are considerably smaller, and largely reflect access to slightly more recent data.

Table 3.6: Comparison between Scottish Fiscal Commission and OBR forecasts

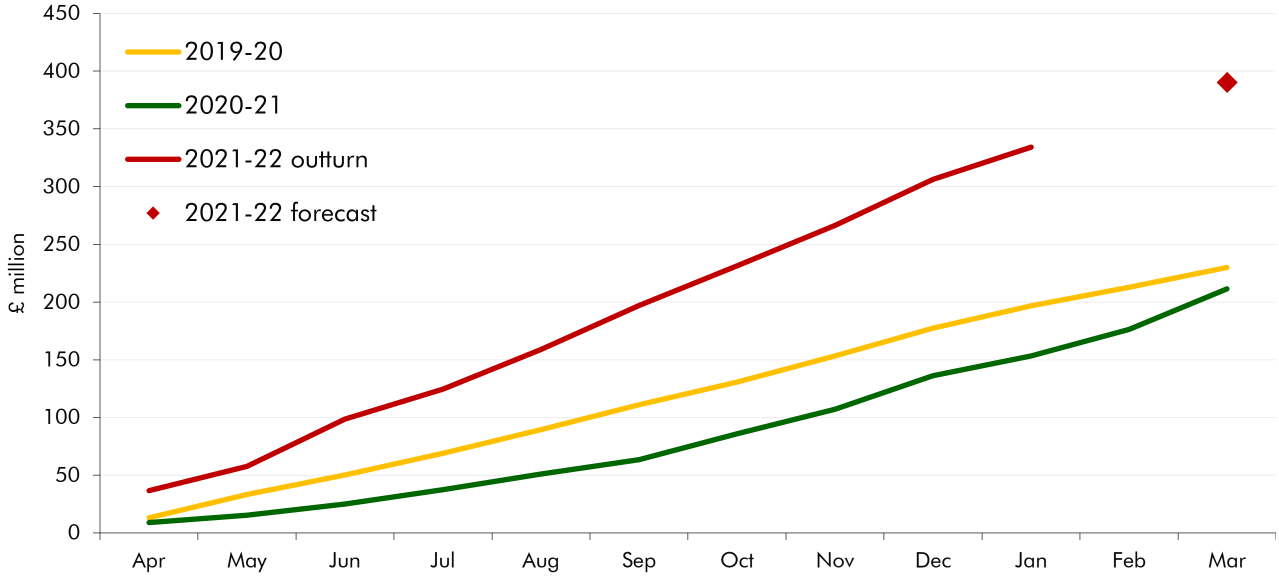
	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total LBTT							
SFC December 2021	517	720	749	796	839	881	924
OBR March 2022	517	786	836	882	925	976	1038
Difference		**66**	**87**	**85**	**86**	**95**	**114**
Residential LBTT (excluding ADS)							
SFC December 2021	260	380	390	420	451	480	510
OBR March 2022	260	418	470	494	523	559	604
Difference		**38**	**80**	**73**	**72**	**79**	**94**
Additional dwellings supplement (ADS)							
SFC December 2021	115	125	133	141	145	148	152
OBR March 2022	115	135	138	148	153	158	164
Difference		**9**	**5**	**7**	**8**	**9**	**12**
Commercial LBTT							
SFC December 2021	143	215	226	235	243	253	262
OBR March 2022	143	233	229	240	250	259	270
Difference		**19**	**2**	**5**	**6**	**7**	**8**

Land transaction tax forecast

Latest LTT outturn data

3.13 LTT receipts in the first half of 2020-21 were depressed by lockdowns but recovered in later months, supported by a shift towards higher-value transactions. This momentum was carried into 2021-22, with receipts in the ten months to January totalling £334 million, more than twice as high as at the same point in 2020-21 and £138 million (70 per cent) higher than at the same point in 2019-20 (Chart 3.2). Given the continued strength in house prices and transactions, we expect total receipts in 2021-22 to exceed outturns in each of the preceding two years by significant margins.

Chart 3.2: Cumulative monthly LTT receipts: 2019-20 to 2021-22



Note: The monthly receipts shown above do not include the transfer of the Core Valley Lines (CVL) rail network into public ownership. The WRA records this as an untypically large transaction, which adds £28 million to total LTT receipts in 2019-20. An additional £2 million of receipts from transactions with restricted detail are also not included in the 2019-20 figure.
Source: WRA, OBR

Latest forecast

3.14 Table 3.7 sets out our latest forecast for LTT and its components. Relative to October, overall receipts are up in every year, by an average of £77 million (21 per cent) a year, reflecting the upward revisions to both residential main rates and commercial LTT.

Table 3.7: Land transaction tax forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total LTT							
October forecast	212	324	337	353	373	400	430
March forecast	212	390	412	431	453	482	514
Change		**66**	**74**	**78**	**80**	**82**	**84**
Residential (excluding additional properties)							
October forecast	89	149	172	182	195	214	236
March forecast	89	179	214	226	239	259	282
Change		**29**	**41**	**43**	**44**	**45**	**46**
Additional properties							
October forecast	66	84	83	85	88	92	97
March forecast	66	89	89	91	94	98	102
Change		**5**	**6**	**6**	**6**	**6**	**6**
Commercial							
October forecast	58	91	82	86	89	93	97
March forecast	58	123	109	115	119	124	130
Change		**32**	**27**	**29**	**30**	**31**	**33**

Residential LTT forecast

3.15 Table 3.8 sets out the changes in our residential LTT forecasts since October. The upward revision in each year is driven by higher house prices, which boost receipts by an average of £47 million a year. Our expectation of a stronger rebound in transactions this year adds to receipts in 2021-22, but the level of transactions is little changed thereafter.

Table 3.8: Changes in residential LTT since October

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
October forecast	154	233	255	267	283	307	333
March forecast	154	267	303	316	333	357	384
Change		**34**	**47**	**49**	**50**	**51**	**51**
of which:							
Price changes		26	47	49	49	49	50
Transaction changes		6	-1	-1	0	0	0
Outturn data and modelling		1	1	1	1	1	2

Commercial LTT forecast

3.16 Table 3.9 shows changes in our commercial LTT forecast relative to October. Receipts in 2021-22 have been revised up by £32 million (35 per cent), reflecting strength in outturn receipts and commercial prices. Receipts from 2022-23 onwards have been revised up by an average of £30 million a year, largely thanks to assuming the strength in outturn will persist, alongside higher prices and slightly higher transactions. Commercial LTT receipts can be volatile from year to year, so this forecast is particularly uncertain.

Table 3.9: Changes in commercial LTT since October

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
October forecast	58	91	82	86	89	93	97
March forecast	58	123	109	115	119	124	130
Change		**32**	**27**	**29**	**30**	**31**	**33**
of which:							
Price changes		11	6	7	7	7	8
Transaction changes		3	2	3	3	3	4
Outturn data and modelling		18	18	19	20	20	21

Box 3.1: Evaluating our forecasts for the devolved property taxes

Table A compares our March 2020 forecasts for Scottish LBTT and Welsh LTT receipts in 2020-21 with the latest outturn data for each. Reflecting the pandemic-induced disruption to property markets in 2020-21, it shows that outturn fell short of our forecast in both cases, by 20.4 per cent for LBTT in Scotland and by 17.1 per cent for LTT in Wales.

The £136 million shortfall relative to our overall LBTT forecast reflects shortfalls in each of the three individual LBTT markets:

- **Residential main rates** fell short of our forecast by £73 million (21.9 per cent) and account for just over half the overall shortfall. Of this, the majority (£39 million) relates to policy changes, namely the LBTT holiday that was in effect for most of the year (from 15 July 2020 to 31 March 2021). Another £25 million relates to lower-than-expected growth in the value of property transactions, which were hit hard in the initial lockdown. The remaining £9 million can be attributed to differences between the outturn distribution of transactions and the assumptions in our forecasting model.
- **Higher rates on additional properties** fell short by £24 million (17.1 per cent) and account for a sixth of the overall shortfall. This largely reflects shortfalls in the value of transactions (contributing £20 million to the shortfall). A further £4 million relates to similar distributional differences to those affecting residential main rates receipts.
- **Commercial receipts** were down £39 million (20.2 per cent) accounting for just over a quarter of the overall shortfall. Again, this largely reflects the pandemic and associated restrictions hitting the value of transactions.

The £44 million shortfall relative to our overall LTT forecast also reflects shortfalls in receipts from residential main rates and commercial properties, although in Wales receipts from additional residential properties actually exceeded our pre-pandemic forecast. Taking each in turn:

- **Residential main rates** fell short of our forecast by £37 million (29.7 per cent), but account for almost all the overall LTT shortfall. The LTT holiday that was in place for most of the year and other policy measures reduced receipts by £33 million, while the pandemic-induced drop in the value of property transactions lowered receipts by £26 million. Partially offsetting these was a surplus of £23 million related to fiscal modelling, which reflects the stronger performance of higher-priced transactions relative to lower-priced ones during 2020-21. That compositional change raised the effective tax rate paid due to the progressive structure of the LTT rates.
- **Higher rates on additional properties** outperformed our forecast by £3 million (4 per cent). Weakness in the value of property transactions lowered receipts, but this was more than offset by the combination of a £4 million upside surprise in fiscal modelling (due to the same compositional effects that boosted residential receipts) and the exclusion of additional rates on second homes and buy-to-let properties from the LTT holiday. This meant that all the tax paid on qualifying transactions was recorded as revenue from the higher rates during the holiday period, boosting receipts by £10 million.

- **Commercial receipts** were £9 million (13.7 per cent) lower than forecast. This is more than explained by fiscal modelling differences, which are likely to reflect differences between the outturn composition of transactions and the assumptions in our forecast model. The value of commercial transactions was actually a little higher than expected.

Table A: Devolved property taxes in 2020-21: March 2020 forecast versus outturn

	£ million					
	Forecast	Outturn	Difference	*of which:*		
				Economic determinants	Fiscal modelling	Policy changes
Total LBTT forecast	**666**	**530**	**-136**	**-83**	**-14**	**-39**
of which:						
Residential main rates	333	260	-73	-25	-9	-39
Higher rates	139	115	-24	-20	-4	0
Commercial	194	155	-39	-39	-1	0
Total LTT forecast	**254**	**211**	**-44**	**-36**	**16**	**-24**
of which:						
Residential main rates	124	87	-37	-26	23	-33
Higher rates	62	65	3	-12	4	10
Commercial	68	58	-9	3	-12	0

4 Landfill taxes

Introduction

4.1 Landfill tax is levied on all waste disposed of at a landfill site unless it is specifically exempt. Scottish landfill tax replaced the UK equivalent with effect from April 2015 while landfill disposals tax (LDT) came into effect in Wales from April 2018. The Scottish and Welsh Governments have so far matched the main rates set by the UK Government.[1]

Methodology

4.2 Our forecasts are driven by the tax base (the amount of waste sent to landfill) and the effective tax rate that will be paid (largely driven by policy decisions on rates, but also by the composition of waste sent to landfill as there are three different rates).[2] The volume of waste sent to landfill has been on a downward trend, both in absolute terms and relative to the size of the economy. Our forecast methodology involves three main steps:

- establishing an **in-year estimate** drawing on the latest administrative data (and other relevant sources) to estimate the level of receipts in the current year in progress;
- producing a **pre-measures forecast** using our forecast models, by multiplying the amount of liable waste sent to landfill (the tax base) by the relevant duty rate; and
- generating a post-measures forecast by adding the effects of any **new policy measures**.

4.3 Both the Scottish and Welsh forecast models take account of alternatives to landfill, either explicitly (as with future additions to incineration capacity) or implicitly (through assumptions about trends in waste sent to landfill). We assume that the tax rates for Scottish landfill tax and Welsh LDT rise in line with RPI inflation in each year of the forecast, consistent with each Government's default indexation assumptions (and also the UK Government's).

Scottish landfill tax forecast

4.4 Table 4.1 sets out our forecast for Scottish landfill tax receipts. The overall downward trend reflects increases in recycling and growth in alternative infrastructure such as incineration capacity. We have revised up receipts in 2021-22 by £14 million (13 per cent) relative to October, reflecting stronger-than-expected receipts in the first quarter of 2021-22. Receipts totalled £33 million in that quarter, rising from £26 million in the previous quarter and up

[1] Other than the treatment of payments to respective communities funds in lieu of tax, the fiscal effects of which are small, landfill taxation is very similar across the UK.
[2] More information on our landfill taxes forecasts is available in the 'forecasts in-depth' pages on our website.

76 per cent on the same period last year. We have assumed that this represents catch-up activity after receipts were depressed in 2020-21 and so the strength in receipts is not carried through to the rest of the forecast. The downward revision in the forecast from 2022-23 onwards is driven by increased incineration capacity.

4.5 The Scottish Government has legislated to ban biodegradable municipal waste (BMW) going to landfill from 31 December 2025. Based on our forecast for the composition of waste arising, we expect this to reduce Scottish receipts by £17 million in 2025-26 and by £71 million in 2026-27. We assume that the majority of this fall will reflect waste being diverted to England. The estimated effect of the ban is little changed from October.

Table 4.1: Scottish landfill tax forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
October forecast	106	109	107	90	93	77	18
March forecast	107	123	101	83	85	70	18
Change		**14**	**-6**	**-7**	**-8**	**-7**	**0**
of which:							
Outturn data		13	0	0	0	0	0
Determinants		1	-5	-4	-5	-4	0
Modelling and other		0	-2	-4	-4	-3	0

Welsh landfill disposals tax forecast

4.6 Table 4.2 presents our latest Welsh LDT forecast. Receipts in 2021-22 have been revised up by £6 million, £3 million of which relates to additional revenues in respect to landfill activity that took place in earlier years but is now expected to be brought to account in 2021-22. From 2022-23 onwards, the forecast has been revised up by £2 million a year relative to October as the remaining unexpected strength in outturn this year has been assumed to persist across the forecast period. This means receipts drop back in 2022-23 from their elevated level in 2021-22. There are indications that the underlying strength in receipts in 2021-22 – abstracting from the £3 million timing effect – relates to greater volumes of waste being sent to landfill after being rejected from recycling plants.

Table 4.2: Welsh LDT forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
October forecast	32	42	33	33	33	33	33
March forecast	32	47	35	35	35	35	34
Change		**6**	**2**	**2**	**2**	**2**	**2**
of which:							
2021-22 timing effect		3	0	0	0	0	0
Other changes		2	2	2	2	2	2

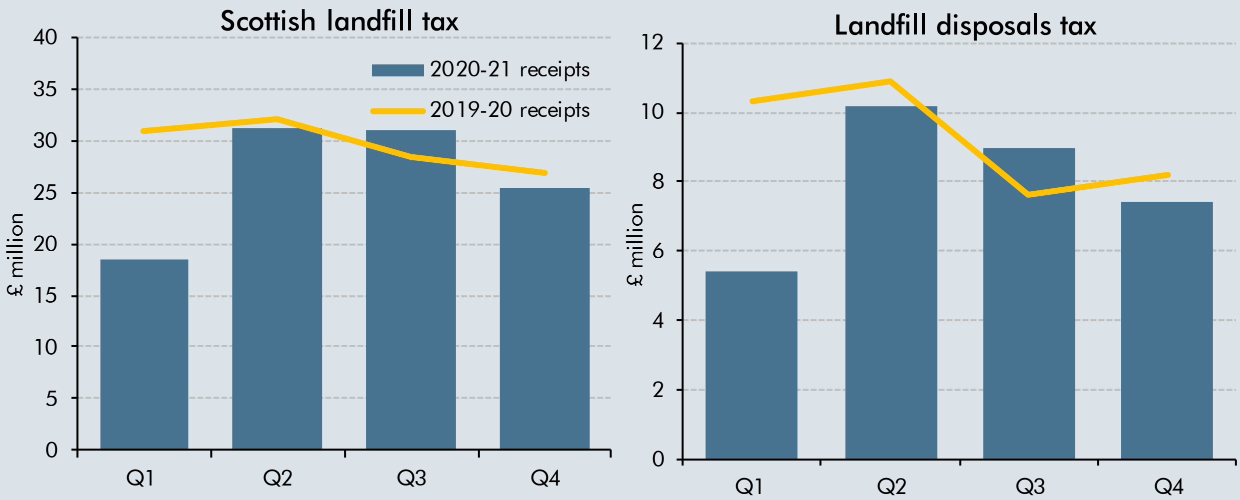
Box 4.1: Evaluating our forecasts for devolved landfill taxes

Table A compares our March 2020 forecasts for landfill tax receipts in 2020-21 in Scotland and Wales to the latest outturn data. It shows that outturn fell short of forecast in both Scotland and Wales, by £9 million (8 per cent) and £2 million (6 per cent) respectively. Both of these differences are entirely attributed to fiscal modelling, mainly reflecting the impact of the pandemic in the first quarter of the fiscal year. Receipts for both Scottish landfill tax and Welsh landfill disposal tax fell by over 40 per cent in the first quarter of 2020-21 relative to that quarter in 2019-20, with both recovering by the second quarter (see Chart A).

Table A: Devolved landfill taxes in 2020-21: March 2020 forecast versus outturn

	£ million					
	Forecast	Outturn	Difference	*of which:* Economic determinants	Fiscal modelling	Policy changes
Scottish landfill tax	116	107	-9	0	-9	0
Landfill disposals tax	34	32	-2	0	-2	0

Chart A: Devolved landfill tax quarterly receipts: 2019-20 and 2020-21



Source: Revenue Scotland, WRA, OBR

A Illustrative forecasts for taxes not yet devolved

A.1 In this annex we present illustrative forecasts for three taxes slated for devolution but yet to be devolved. The aggregates levy is due to be devolved to both Scotland and Wales, while air passenger duty and VAT assignment are only due to be devolved to Scotland.

Aggregates levy

A.2 The aggregates levy is a tax on the commercial exploitation of rock, sand and gravel. It is due from any business that quarries, dredges or imports these products. The UK Government has legislated to devolve the levy to Scotland and has committed to keeping devolution to Wales under review. Devolution was initially held up by litigation, which was concluded in February 2019. The levy was subsequently reviewed, with results published in July 2020.[1] The Government confirmed its commitment to devolution to Scotland, but no date has been set for that to take effect, so we continue to present illustrative forecasts.

A.3 We use the average of the most recent estimated Scottish and Welsh shares of UK-wide aggregates levy receipts produced by the ONS, the Scottish Government and HMRC. These all relate to 2018-19.[2] As Table A.1 shows, we have revised up revenue in Scotland and Wales modestly thanks to small upward revisions to UK-wide receipts.

Table A.1: Aggregates levy illustrative forecasts

	£ million					
	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
UK forecast						
October 2021	402	421	445	464	484	506
March 2022	400	421	453	474	494	516
Change	**-2**	**1**	**8**	**10**	**10**	**10**
Scottish forecast						
October 2021	61	64	68	71	74	77
March 2022	61	64	69	72	75	79
Change	**0**	**0**	**1**	**2**	**2**	**1**
Welsh forecast						
October 2021	29	30	32	34	35	37
March 2022	29	31	33	34	36	37
Change	**0**	**0**	**1**	**1**	**1**	**1**

[1] HM Treasury, *Review of the Aggregates Levy: summary of responses to the discussion paper and government next steps*, July 2020.
[2] For the Scottish share we use the average of all three estimates: from the ONS *Country and Regional Public Sector Finances* (15.3 per cent), the Scottish Government's *Government Expenditure and Revenues Scotland* (15.4 per cent) and HMRC's *Disaggregation of HMRC tax receipts* (15.0 per cent). For the Welsh share we use the average of the ONS (7.3 per cent) and HMRC (7.2 per cent) estimates. All are based on aggregate tonnage estimates from the *UK Minerals Yearbook*, hence referring to 2018-19 rather than a more recent year.

Air passenger duty

A.4 Air passenger duty (APD) is an excise duty that applies to passengers on flights leaving UK airports. Many passengers, including children or those connecting between flights, are exempt. The tax paid is determined by the final destination and class of travel.[3] The Scotland Act 2016 includes provisions for the devolution of APD to Scotland. Our Scottish APD forecast is illustrative as the final timing of devolution has not been set.

A.5 Our forecast is based on the average of the most recent estimated Scottish shares of total UK-wide APD receipts produced by the ONS, the Scottish Government and HMRC.[4] We have revised up our UK-wide forecast in each year since October, boosting our illustrative Scottish forecast (Table A.2). This reflects signs that the aviation industry is making a swifter recovery from pandemic-related disruption than we had previously assumed, which feeds through to higher passenger numbers in all years of the forecast.

Table A.2: Air passenger duty illustrative forecast

	£ million					
	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
UK forecast						
October 2021	1093	2076	3207	4399	4515	4774
March 2022	1298	2852	3610	4406	4585	4786
Change	**206**	**776**	**404**	**8**	**71**	**12**
Scottish forecast						
October 2021	105	199	308	422	433	458
March 2022	125	274	347	423	440	459
Change	**20**	**74**	**39**	**1**	**7**	**1**

VAT assignment

A.6 The Scotland Act 2016 makes provision for the first 10 percentage points of standard rate, and the first 2.5 percentage points of reduced rate, VAT receipts generated in Scotland to be assigned to the Scottish Government. VAT will continue to be collected by HMRC and the Scottish Government will not have the power to change the collection or administration of the VAT regime in Scotland, or to change VAT rates or the VAT base.

A.7 The UK and Scottish Governments initially agreed to commence VAT assignment from 2019-20 but this was delayed. Due to the recent economic climate the Scottish Government has agreed with the Treasury to continue delaying the implementation of VAT assignment until the review of the Scottish Government's Fiscal Framework has been completed.[5] In its

[3] Destinations fall into three bands based on distance from London. Band A applies to flights with a terminus less than 2,000 miles from London; Band B to flights with a terminus more than 2,000 miles but less than 5,500 miles from London; and Band C to flights with a terminus over 5,500 miles from London.
[4] The ONS *Country and Regional Public Sector Finances* estimates 9.4 per cent; the Scottish Government's *Government Expenditure and Revenues Scotland* estimates 9.3 per cent; while HMRC's *Disaggregation of HMRC tax receipts* estimates 10.2 per cent.
[5] Scottish Government, *Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy*, January 2021.

medium-term financial strategy, the Scottish Government set out proposals to consider other options, including the full devolution of VAT powers. In the absence of a date for VAT assignment or a confirmed position on any alternative policies we continue to produce illustrative forecasts of VAT assignment on the basis that was originally agreed.

A.8 The formal methodology for VAT assignment is being developed by HMRC, the Treasury and the Scottish Government. We have no role in validating or approving the chosen methodology. For this illustrative projection we take the latest estimated share, which relates to 2019, as our starting point and index this in line with population growth in Scotland relative to the UK as a whole. Table A.3 shows our latest illustrative projection for Scotland. Relative to October this has been revised up in 2021-22, reflecting strength in UK-wide VAT receipts. VAT receipts are then hit between 2022-23 and 2024-25 as consumer spending shifts to lower-rated energy bills from other goods and services that attract a higher average VAT rate – an effect that is partly offset in 2022-23 by measures announced by the UK Government in February to support households via council tax and energy bill rebates. For the purposes of these illustrative projections, we have assumed that these effects are felt uniformly in Scotland and the UK as a whole.

Table A.3: VAT assignment illustrative projection

	£ billion						
	Estimated outturn	Projection					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
UK	101.7	156.0	153.8	159.7	164.4	169.2	174.4
of which:							
Assigned to Scottish Government	4.1	6.2	6.1	6.3	6.5	6.7	6.9
VAT from Scotland retained by UK Government	4.1	6.2	6.1	6.3	6.5	6.7	6.9
VAT from the rest of the UK	93.5	143.6	141.6	147.1	151.4	155.9	160.7
	Per cent						
Assigned to Scottish Government	4.00	3.99	3.98	3.96	3.95	3.94	3.93
Scottish population share	8.1	8.1	8.1	8.1	8.0	8.0	8.0
Memo: index Scottish population share (2018-19 = 100)	*99.6*	*99.2*	*98.9*	*98.6*	*98.3*	*98.0*	*97.7*

B Forecasts required for the block grant adjustments

B.1 The block grant is a mechanism for transferring funds from the UK Government to the devolved administrations, as allocated from within the departmental spending limits set by the Treasury. The block grants for the Scottish and Welsh Governments are adjusted in accordance with their respective fiscal frameworks.[1] The OBR has no direct involvement in these spending decisions or block grant negotiations, but the spending settlements do draw on elements of our tax and spending forecasts.

B.2 This annex presents our forecasts for revenues from the devolved taxes and the UK Government's revenue from the taxes equivalent to those that have been devolved. For the devolved taxes covered in this report, the corresponding UK Government taxes are income tax liabilities excluding those on savings and dividend income, stamp duty land tax and landfill tax, all from England and Northern Ireland. We also set out our England and Wales forecasts for elements of social security spending that are devolved to Scotland.

B.3 Tables B.1 to B.4 compare our current forecasts for the devolved taxes to their UK Government equivalents, while Table B.5 reports our England and Wales social security forecasts. The differences between growth rates forecast in Scotland and Wales and those in the rest of the UK are generally modest in most years, but some are more noteworthy:

- As regards **income tax** (Table B.1), near-term differences largely reflect different policy settings in Scotland versus the rest of the UK – particularly in respect of the higher-rate threshold. In the longer term, growth rates are similar across countries, with the remaining differences largely down to assumptions about relative population growth. The exception to this is in 2024-25, when the cut in the basic rate of income tax from 20 to 19 per cent in England, Wales and Northern Ireland takes effect.

- As regards **property transaction taxes** (Table B.3), differences in near-term growth rates are heavily influenced by the strength or weakness of the latest receipts data and the assumptions we make about how transactions evolve as the effects of the pandemic and tax holidays unwind. In the later years of the forecast, growth rates are for the most part higher in Scotland and Wales than in England and Northern Ireland combined. This reflects the more progressive structure of the devolved taxes, which means more transactions fall into the higher tax bands as house prices rise.

[1] *The agreement between the Scottish Government and the United Kingdom Government on the Scottish Government's fiscal framework*, February 2016, and *The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework*, December 2016.

- As regards **landfill taxes** (Table B.4), the growth paths are uneven thanks to pandemic-related effects unwinding and the timing of new waste infrastructure coming on stream. The introduction of the biodegradable municipal waste ban in Scotland at the end of 2025 explains the large variation in growth rates in 2025-26 and 2026-27.

Table B.1: Income tax on non-savings, non-dividend income

	£ billion							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Whole UK NSND income tax	**176.8**	**186.7**	**208.4**	**226.7**	**238.2**	**245.2**	**259.4**	**272.8**
of which:								
Welsh Government income tax (WRIT basis)[1]	2.0	2.2	2.4	2.6	2.8	3.0	3.1	3.3
UK Government NSND income tax from Wales	2.6	2.9	3.2	3.6	3.8	3.8	4.1	4.3
Scottish income tax[1]	11.8	12.3	13.5	14.8	15.4	16.1	16.9	17.7
England and Northern Ireland NSND income tax	160.3	169.3	189.2	205.7	216.1	222.3	235.2	247.5
Whole UK NSND income tax excluding Scottish income tax	165.0	174.4	194.9	211.9	222.8	229.1	242.5	255.1
UK Government NSND income tax[2]	162.9	172.2	192.5	209.3	220.0	226.2	239.3	251.8
	Percentage change on a year earlier							
Whole UK NSND income tax		**5.6**	**11.6**	**8.8**	**5.0**	**3.0**	**5.8**	**5.2**
of which:								
Welsh Government income tax (WRIT basis)		6.9	10.6	9.6	6.0	5.6	5.8	5.0
UK Government NSND income tax from Wales		9.0	12.9	11.2	6.7	0.1	7.0	5.8
Scottish income tax		4.0	9.8	9.6	3.9	4.6	5.0	4.7
England and Northern Ireland NSND income tax		5.6	11.8	8.7	5.1	2.9	5.8	5.2
Whole UK NSND income tax excluding Scottish income tax		5.7	11.8	8.7	5.1	2.9	5.8	5.2
UK Government NSND income tax[2]		5.7	11.8	8.7	5.1	2.8	5.8	5.2

[1] Currently outturn data is only available for 2019-20, and 2020-21 remains a forecast.
[2] Whole UK NSND income tax excluding Scottish income tax and Welsh Government income tax (WRIT basis).

Table B.2: Welsh rates and England and Northern Ireland equivalent by band

	£ billion							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
England and Northern Ireland NSND income tax (WRIT basis)	**59.5**	**62.9**	**68.8**	**74.4**	**78.0**	**81.9**	**86.4**	**90.5**
of which:								
Basic rate	40.8	43.0	45.3	48.4	50.6	52.8	55.3	57.6
Higher rate	11.3	12.3	14.4	16.0	17.0	18.1	19.4	20.4
Additional rate	7.5	7.6	9.1	10.0	10.4	11.0	11.7	12.6
Welsh Rates	**2.0**	**2.2**	**2.4**	**2.6**	**2.8**	**3.0**	**3.1**	**3.3**
of which:								
Basic rate	1.8	1.9	2.0	2.2	2.3	2.4	2.5	2.7
Higher rate	0.2	0.3	0.3	0.4	0.4	0.4	0.5	0.5
Additional rate	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	Percentage change on a year earlier							
England and Northern Ireland NSND income tax (WRIT basis)		**5.7**	**9.4**	**8.1**	**4.9**	**5.0**	**5.4**	**4.8**
of which:								
Basic rate		5.5	5.2	7.0	4.6	4.4	4.6	4.2
Higher rate		9.3	17.1	11.2	5.9	6.5	7.1	5.2
Additional rate		1.0	20.7	9.0	5.0	5.6	6.3	7.1
Welsh Rates		**6.9**	**10.6**	**9.6**	**6.0**	**5.6**	**5.8**	**5.0**
of which:								
Basic rate		5.3	9.1	8.4	5.5	4.9	5.0	4.4
Higher rate		17.0	16.8	16.9	8.9	9.2	10.0	7.2
Additional rate		15.7	34.1	13.0	7.2	7.0	8.3	9.5

Table B.3: Property transactions taxes

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Whole UK property transaction taxes	**9,397**	**15,471**	**17,031**	**17,714**	**18,520**	**19,449**	**20,675**
of which:							
Land transaction tax (Wales)	212	390	412	431	453	482	514
LBTT (Scotland)	517	786	836	882	925	976	1,038
SDLT (England and Northern Ireland)	8,668	14,294	15,783	16,401	17,142	17,991	19,124
UK excluding Scottish LBTT	8,880	14,685	16,195	16,832	17,595	18,473	19,637
	Percentage change on a year earlier						
Whole UK property transaction taxes		**64.6**	**10.1**	**4.0**	**4.5**	**5.0**	**6.3**
of which:							
Land transaction tax (Wales)		83.9	5.5	4.7	5.0	6.4	6.7
LBTT (Scotland)		52.0	6.4	5.4	4.9	5.5	6.3
SDLT (England and Northern Ireland)		64.9	10.4	3.9	4.5	5.0	6.3
UK excluding Scottish LBTT		65.4	10.3	3.9	4.5	5.0	6.3

Table B.4: Landfill taxes

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Whole UK landfill taxes	**739**	**735**	**665**	**650**	**617**	**562**	**558**
of which:							
Landfill disposals tax (Wales)	32	47	35	35	35	35	34
Scottish landfill tax	107	123	101	83	85	70	18
Landfill tax (England and Northern Ireland)	600	564	529	532	497	458	506
UK excluding Scottish landfill tax	632	612	564	567	532	492	540
	Percentage change on a year earlier						
Whole UK landfill taxes		**-0.5**	**-9.6**	**-2.2**	**-5.1**	**-8.9**	**-0.8**
of which:							
Landfill disposals tax (Wales)		48.4	-25.7	-0.1	-0.8	-1.0	-0.4
Scottish landfill tax		15.9	-18.6	-17.4	2.1	-17.4	-74.5
Landfill tax (England and Northern Ireland)		-6.0	-6.3	0.6	-6.5	-7.9	10.5

Table B.5: Social security spending in England and Wales

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Carer's allowance	3,048	3,072	3,352	3,826	4,169	4,513	4,919
Personal independence payment	13,651	14,949	16,992	20,076	22,511	24,661	26,666
Disability living allowance	5,810	5,668	5,667	5,964	5,839	5,566	5,633
Attendance allowance	5,339	5,287	5,555	6,148	6,506	6,783	7,053
Industrial disablement benefit	706	688	693	726	723	710	699
Severe disablement allowance	72	63	59	57	51	44	38
Cold weather payment	99	43	46	46	46	46	46

Note: These forecasts are for spending in England and Wales on benefits which have now been devolved to Scotland. Cold weather payments is to be devolved in April 2022, Carer's allowance was devolved in September 2018, and all other benefits in this table were devolved in April 2020.