Office for
**Budget
Responsibility**

Devolved tax and spending forecasts

March 2023

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 With the exception of the two fully devolved taxes, 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 necessary 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. For the fully devolved taxes we are able to take account of outturns and use models specific to the taxes 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 March 2023 *EFO* describes the timetable that was followed in producing our UK-wide forecasts. The pre-measures economy forecast was closed on 20 February and the pre-measures fiscal forecast on 24 February. We then incorporated the effects of new policy announcements and finalised our forecasts on 10 March.

1.7 Our devolved tax and spending forecasts are consistent with the central forecasts for the UK economy and public finances presented in our March 2023 *EFO*. In the current context of high and volatile energy prices, and with the UK economy still feeling the after-effects of the pandemic, these forecasts are subject to elevated uncertainty. In the *EFO* we highlight three key sources of uncertainty: labour market participation; energy prices; and interest rates.

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 13 and 14 February; and
- a **final set of forecasts** was produced on 10 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 2023 forecasts to our November 2022 forecasts published alongside the Autumn Statement.

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 2020-21. While full liabilities data for the UK in 2021-22 are not yet available either, 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 Income tax recovered strongly in 2021-22, with UK-wide NSND income tax liabilities estimated to have increased by £27.4 billion (15.2 per cent) relative to 2020-21, a figure that has been revised up marginally (by £0.4 billion) relative to our November forecast. This reflects small upward revisions to self-assessment liabilities in 2021-22 reflecting the upside surprise in this year's self-assessment receipts relative to our previous forecast.

2.9 Revenues have been revised up by £2.9 billion in 2022-23, reflecting stronger PAYE receipts. The extent of the upward revision then rises through the forecast thanks to stronger pay growth in the near term, a shallower economic downturn and a stronger recovery. It then diminishes in the final two years of the forecast when the extent of the upward revision to wages and salaries relative to our November forecast also falls.

2.10 UK policies announced at the Budget cost amounts rising to £1.7 billion by 2027-28, with the abolition of the lifetime allowance on pension savings the largest single cost (costing £0.9 billion in 2027-28). However, this is partially offset by the 0.5 per cent increase to the level of wages and salaries by 2027-28 from the labour supply and other measures announced in the Budget, which together raise receipts by £1.3 billion a year by 2027-28.

Table 2.1: UK NSND income tax forecast: changes since November

	£ billion							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
November forecast	180.3	207.3	224.7	237.9	245.8	254.8	267.0	282.5
March forecast	180.3	207.7	227.7	243.4	251.3	259.7	270.6	283.2
Difference	**0.0**	**0.4**	**2.9**	**5.5**	**5.6**	**5.0**	**3.6**	**0.7**
of which:								
UK NSND pre-measures forecast		0.4	2.9	4.7	5.2	5.3	4.0	1.1
UK policies		0.0	0.1	0.7	0.4	-0.4	-0.4	-0.4
of which:								
Direct effects			0.1	-0.3	-0.6	-1.6	-1.7	-1.7
Indirect effects			0.0	1.0	1.1	1.2	1.3	1.3

Scottish and Welsh shares

2.11 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 850,000 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. In the pandemic-hit year of 2020-21 the Welsh share remained stable, but the Scottish share fell slightly (by 0.1 percentage points). These small changes might seem surprising given repeated lockdowns affected some sectors much more than others, alongside the different sectoral composition of economies in each country. But analysis in our November 2020 *Devolved tax and spending forecasts* suggested that despite these differences, the sectoral composition of output had remarkably little impact on the overall hit in each economy.

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	2020-21
Scotland	7.1	6.9	6.8	6.5	6.7	6.7	6.6
Wales	2.8	2.7	2.7	2.6	2.7	2.7	2.7

2.12 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 by 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. This 'population index' combines two separate indices – one each for adults aged below and above the State Pension age of 66 – that are weighted by the proportion of NSND income tax paid by each group. This aims to capture the effects of different trends in population ageing on top of different trends in the overall size of the population on the Scottish and Welsh shares of income tax.

- **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 2022-23 that reflect both historical patterns of RTI shares through the fiscal year and year-end bonus outturn (where continued strength in 2021-22 skewed 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 2020-21 outturn published in July 2022.

2.13 Table 2.3 reports our latest forecast for the Scottish share and revisions since November. It is presented on a pre-measures basis because the impact of new policy measures is captured in cash terms rather than via the share. The Scottish share is unchanged in the near term, but has been revised up by 0.25 percentage points on average from 2023-24 onwards. This is largely a result of our assumption that the higher-rate threshold now remains frozen across the forecast period (explained below), the impacts of Scottish Government policy decisions from its December Budget, and stronger growth in year-to-date RTI data. Together, these result in a rising Scottish share, in contrast to the falling share in our November forecast, with the share now reaching 6.57 per cent in 2027-28, revised up from 6.31 per cent in November (and rising from 6.50 per cent in 2021-22).

Table 2.3: Scottish share of NSND income tax forecast

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
November forecast	6.63	6.51	6.49	6.41	6.37	6.36	6.33	6.31
March forecast[1]	6.63	6.50	6.50	6.63	6.66	6.62	6.58	6.57
Difference	**0.00**	**-0.01**	**0.01**	**0.22**	**0.28**	**0.26**	**0.25**	**0.26**
RTI index (2020-21=100)		*98.3*	*98.1*	*98.1*	*98.1*	*98.1*	*98.1*	*98.1*
Index of relative population growth (2021-22=100)		*100.0*	*99.6*	*99.3*	*99.0*	*98.7*	*98.4*	*98.1*

[1] March 2023 is shown on a pre-measures basis because the effect of measures is captured in cash terms rather than via the share.

2.14 The Welsh share is also expected to rise gently across the forecast period, thanks in part to the frozen personal allowance raising proportionately more revenue in Wales than in the UK as a whole. Our forecast is little changed from November, down by just 0.01 percentage points from 2024-25 onwards (again on a pre-measures basis).

Table 2.4: Welsh share of NSND income tax forecast

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
November forecast	1.19	1.16	1.16	1.17	1.19	1.19	1.18	1.18
March forecast[1]	1.19	1.16	1.16	1.17	1.18	1.18	1.18	1.18
Difference	**0.00**	**0.00**	**0.00**	**0.00**	**-0.01**	**-0.01**	**-0.01**	**-0.01**
RTI index (2020-21=100)		*97.5*	*97.4*	*97.4*	*97.4*	*97.4*	*97.4*	*97.4*
Index of relative population growth (2021-22=100)		*100.0*	*100.0*	*99.9*	*99.9*	*99.8*	*99.7*	*99.6*

[1] March 2023 is shown on a pre-measures basis because the effect of measures is captured in cash terms rather than via the share.

Scottish forecast

2.15 Table 2.5 presents our latest Scottish income tax forecast and the changes since November. Liabilities are up in all years and by an average of £905 million (5.5 per cent) from 2023-24. **Scottish share modelling** accounts for around three-quarters of the overall upward revision, and can be broken down into the following three drivers:

- Switching to an assumption that the **higher rate-threshold remains frozen** at £43,662 over the forecast period, relative to our previous assumption that it rises in line with CPI inflation. This aligns our baseline assumption for the higher-rate threshold with the Scottish Fiscal Commission's (SFC's) and follows successive freezes in recent years. This switch has been agreed with the Scottish Government. In the absence of this assumption, we would expect the threshold to rise to £50,686 by 2027-28 (£7,024 higher than with it frozen). This change explains around two-thirds of the overall increase in SIT revenues and 90 per cent of the change to Scottish shares, raising an average of £614 million from 2023-24 onwards, and reaching £703 billion a year by 2027-28.

- **Scottish Government policies** also contribute to the upward revision to liabilities via Scottish share modelling. The main effect is via the increase to the higher-rate SIT rate (by a penny to 42p) from April 2023, which yields £126 million a year by 2027-28 and accounts for around two-thirds of the impact of Scottish policies. The additional rate has also been increased by a penny, to 47p, while the additional-rate threshold has been reduced, from £150,000 to £125,140 in line with the UK Government decision in the Autumn Statement. All other thresholds have been frozen, rather than rising with CPI inflation as assumed in the baseline. The cumulative yield from these measures increases revenues by amounts rising to £191 million in 2027-28.

- **Other Scottish share changes** reduce liabilities by £114 million a year on average from 2023-24. This is largely due to our assumption of higher earnings growth for higher-rate taxpayers (who make up a greater share of taxpayers in England), which together with the UK-wide higher-rate threshold freeze, results in higher UK revenues relative to those in Scotland.

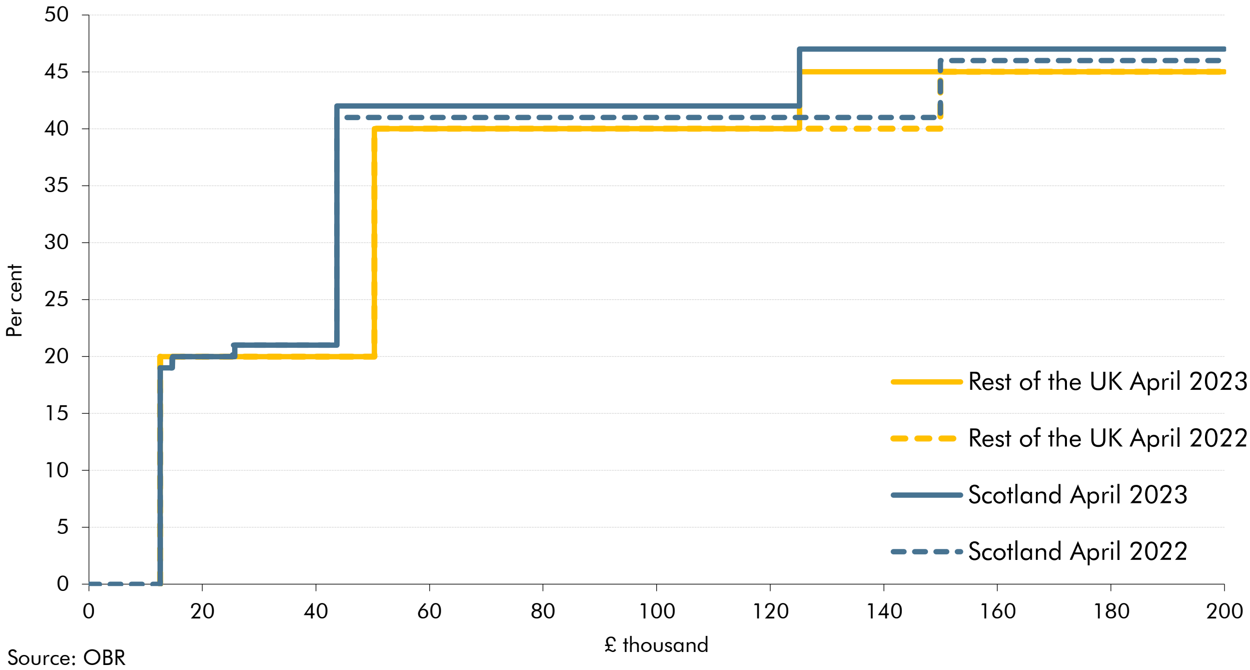
2.16 Changes to our **UK NSND forecast** (described above) result in a more modest upward revision to revenues of £238 million a year on average. **UK Government policies** partly offset this, reducing Scottish liabilities by £51 billion a year by 2027-28. This is largely due to the pensions tax allowance changes, whereas the indirect effects of UK policies (also described above) serve to reduce the costs by raising total wages and salaries.

Table 2.5: Scottish NSND income tax forecast: changes since November

	£ million							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
November forecast	11,948	13,501	14,584	15,247	15,661	16,195	16,908	17,822
March forecast	11,948	13,507	14,800	16,117	16,721	17,165	17,785	18,570
Difference	**0**	**6**	**216**	**870**	**1,061**	**971**	**876**	**748**
of which:								
Scottish share modelling		-23	27	542	736	700	694	755
of which:								
Scottish higher-rate threshold baseline freeze		0	0	420	650	644	652	703
Scottish Government policies		0	13	179	187	184	186	190
Other Scottish share modelling		-23	15	-58	-101	-128	-145	-138
UK NSND forecast changes		29	185	289	307	318	231	44
Effects of UK policies		0	4	39	18	-48	-48	-51

2.17 As a consequence of decisions taken by both the UK and Scottish Governments over the past year, the income tax schedule faced by taxpayers in each have changed materially – particularly so for Scottish taxpayers on higher incomes. Chart 2.1 shows the marginal income tax rates paid on different incomes in 2023-24 by Scottish taxpayers and by those in the rest of the UK. The largest increases relative to this year's tax schedule are for those on incomes between £125,140 and £150,000, due to the lower additional-rate threshold for both Scottish and rest-of-UK taxpayers. But all Scottish taxpayers with incomes of £43,662 or more will pay more as a result of the higher and additional rates being raised by 1p – to rates that, from April 2023, will be 2p higher than those applied in the rest of the UK

Chart 2.1: Scottish versus rest of UK income tax schedule



Source: OBR

Comparison with Scottish Fiscal Commission forecasts

2.18 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.

2.19 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 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.

2.20 Both forecasts now assume the higher-rate threshold in Scotland remains constant in cash terms, so this removes a key source of difference discussed in our November forecast. We agreed this approach with the Scottish Government. Scottish Ministers will continue to decide annually as part of the Scottish Budget whether to raise this and other thresholds.

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. We anticipate higher nominal earnings growth in the near term, reflecting the latest outturns. But in the medium term we expect that lower employment and inflation will reduce earnings growth, resulting in cumulative growth in nominal earnings by 2027-28 that is 1.5 percentage points lower than the SFC's forecast. Conversely, we forecast lower near-term growth in employment, but then expect it to recover more strongly due to higher migration and UK Government policies announced in the Budget that increase labour supply. That leaves cumulative growth in employment 1.4 percentage points higher in our forecast than the SFC's by 2027-28.

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

	Percentage change on a year earlier						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Employment							
SFC	1.7	1.7	-0.5	-0.2	0.3	0.5	0.4
OBR	0.7	0.8	-0.1	0.5	0.9	0.8	0.7
Difference	-1.0	-0.9	0.4	0.6	0.6	0.4	0.3
Average nominal earnings							
SFC	4.2	4.4	4.1	2.5	2.1	2.7	3.2
OBR	6.8	5.8	4.1	1.7	1.7	2.1	2.5
Difference	2.7	1.4	0.0	-0.8	-0.5	-0.7	-0.7
Wages and salaries							
SFC[1]	6.7	6.3	3.6	2.3	2.5	3.2	3.6
OBR	8.4	6.6	4.0	2.0	2.4	2.6	3.0
Difference	1.8	0.3	0.4	-0.3	-0.1	-0.6	-0.6
	Index: 2021-22 = 100						
Employment							
SFC		101.7	101.2	101.1	101.4	101.9	102.3
OBR		100.8	100.7	101.2	102.1	103.0	103.7
Difference		-0.9	-0.5	0.1	0.7	1.1	1.4
Average nominal earnings							
SFC		104.4	108.7	111.4	113.8	116.9	120.5
OBR		105.8	110.1	111.9	113.8	116.2	119.0
Difference		1.4	1.4	0.6	0.1	-0.7	-1.5
Wages and salaries							
SFC[1]		106.3	110.2	112.8	115.5	119.2	123.5
OBR		106.6	110.8	113.1	115.8	118.8	122.3
Difference		0.3	0.7	0.3	0.2	-0.4	-1.2

[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 and the SFC's respective forecasts for Scottish income tax. We forecast stronger growth through to 2023-24 (with cumulative growth 2.6 percentage points higher by that stage), due to our expectation of higher earnings growth in the near term. This difference then reduces, with cumulative growth in liabilities by the end of the forecast period 7.3 percentage points lower than in the SFC's forecast. This is largely due to our weaker forecast for cumulative growth in wages and salaries relative to the SFC's, which as noted above is concentrated in slower growth in average earnings from 2024-25 onwards. This combines with the progressive income tax schedule to result in less fiscal drag in our forecast too. Finally, our forecast also incorporates the cost of new policies announced in the UK Budget, which reduce cumulative growth to 2027-28 by 1.1 percentage points.

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

	£ million							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
SFC								
SIT (a)	11,948	13,337	14,575	15,810	16,633	17,370	18,247	19,437
OBR								
UK NSND	180,305	207,742	227,671	243,376	251,337	259,740	270,621	283,161
of which:								
UK ex SIT and WRIT	166,217	191,833	210,229	224,402	231,634	239,494	249,634	261,247
WRIT	2,140	2,403	2,642	2,857	2,982	3,081	3,202	3,344
SIT (b)	11,948	13,507	14,800	16,117	16,721	17,165	17,785	18,570
OBR vs SFC (b-a)	0	170	226	307	89	-205	-462	-867
	Percentage change on a year earlier							
SFC								
SIT (a)		11.6	9.3	8.5	5.2	4.4	5.1	6.5
OBR								
UK ex SIT and WRIT		15.4	9.6	6.7	3.2	3.4	4.2	4.7
SIT (b)		13.0	9.6	8.9	3.8	2.7	3.6	4.4
OBR vs SFC (b-a)		1.4	0.3	0.4	-1.5	-1.8	-1.4	-2.1
	Index (2020-21=100)							
SFC								
SIT (a)		111.6	122.0	132.3	139.2	145.4	152.7	162.7
OBR								
UK ex SIT and WRIT		115.4	126.5	135.0	139.4	144.1	150.2	157.2
SIT (b)		113.0	123.9	134.9	140.0	143.7	148.9	155.4
OBR vs SFC (b-a)		1.4	1.9	2.6	0.7	-1.7	-3.9	-7.3

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 November, while Table 2.9 shows the forecast by tax band. We have revised up our Welsh forecast materially in the near term (with the revision peaking at £61 million, or 2.2 per cent, in 2023-24) but then by diminishing amounts through to 2026-27, and revised it down modestly in 2027-28. This largely reflects upward revisions to our UK-wide NSND forecast, which are partly offset by downward revisions to the Welsh share.

2.24 UK Government policy changes increase Welsh liabilities in every year of the forecast and by £6 million in 2027-28. This is largely due to the boost to receipts in Wales from demand and supply-side effects of measures announced in the Budget outweighing their direct cost, notably in respect of pensions tax allowances. This contrasts with the impact of the Budget on UK-wide and Scottish receipts, where the direct costs outweigh the indirect benefits by the end of the forecast period. That reflects, in particular, the lower proportionate cost in Wales of abolishing the pensions lifetime allowance, which in turn reflects the smaller proportion of very high earners in Wales relative to the UK as a whole.

Table 2.8: Welsh rates of income tax: changes since November

	£ million							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
November forecast	2,140	2,401	2,604	2,795	2,927	3,027	3,162	3,348
March forecast	2,140	2,403	2,642	2,857	2,982	3,081	3,202	3,344
Difference	**0**	**2**	**37**	**61**	**56**	**54**	**40**	**-4**
of which:								
Welsh share modelling		-3	4	-8	-18	-17	-15	-23
UK NSND forecast changes		5	33	58	63	65	48	13
Effects of UK policies		0	1	12	10	7	7	6

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

	£ million							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	2,140	2,403	2,642	2,857	2,982	3,081	3,202	3,344
of which:								
Basic rate	1,843	2,036	2,219	2,393	2,497	2,576	2,667	2,770
Higher rate	251	308	358	376	394	411	436	468
Additional rate	46	59	65	88	92	95	100	106
	Per cent							
Basic rate	86.1	84.7	84.0	83.8	83.7	83.6	83.3	82.8
Higher rate	11.7	12.8	13.6	13.2	13.2	13.3	13.6	14.0
Additional rate	2.2	2.5	2.4	3.1	3.1	3.1	3.1	3.2

Box 2.1: Evaluating our forecasts for the 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 UK-wide income tax outturn data and improved our use of RTI data. Our March 2022 forecast for 2020-21 bucked this trend, due to income tax outturn for both PAYE and self-assessment receipts providing a worse guide to the eventual outturn for non-savings, non-dividend receipts than it had in previous years. 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 for 2020-21 was published in July 2022, so we can now evaluate our forecasts for Scottish income tax and the Welsh rates in that year. 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 2020 forecasts for Scottish income tax and the Welsh rates in 2020-21 to the eventual outturn. It shows that:

- **Scottish income tax liabilities** were £844 million (6.6 per cent) lower than forecast. This difference is roughly equally split between economic determinants and fiscal modelling. Economic determinants generated a shortfall of £417 million. This reflects the 3.9 per cent shortfall in UK-wide wages and salaries in 2020-21 relative to our March 2020 forecast as a result of the pandemic. Fiscal modelling contributed a further £427 million 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, which was materially lower than expected, at 6.63 per cent versus the 6.82 per cent forecast.
- **Liabilities for the Welsh rates** were a more modest £30 million (1.4 per cent) lower than forecast. The shortfall associated with economic determinants more than explains the overall shortfall, accounting for £78 million (3.6 per cent) of the difference, again reflecting the hit to wages and salaries from the pandemic and lockdowns. Fiscal modelling partly offset this downside surprise, generating a surplus of £48 million, which reflected the Welsh share of UK outturn being materially higher than expected, at 1.19 per cent versus the 1.16 per cent forecast.

Policies announced after our March 2020 forecast had almost no impact on the forecast differences in either Scotland or Wales. This reflected the fact that pandemic-related support measures for income tax focused on postponing the timing of payments for self-assessment taxpayers rather than policies that reduced taxpayers' underlying tax liabilities.

Table A: Scottish income tax and Welsh rates of income tax in 2020-21: March 2020 forecast versus outturn

	£ million					
	Forecast	Outturn	Difference	*of which:*		
				Economic determinants	Fiscal modelling	Policy changes
Scottish income tax	12,792	11,948	-844	-417	-427	0
Welsh rates of income tax	2,170	2,140	-30	-78	48	0

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. We assume that Scottish and Welsh prices and transactions will move in line with those for the UK as a whole unless there are clear reasons to depart from that, since prices have historically tended to move broadly in line with each other. In this forecast, we have assumed different rates of house price inflation in the short term in each market, reflecting relatively substantial divergences in the latest outturn data.

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 2022-23;
- next, we produce our **pre-measures forecast**, drawing on several models to project different property markets over five years and then calculate 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 Our LBTT and LTT forecasts are based on the property market forecasts shown in Table 3.1. In 2022-23 and 2023-24, these are specific to Scotland and Wales in terms of house prices, while all other years and variables are the same as the UK-wide forecasts published in our *Economic and fiscal outlook*.[2]

3.5 House prices have been stronger in outturn in Wales than in the UK as a whole in the first half of 2022-23 but with signs of this strength moderating. We therefore assume that Welsh

[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.
[2] This excludes the temporary impact of the time-limited increase in the nil-rate threshold for stamp duty land tax in England and Northern Ireland on transactions, as this measure does not apply in Scotland or Wales.

house price inflation is 1.2 percentage points higher than across the UK as a whole in 2022-23 but that it is the same thereafter. In contrast, Scottish house prices have been weaker than UK-wide house prices in 2022-23. We therefore assume that Scottish house price inflation is 2.2 percentage points lower than in the UK as a whole in 2022-23 and 1.1 percentage points lower in 2023-24, with no difference from UK-wide house price inflation thereafter. In all markets we expect house prices to remain lower than we thought a year ago as a result of the squeeze on real incomes and higher mortgage rate rises. Our forecast for housing transactions is the same across all countries. They are expected to fall sharply in the near term, in line with sharp falls in mortgage approvals in recent months and the downturn in house prices next year. They then recover to more historically normal levels by the forecast horizon. Revisions since November are uneven across years, reflecting stronger outturn and the profile of broader revisions to our economy forecast.

3.6 Commercial prices and transactions follow a similar profile to the residential market, albeit with a more modest downturn and recovery. Revisions since November are largest in the near term, where outturn in 2022-23 points to higher prices but fewer transactions than we expected, but we expect growth in both prices and transactions to be weaker in 2023-24.

Table 3.1: Forecasts for property prices and transactions: changes since November

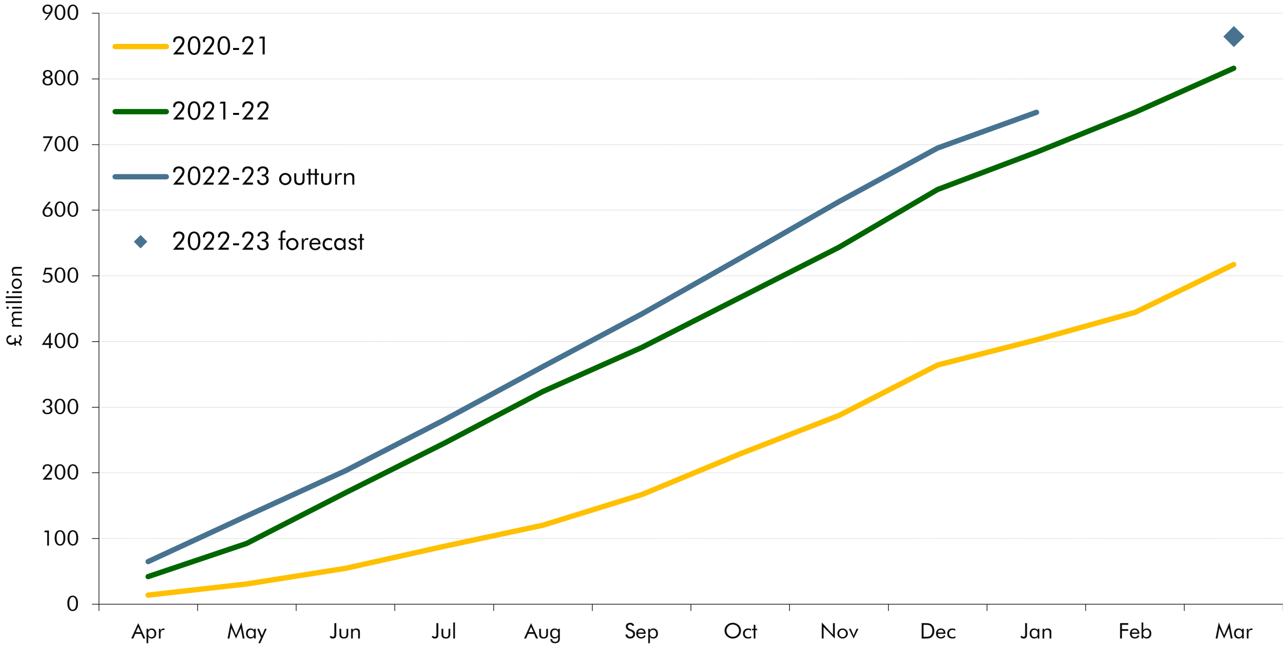
	Percentage change on a year earlier						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Scottish house prices							
November forecast	9.6	9.2	-4.2	-4.0	2.1	3.2	3.6
March forecast	9.0	7.6	-5.7	-3.9	2.2	3.5	3.6
Difference	**-0.6**	**-1.7**	**-1.5**	**0.1**	**0.1**	**0.3**	**0.0**
Welsh house prices							
November forecast	9.6	9.2	-4.2	-4.0	2.1	3.2	3.6
March forecast	9.0	11.0	-4.6	-3.9	2.2	3.5	3.6
Difference	**-0.6**	**1.7**	**-0.4**	**0.1**	**0.1**	**0.3**	**0.0**
Housing transactions							
November forecast	15.7	-14.0	-15.4	0.6	11.0	15.2	8.6
March forecast	15.7	-10.5	-15.3	-2.3	11.8	11.5	7.7
Difference	**0.0**	**3.5**	**0.1**	**-2.9**	**0.9**	**-3.6**	**-0.8**
Commercial property prices							
November forecast	12.4	-0.6	-3.2	2.2	0.9	1.5	1.9
March forecast	12.4	1.2	-4.6	1.8	1.0	1.2	1.7
Difference	**0.0**	**1.8**	**-1.4**	**-0.4**	**0.1**	**-0.3**	**-0.3**
Commercial transactions							
November forecast	22.8	-3.0	-5.1	0.9	6.2	6.4	2.0
March forecast	22.7	-4.9	-8.0	0.6	7.7	5.2	1.8
Difference	**-0.1**	**-1.9**	**-2.9**	**-0.4**	**1.5**	**-1.2**	**-0.1**

Scottish land and buildings transaction tax

Latest LBTT outturn data

3.7 Total LBTT receipts in the first ten months of 2022-23 are up 9 per cent relative to 2021-22 (and 89 per cent higher than the lockdown-depressed 2020-21). But this year's strength has been moderating in recent months, and we expect receipts growth to slow further over the remainder of the year as the housing market downturn works through to revenues. This leaves receipts in 2022-23 up £48 million (5.9 per cent) on 2021-22.

Chart 3.1: Cumulative monthly LBTT receipts: 2020-21 to 2022-23



Source: Revenue Scotland, OBR

LBTT forecast

3.8 Table 3.2 sets out our latest LBTT forecast compared to November.[3] We have revised up our 2022-23 forecast by £13 million in light of stronger in-year growth in receipts, which we expect to push through to next year. This results in a marginally shallower fall than we forecast in November with a peak-to-trough decline of £183 million (21.2 per cent). Despite this upward revision, receipts do not surpass 2022-23 levels until 2026-27.

[3] These figures are presented on the Scottish Fiscal Commission's time-shifted basis that attempts to align them to when transactions took place rather than when they are recorded by Revenue Scotland (therefore differing slightly from those in Chart 3.1).

Table 3.2: Land and buildings transaction tax forecast: changes since November

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Total LBTT							
November forecast	799	852	697	676	765	901	1014
March forecast	807	865	711	681	779	887	982
Difference		**13**	**15**	**6**	**14**	**-15**	**-32**
Residential LBTT (excluding ADS)							
November forecast	419	478	370	340	395	487	570
March forecast	418	466	348	322	374	443	510
Difference		**-12**	**-22**	**-19**	**-21**	**-44**	**-59**
Additional dwellings supplement (ADS)							
November forecast	131	133	107	108	125	150	168
March forecast	141	171	166	157	184	208	227
Difference		**39**	**59**	**49**	**58**	**58**	**58**
Commercial LBTT							
November forecast	250	241	220	228	244	265	276
March forecast	248	227	198	203	221	236	245
Difference		**-14**	**-22**	**-24**	**-23**	**-28**	**-31**

Residential LBTT forecast (including the additional dwellings supplement)

3.9 Table 3.3 shows the sources of revisions to our residential LBTT forecast since November. Receipts have been revised up in most years, by an average of £24 million a year (4.2 per cent). The upward revision reflects recent stronger-than-expected outturn growth, alongside the Scottish Government's decision to increase the additional dwelling supplement (ADS) rate from 4 to 6 per cent from 16 December 2022. This policy affects existing residential property owners who purchase an additional property exceeding £40,000 in value, and is the main factor in our ADS forecast being revised up by £5 million a year from 2023-24 onwards. These upward revisions are partially offset by the effects of lower house price inflation and transaction volumes described above.

Table 3.3: Residential LBTT forecast (including ADS): changes since November

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
November forecast	549	611	477	448	521	637	738
March forecast	559	638	514	478	558	651	737
Difference		**27**	**37**	**30**	**37**	**14**	**-1**
of which:							
Price changes		-17	-27	-24	-25	-27	-30
Transaction changes		6	-1	-6	-5	-25	-33
Outturn data and modelling		25	33	34	34	28	23
Raise ADS rate from 4 to 6 per cent		12	32	26	33	38	39

Commercial LBTT forecast

3.10 Table 3.4 sets out the changes to our commercial LBTT forecast since November. Receipts have been revised down in all years and by an average of £26 million a year (10.5 per cent) from 2023-24 onwards. This reflects lower-than-expected in-year receipts data, which are down 9.4 per cent on 2021-22 levels in the first ten months of the year. We assume that this will persist into future years, when weaker commercial prices and transactions also contribute to the downward revision.

Table 3.4: Commercial LBTT forecast: changes since November

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
November forecast	250	241	220	228	244	265	276
March forecast	248	227	198	203	221	236	245
Difference		**-14**	**-22**	**-24**	**-23**	**-28**	**-31**
of which:							
Price changes		2	-1	-2	-2	-4	-5
Transaction changes		-2	-8	-9	-7	-10	-10
Outturn data and modelling		-14	-12	-13	-14	-15	-16

Comparison with the Scottish Fiscal Commission's latest forecast

3.11 Table 3.5 compares the Scottish Fiscal Commission's (SFC's) latest forecast, published in December, to ours. We both produce our forecasts 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. Our forecast is an average of £32 million a year lower than the SFC's between 2023-24 and 2027-28, with differences in forecasts for residential main rates receipts explaining most of this difference (£28 million). Our weaker forecast for commercial receipts (£11 million lower) is partly offset by a stronger ADS forecast (£7 million higher). The overall difference between our forecasts largely reflects our weaker outlook for transactions and prices, particularly in light of the latest house price data.

Table 3.5: Comparison between Scottish Fiscal Commission and OBR forecasts

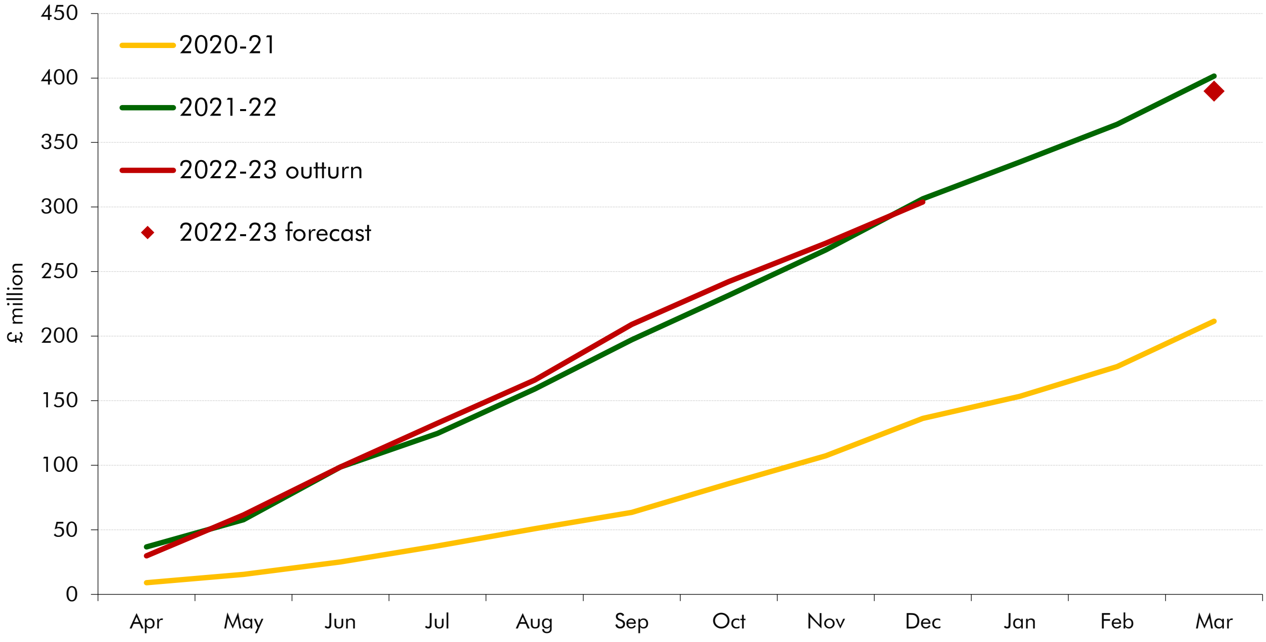
	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Total LBTT							
SFC December 2022	807	850	774	728	794	910	995
OBR March 2023	807	865	711	681	779	887	982
Difference		**15**	**-62**	**-47**	**-16**	**-23**	**-13**
Residential LBTT (excluding ADS)							
SFC December 2022	418	465	392	360	394	467	524
OBR March 2023	418	466	348	322	374	443	510
Difference		**1**	**-44**	**-38**	**-20**	**-23**	**-13**
Additional dwellings supplement (ADS)							
SFC December 2022	141	155	165	151	172	202	216
OBR March 2023	141	171	166	157	184	208	227
Difference		**16**	**0**	**6**	**11**	**5**	**11**
Commercial LBTT							
SFC December 2022	248	229	216	218	228	241	255
OBR March 2023	248	227	198	203	221	236	245
Difference		**-2**	**-19**	**-15**	**-7**	**-5**	**-10**

Welsh land transaction tax forecast

Latest LTT outturn data

3.12 LTT receipts in the first nine months of 2022-23 have largely tracked the previous year, with year-to-date receipts down £2.4 million (0.8 per cent) on 2021-22 levels, having been up £2.1 million (6.1 per cent) halfway through the year. We expect receipts to remain subdued over the remainder of this year, resulting in total receipts in 2022-23 being £11.6 million (2.9 per cent) below 2021-22 outturns]. That would still represent an increase of 84 per cent on outturn receipts in 2020-21, which were heavily affected by the pandemic.

Chart 3.2: Cumulative monthly LTT receipts: 2020-21 to 2022-23



Source: WRA, OBR

LTT forecast

3.13 Table 3.6 sets out our latest forecast for LTT and its components. Relative to November, receipts are little changed in 2022-23, but have been revised down from 2023-24 onwards, by an average of £15 million (4.3 per cent). This largely reflects downward revisions to commercial LTT receipts in every year.

Table 3.6: Land transaction tax forecast: changes since November

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Total LTT							
November forecast	402	389	310	297	337	399	449
March forecast	402	390	300	283	327	379	425
Difference		**0**	**-10**	**-14**	**-10**	**-20**	**-24**
Residential (excluding additional properties)							
November forecast	181	198	146	131	153	189	223
March forecast	181	202	145	129	153	185	217
Difference		**4**	**-1**	**-2**	**0**	**-5**	**-7**
Additional properties							
November forecast	91	81	63	62	73	88	99
March forecast	91	85	65	62	75	88	98
Difference		**4**	**2**	**0**	**2**	**-1**	**-1**
Commercial							
November forecast	130	110	100	104	112	121	126
March forecast	130	103	89	92	100	107	111
Difference		**-7**	**-11**	**-12**	**-12**	**-14**	**-16**

Residential LTT forecast

3.14 Table 3.7 sets out the changes in our residential LTT forecasts since November. Residential receipts have been revised up modestly in 2022-23 and 2023-24, reflecting upward revisions to our forecasts for Welsh house prices and transactions. But receipts have been revised down at the forecast horizon as the boost from housing market determinants declines, whereas the weakness from the shortfall in the effective tax rate in 2022-23 (the 'outturn data and modelling' row in the table) is assumed to persist.

Table 3.7: Residential LTT: changes since November

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
November forecast	272	279	209	193	225	278	322
March forecast	272	287	210	191	227	272	314
Difference		**8**	**1**	**-1**	**2**	**-5**	**-8**
of which:							
Price changes		9	4	4	6	9	10
Transaction changes		11	5	2	5	-3	-6
Outturn data and modelling		-11	-8	-7	-9	-11	-12

Commercial LTT forecast

3.15 Table 3.8 shows changes in our commercial LTT forecast relative to November. Receipts have been revised down in all years and by an average of £13 million (11.6 per cent) a year from 2023-24 onwards. This reflects the combination of weaker-than-expected in-year data and a weaker outlook for transactions across the forecast period. This means our forecast for commercial receipts does not surpass the peak from 2021-22 in any year.

Table 3.8: Commercial LTT: changes since November

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
November forecast	130	110	100	104	112	121	126
March forecast	130	103	89	92	100	107	111
Difference		**-7**	**-11**	**-12**	**-12**	**-14**	**-16**
of which:							
Price changes		2	0	0	0	0	-1
Transaction changes		-2	-5	-5	-4	-6	-6
Outturn data and modelling		-8	-7	-7	-8	-8	-8

Box 3.1: Evaluating our forecasts for the devolved property taxes

Property transaction tax receipts in both Scotland and Wales rebounded far more sharply in 2021-22 from the pandemic disruption the previous year than our March 2021 forecasts assumed. Outturn exceeded our forecasts by £157 million (24 per cent) for LBTT in Scotland and by a proportionally even larger £142 million (55 per cent) for LTT in Wales (Table A).

Scottish LBTT

The £157 million outperformance relative to our overall LBTT forecast reflects stronger performance across all three of the individual LBTT markets:

- **Residential main rates** exceeded our forecast by £52 million (14 per cent) and account for around one-third of the overall outperformance. This was more than explained by the higher-than-expected growth in the value of property transactions, which exceeded our forecast by a wide margin. On its own, the outperformance of transaction values would have resulted in receipts exceeding our forecast by £126 million. But this was partly offset by other factors, including the composition of residential property transactions by price, which offset £74 million of that upside surprise.
- **Higher rates on additional properties** outperformed our forecast by £20 million (16 per cent). This was once again more than explained by the value of transactions exceeding our forecast, accounting for £17 million of the difference.
- **Commercial receipts** exceeded our forecast by £85 million (52 per cent), accounting for over half of the overall outperformance. In contrast to the residential markets, this upside surprised reflected both higher-than-expected growth in the value of transactions and those transactions proving more tax-rich than anticipated.

Welsh LTT

The £142 million outperformance relative to our overall March 2021 LTT forecast also reflects strong performance in all three markets. Taking each in turn:

- **Residential main rates** outperformed our forecast by £50 million (38 per cent), accounting for around a third of the overall surplus. This was more than explained by house prices exceeding our forecast by a wide margin (explaining £53 million of the difference). The upside surprise in Welsh house prices was greater than that in UK-wide house prices, which our February 2023 *Welsh taxes outlook (WTO) update* highlighted may have been the result of a greater 'race for space' in Wales over the pandemic period than in the rest of the UK. Compositional impacts also contributed a small amount, due to the stronger performance of higher-price transactions. Policy changes announced after this forecast partly offset these effects, reducing receipts by £14 million due to the extension of the temporary LTT holiday until 30 June 2021.
- **Higher rates on additional properties** outperformed our forecast by £16 million (17.9 per cent). This was once again more than explained by the value of transactions outperforming our forecast, contributing £16 million of the surplus. As highlighted in our

December *WTO*, some of the remaining difference will reflect compositional differences in the distribution of transactions relative to what our forecast assumed.

- **Commercial receipts** exceeded our forecast by a very large margin – £78 million, or 149 per cent. This was once again largely explained by the rapid rebound in prices and transactions in 2021-22, which was far more robust than we expected, accounting for £71 million of the surplus. Several very-high-value property transactions in 2021-22 also contributed to the fiscal modelling difference of £7 million.

Table A: Devolved property taxes in 2021-22: March 2021 forecast versus outturn

	£ million					
	Forecast	Outturn	Difference	*of which:*		
				Economic determinants	Fiscal modelling	Policy changes
Total LBTT forecast	**650**	**807**	**157**	**195**	**-38**	**0**
of which:						
Residential main rates	367	418	52	126	-74	0
Higher rates	121	141	20	17	3	0
Commercial	163	248	85	52	33	0
Total LTT forecast	**260**	**402**	**142**	**140**	**14**	**-12**
of which:						
Residential main rates	131	181	50	53	11	-14
Higher rates	77	91	14	16	-4	2
Commercial	52	130	78	71	7	0

4 Landfill taxes

Introduction

4.1 Landfill taxes are 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 down receipts in 2022-23 by £9 million (7.6 per cent) relative to November, reflecting weaker-than-expected outturn. But we have revised the forecast up from 2024-25 onwards, in part due to an expectation that ash liable to standard-rated

[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.

landfill tax from incineration plants will begin to be landfilled in Scotland from that year. This also helps to drive a year-on-year rise in the forecast in 2024-25, the only rise in receipts in recent years other than the rebound in 2021-22 from the pandemic-driven drop the preceding year. There is some uncertainty around this assumption.

4.5 The Scottish Government has legislated to ban biodegradable municipal waste (BMW) going to landfill with effect from 31 December 2025. This explains the majority of the sharp fall in Scottish receipts from £83 million in 2024-25 to just £16 million in 2026-27, and explains the sharper fall in Scottish landfill receipts relative to the rest of the UK. We assume that the majority of this fall will reflect increased incineration capacity across Scotland. The estimated effect of this ban is little changed from November.

Table 4.1: Scottish landfill tax forecast: changes since November

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
November forecast	125	114	83	81	65	16	16
March forecast	125	105	78	83	66	16	17
Difference		**-9**	**-5**	**2**	**2**	**1**	**1**
of which:							
Outturn data		-3	-2	-2	-3	-7	-7
Determinants		0	2	4	4	0	0
Modelling and other		-6	-4	0	2	7	7

Welsh landfill disposals tax forecast

4.6 Table 4.2 presents our latest Welsh LDT forecast. Relative to November, receipts have been revised down by amounts rising to £3 million a year from 2026-27 onwards, largely reflecting the introduction of regulations in Wales to increase recycling and reduce the amount of waste that enters landfill that take effect from 1 October 2023. Recent outturn has had a minimal impact on the forecast, as the stronger-than-expected outturn in the most recent quarter largely reversed the previous quarter's slightly weaker outturn. Our forecast for receipts in 2022-23 is therefore unchanged from November.

Table 4.2: Welsh LDT forecast: changes since November

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
November forecast	45	44	41	41	40	39	39
March forecast	45	44	41	39	37	36	36
Difference		**0**	**-1**	**-2**	**-2**	**-3**	**-3**
of which:							
Outturn data		0	0	0	0	0	0
Determinants		0	0	0	0	1	1
Modelling and other		0	-1	-2	-3	-3	-3

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 items. 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 that concluded in February 2019 and was then reviewed in 2020. The Government has confirmed its commitment to devolution to Scotland, setting a provisional date of 1 April 2025 for it to take effect.[1]

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 and the Scottish Government, both relating to 2020-21.[2] As Table A.1 shows, we have revised down revenue modestly in Scotland and Wales as a result of downward revisions to our forecast for UK-wide receipts.

Table A.1: Aggregates levy illustrative forecasts

	£ million					
	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
UK forecast						
November 2022	421	472	484	497	513	541
March 2023	382	454	468	483	500	524
Difference	**-39**	**-18**	**-16**	**-15**	**-13**	**-17**
Scottish forecast						
November 2022	63	71	73	75	77	81
March 2023	57	68	70	72	75	79
Difference	**-6**	**-3**	**-2**	**-2**	**-2**	**-3**
Welsh forecast						
November 2022	31	34	35	36	37	39
March 2023	28	33	34	35	36	38
Difference	**-3**	**-1**	**-1**	**-1**	**-1**	**-1**

[1] Scottish Government, *Breaking New Ground? Developing a Scottish tax to replace the UK Aggregates Levy: consultation*, Sept 2022.
[2] For the Scottish share we use the average of both estimates: from the ONS *Country and Regional Public Sector Finances* (15.8 per cent) and the Scottish Government's *Government Expenditure and Revenues Scotland* (14.2 per cent). For the Welsh share we use the ONS estimate of 7.3 per cent. HMRC's *Disaggregation of HMRC tax receipts* report is no longer being produced.

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 and the Scottish Government, which relate to 2020-21.[4] We have revised up our UK forecast from 2024-25 onwards as a result of reducing slightly the extent to which we expect business travel to remain below its pre-pandemic trend. This boosts Scottish receipts as the share is unchanged from November.

Table A.2: Air passenger duty illustrative forecast

	£ million					
	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
UK forecast						
November 2022	3,489	3,830	4,275	4,462	4,687	4,993
March 2023	3,303	3,807	4,450	4,653	4,842	5,137
Difference	**-186**	**-23**	**175**	**192**	**155**	**144**
Scottish forecast						
November 2022	308	338	377	393	413	440
March 2023	291	336	392	410	427	453
Difference	**-16**	**-2**	**15**	**17**	**14**	**13**

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 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

[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] 9.7 per cent from the ONS *Country and Regional Public Sector Finances* and 7.9 per cent from the Scottish Government's *Government Expenditure and Revenues Scotland*.
[5] Scottish Government, *Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy*, January 2021.

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 continues to be 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 2020, 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 November this has been revised up in all years from 2022-23 onwards. This reflects stronger-than-expected outturn receipts at the UK level, and upward revisions to nominal consumer spending and the effective tax rate on that spending due to lower energy prices (which lowers the share of consumer spending on reduced-rate energy bills and increases it on standard-rate items).

Table A.3: VAT assignment illustrative projection

	£ billion						
	Estimated outturn	Projection					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
UK	157.5	160.1	161.4	167.1	171.6	175.4	180.9
of which:							
Assigned to Scottish Government	5.7	5.8	5.9	6.0	6.2	6.3	6.5
VAT from Scotland retained by UK Government	5.7	5.8	5.9	6.0	6.2	6.3	6.5
VAT from the rest of the UK	146.0	148.4	149.7	155.0	159.2	162.8	167.9
	Per cent						
Assigned to Scottish Government	3.65	3.64	3.63	3.61	3.60	3.59	3.59
Scottish population share	8.1	8.1	8.1	8.0	8.0	8.0	8.0
Memo: index Scottish population share (2019-20 = 100)	*99.4*	*99.0*	*98.7*	*98.4*	*98.2*	*97.9*	*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 latest 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), with policy settings now relatively similar across countries, differences in growth rates are relatively small (having been large in some years in our previous forecasts). One notable difference is the stronger growth rate in Scotland in 2023-24, reflecting the 1p rise in the higher and additional rates that were announced by the Scottish Government in its Budget in December. In the medium term, growth rates are similar across countries, with the remaining differences largely reflecting relative population growth.

- 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, house price inflation, and the impact of new policy measures. Growth rates are similar from 2023-24 onwards, reflecting the synchronised downturn in housing markets across the UK that we expect to result from the sharp rise in mortgage rates.

[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						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Whole UK NSND income tax	**180.3**	**207.7**	**227.7**	**243.4**	**251.3**	**259.7**	**270.6**	**283.2**
of which:								
Welsh Government income tax (WRIT basis)[1]	2.1	2.4	2.6	2.9	3.0	3.1	3.2	3.3
UK Government NSND income tax from Wales	2.8	3.2	3.5	3.8	4.0	4.1	4.3	4.5
Scottish income tax[1]	11.9	13.5	14.8	16.1	16.7	17.2	17.8	18.6
England and Northern Ireland NSND income tax	163.5	188.7	206.7	220.6	227.6	235.4	245.3	256.7
Whole UK NSND income tax excluding Scottish income tax	168.4	194.2	212.9	227.3	234.6	242.6	252.8	264.6
UK Government NSND income tax[2]	166.2	191.8	210.2	224.4	231.6	239.5	249.6	261.2
	Percentage change on a year earlier							
Whole UK NSND income tax		**15.2**	**9.6**	**6.9**	**3.3**	**3.3**	**4.2**	**4.6**
of which:								
Welsh Government income tax (WRIT basis)		12.3	10.0	8.1	4.4	3.3	3.9	4.4
UK Government NSND income tax from Wales		14.9	11.2	8.7	4.5	3.5	4.4	5.1
Scottish income tax		13.0	9.6	8.9	3.8	2.7	3.6	4.4
England and Northern Ireland NSND income tax		15.4	9.6	6.7	3.2	3.4	4.2	4.6
Whole UK NSND income tax excluding Scottish income tax		15.4	9.6	6.8	3.2	3.4	4.2	4.6
UK Government NSND income tax[2]		15.4	9.6	6.7	3.2	3.4	4.2	4.7

[1] Currently outturn data is only available for 2020-21, and 2021-22 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						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
England and Northern Ireland NSND income tax (WRIT basis)	**60.7**	**69.6**	**75.8**	**80.8**	**83.5**	**86.5**	**90.0**	**93.8**
of which:								
Basic rate	41.5	47.2	50.9	54.1	55.9	57.8	59.8	62.0
Higher rate	11.4	13.2	14.9	14.7	15.2	15.8	16.6	17.5
Additional rate	7.7	9.2	10.1	12.0	12.4	12.9	13.5	14.2
Welsh Rates	**2.1**	**2.4**	**2.6**	**2.9**	**3.0**	**3.1**	**3.2**	**3.3**
of which:								
Basic rate	1.8	2.0	2.2	2.4	2.5	2.6	2.7	2.8
Higher rate	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5
Additional rate	0.046	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)		**14.7**	**9.0**	**6.5**	**3.4**	**3.6**	**4.0**	**4.3**
of which:								
Basic rate		13.5	7.8	6.4	3.4	3.3	3.6	3.7
Higher rate		15.9	12.4	-1.5	3.4	4.2	5.0	5.7
Additional rate		19.2	9.6	18.9	3.2	4.3	4.8	5.3
Welsh Rates		**12.3**	**10.0**	**8.1**	**4.4**	**3.3**	**3.9**	**4.4**
of which:								
Basic rate		10.4	9.0	7.8	4.4	3.1	3.5	3.9
Higher rate		22.5	16.5	4.9	4.8	4.3	6.1	7.3
Additional rate		29.1	9.0	35.9	4.1	3.6	5.3	6.3

Table B.3: Property transactions taxes

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Whole UK property transaction taxes	**15,308**	**17,151**	**12,488**	**12,245**	**14,765**	**17,449**	**19,596**
of which:							
Land transaction tax (Wales)	402	390	300	283	327	379	425
LBTT (Scotland)	807	865	711	681	779	887	982
SDLT (England and Northern Ireland)	14,098	15,897	11,477	11,281	13,659	16,183	18,189
UK excluding Scottish LBTT	14,500	16,286	11,776	11,564	13,986	16,562	18,614
	Percentage change on a year earlier						
Whole UK property transaction taxes		**12.0**	**-27.2**	**-1.9**	**20.6**	**18.2**	**12.3**
of which:							
Land transaction tax (Wales)		-3.1	-23.2	-5.5	15.6	15.8	12.1
LBTT (Scotland)		7.1	-17.7	-4.2	14.3	13.8	10.8
SDLT (England and Northern Ireland)		12.8	-27.8	-1.7	21.1	18.5	12.4
UK excluding Scottish LBTT		12.3	-27.7	-1.8	21.0	18.4	12.4

Table B.4: Landfill taxes

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Whole UK landfill taxes	**854**	**810**	**755**	**724**	**662**	**631**	**670**
of which:							
Landfill disposals tax (Wales)	45	44	41	39	37	36	36
Scottish landfill tax	125	105	78	83	66	16	17
Landfill tax (England and Northern Ireland)	683	661	636	602	559	579	617
UK excluding Scottish landfill tax	728	705	677	641	596	615	653
	Percentage change on a year earlier						
Whole UK landfill taxes		**-5.1**	**-6.8**	**-4.1**	**-8.5**	**-4.7**	**6.1**
of which:							
Landfill disposals tax (Wales)		-2.5	-7.7	-4.1	-5.1	-3.6	-0.1
Scottish landfill tax		-16.0	-25.8	6.1	-19.6	-75.3	2.7
Landfill tax (England and Northern Ireland)		-3.3	-3.8	-5.3	-7.2	3.6	6.6

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

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Carer's allowance	3,078	3,308	3,879	4,290	4,492	4,720	4,997
Personal independence payment[1]	15,022	17,586	21,834	24,910	27,259	29,597	32,049
Disability living allowance[1]	5,715	5,971	6,732	7,367	7,524	7,480	7,627
Attendance allowance[1]	5,307	5,666	6,686	7,428	7,603	7,686	7,838
Industrial disablement benefit	705	696	737	742	715	685	664
Severe disablement allowance	63	58	57	53	46	38	31
Cold weather payment	0	126	33	33	33	33	33

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

[1] This does not include the two disability cost of living payments in 2022-23 and 2023-24.