

Office for  
**Budget  
Responsibility**

## **Devolved tax and spending forecasts**

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November 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 forecasts for the UK economy and public finances presented in our November 2022 *EFO*. European energy prices and global interest rates have risen sharply since our previous forecast in March. The consequences of this for inflation and real incomes in the UK means we now expect the

economy to fall into a recession that lasts just over a year. As energy prices and interest rates fall through the second half of the forecast, the economy recovers. But even so, the energy price shock leaves the economy materially smaller in the medium term than we expected in March, with consequences for all the major tax bases. Our UK fiscal forecast reflects significant short-term fiscal loosening to support households and businesses with high energy prices, followed by material fiscal tightening in the medium term as a result of tax rises and spending cuts announced in the Autumn Statement.

1.7 The timetable for this forecast, as described in the *EFO*, was unusual given political developments in recent months, as well as policy announcements across five major fiscal statements since March. The forecast therefore relies to a greater extent than usual on 'ready-reckoning' rather than iterative use of full tax model runs to refine the forecast. This creates a degree of uncertainty relative to our standard forecast process, although this is likely to be small relative to the real-world uncertainties that surround our forecasts in respect of Russia's invasion of Ukraine and prospects for 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 a process that, due to the unusual timetable more generally, was completed entirely by correspondence for this forecast; and
- a **final set of forecasts** was produced on 17 November, 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.<sup>1</sup> Throughout the chapter we compare our November 2022 forecasts to our March 2022 forecasts published alongside the Spring 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.

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<sup>1</sup> 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.
- 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 increasing by £27 billion (15 per cent) relative to 2020-21. But even so, liabilities have been revised down £1.1 billion (0.5 per cent) relative to our March forecast. This reflects the largely offsetting effects of a downward revision to the previous year's outturn (which reduces the forecast in future years too, by an average of £5.0 billion a year) and an upward revision to growth in liabilities in 2021-22 of £3.1 billion that is largely driven by very strong bonus pay growth raising PAYE receipts at the end of the 2021-22 fiscal year.
- 2.9 The upward revisions to our pre-measures income tax forecast persist through 2022-23 (reflecting higher outturn receipts) and 2023-24 (thanks to modestly higher nominal wage growth). But thereafter the impact of the energy price shock on whole-economy productivity and thus wage growth dominates, such that revenues in our pre-measures forecast have been revised down by progressively larger amounts from 2024-25 onwards.
- 2.10 UK Government policies announced since March have mitigated these downward revisions to pre-measures revenues, raising £5.6 billion a year on average and £9.2 billion a year in 2026-27 alone. The largest impact comes from the decision not to cut the basic rate from 20 to 19 per cent, which was due to take effect from 2024-25 (as announced in the Spring Statement). This has very different effects on Scotland and Wales, as detailed later in the chapter, due to the different extent to which income tax is devolved to each. The basic rate reversal increases revenues by £5.9 billion a year on average from 2024-25 onwards, accounting for 68 per cent of the increase in income tax revenues from policy measures until 2026-27.
- 2.11 Other policies increase revenues by progressively larger amounts that reach £3.2 billion in 2026-27. The largest of these is the decision to scrap the health and social care levy that was due to come into effect in April 2023. This raises income tax liabilities by amounts rising to £2.3 billion a year in 2026-27 (while costing much more than that in lost revenue from the levy itself). The income tax yield from this measure comes via its indirect behavioural consequences. These include wages being higher than would have been the case if the levy had gone ahead (which is not separated out in Table 2.1) and the reduced incentive to incorporate, which boosts income tax and NICs at the expense of corporation tax. Other measures include lowering the threshold at which the additional rate is paid.

Table 2.1: Changes in UK NSND income tax forecast since March

	£ billion							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	186.7	208.4	226.7	238.2	245.2	259.4	272.8	
November forecast	180.3	207.3	224.7	237.9	245.8	254.8	267.0	282.5
<b>Change</b>	<b>-6.4</b>	<b>-1.1</b>	<b>-2.0</b>	<b>-0.2</b>	<b>0.5</b>	<b>-4.6</b>	<b>-5.8</b>	
<i>of which:</i>								
UK NSND outturn alignment		-4.2	-4.6	-4.8	-5.1	-5.4	-5.6	
Pre-measures forecast		3.1	2.1	2.8	-2.6	-7.9	-9.3	
Basic rate cut reversal		0.0	0.0	0.0	5.8	5.8	5.9	
Health and social care levy reversal		0.0	0.5	1.3	1.6	2.0	2.3	
Other UK policies		0.0	0.0	0.5	0.7	0.9	1.0	

## 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 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 separate indices for the working-age population (those aged 16 to 65) and the pension-age population (those aged 66 and over) 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 five months of 2022-23 that reflect

both historical patterns of RTI shares through the fiscal year and year-end bonus outturn (where particular 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.

2.14 Table 2.3 reports our latest forecast for the Scottish share and the change since March. 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. It therefore does not include the effect on the share of not going ahead with the cut to the basic rate of income tax in 2024-25. On this basis, it includes downward revisions in 2022-23 to 2024-25 in light of weakness in the Scottish share in the latest RTI data for this year. Revised ONS population projections increase the share modestly over the medium term, leaving the overall share unchanged from March by 2026-27. When combined with revisions to UK NSND outturn in 2020-21, the Scottish share now falls from 6.63 per cent in 2020-21 to 6.46 per cent by 2027-28 on a pre-measures basis and would fall somewhat more including the effect of new policy measures.

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
March forecast	6.59	6.48	6.53	6.46	6.56	6.51	6.48	
November forecast <sup>1</sup>	6.63	6.51	6.49	6.42	6.54	6.52	6.48	6.46
<b>Change</b>	<b>0.03</b>	<b>0.03</b>	<b>-0.04</b>	<b>-0.04</b>	<b>-0.02</b>	<b>0.00</b>	<b>0.00</b>	
<i>RTI index (2020-21=100)</i>		98.3	97.9	97.9	97.9	97.9	97.9	97.9
<i>Index of relative population growth (2021-22=100)</i>		100.0	99.6	99.3	99.0	98.7	98.4	98.1

<sup>1</sup> November 2022 is shown on a pre-measures basis because the effect of measures is captured in cash terms rather than via the share.

2.15 The Welsh share is little changed from our March forecast, up by 0.01 percentage points on average (again on a pre-measures basis, the impact of which is less pronounced on the Welsh share). That reflects a small downward revision in 2022-23 followed by upward revisions from 2024-25 onwards. Again, this reflects the latest in-year RTI data, which serve to lower the share in 2022-23, which in the case of Wales are ultimately outweighed by revisions to ONS-derived population shares, which raise the share relative to March.

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
March forecast	1.17	1.16	1.17	1.18	1.21	1.21	1.21	
November forecast <sup>1</sup>	1.19	1.16	1.16	1.18	1.23	1.22	1.22	1.22
<b>Change</b>	<b>0.02</b>	<b>0.00</b>	<b>-0.01</b>	<b>0.00</b>	<b>0.02</b>	<b>0.02</b>	<b>0.01</b>	
<i>RTI index (2020-21=100)</i>		97.5	97.4	97.4	97.4	97.4	97.4	97.4
<i>Index of relative population growth (2021-22=100)</i>		100.0	100.0	99.9	99.9	99.8	99.7	99.6

<sup>1</sup> November 2022 is shown on a pre-measures basis because the effect of measures is captured in cash terms rather than via the share.



## Scottish forecast

- 2.16 Table 2.5 presents our latest Scottish income tax forecast and the changes since March. Liabilities are down in all years and by an average of £381 million (2.4 per cent). This is more than explained by the large downward revisions to our pre-measures forecast for UK-wide revenues (described above), with more modest revisions to the Scottish share. By 2026-27, the lower UK-wide forecast reduces Scottish revenue by £968 million.
- 2.17 UK Government policies partially offset this, raising progressively larger amounts over time, reaching £191 million in 2026-27. While the basic rate cut reversal accounts for over two-thirds the impact of policy on UK NSND revenues, this has no direct impact and only limited indirect impact on Scottish income tax receipts. Instead, the reversal of the health and social care levy has the largest policy impact on Scottish liabilities, raising amounts rising to £195 million in 2026-27 via its indirect effects described above. Extensions to frozen tax thresholds also raise £65 million in the final year of the forecast (via the personal allowance, which is not devolved), with smaller effects from other policies.

Table 2.5: Changes in Scottish NSND income tax forecast since March

	£ million							
	Outturn		Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	12,310	13,511	14,810	15,385	16,091	16,898	17,689	
November forecast	11,948	13,501	14,584	15,247	15,661	16,195	16,908	17,822
<b>Change</b>	<b>-362</b>	<b>-10</b>	<b>-225</b>	<b>-138</b>	<b>-430</b>	<b>-703</b>	<b>-781</b>	
<i>of which:</i>								
Scottish share modelling		61	-84	-85	-49	2	-4	
UK NSND outturn alignment		-275	-298	-309	-332	-350	-366	
UK NSND forecast and other		204	138	181	-170	-514	-602	
UK Government policies		0	19	75	120	158	191	

## 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. A new source of difference between our forecasts is that we assume that the higher-rate threshold in Scotland rises in

line with CPI inflation in the absence of a stated Scottish Government policy, whereas the SFC has decided that successive freezes mean it should assume it remains constant in cash terms unless otherwise stated.<sup>2</sup> 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 May.

2.20 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. Wages and salaries are stronger in the initial years of our forecast, with cumulative growth 2.9 percentage points stronger by 2023-24. In part this reflects high inflation lifting nominal earnings growth in outturn. Wage growth is weaker in our forecast thereafter, with cumulative growth only 1.0 percentage points above the SFC's forecast by 2027-28. This is likely to reflect our assumptions about the energy price shock weighing on productivity and real wages. These differences partly reflect the timing of our respective forecasts, with the energy price shock having intensified in recent months. It also helps in part to explain the path of our forecast for Scottish income tax revenues relative to the SFC's, with stronger growth in the near term and weaker growth in the medium term. Cumulative growth in our employment forecasts is broadly in line by the end of the forecast period, but this masks weaker near-term growth in our forecast (driven partly by the rise in unemployment in the recession) and stronger growth in later years (possibly reflecting the upward revision to net inward migration in our latest forecast).

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<sup>2</sup> For more information see paragraphs 4.35 to 4.47 of the SFC's *Scotland's Economic and Fiscal Forecasts*, May 2022.

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
<b>Employment</b>							
SFC	1.6	1.5	-0.2	-0.2	-0.2	-0.3	-0.3
OBR	-1.1	0.8	-0.1	0.0	0.9	1.0	0.7
Difference	-2.6	-0.7	0.1	0.2	1.1	1.3	1.0
<b>Average nominal earnings</b>							
SFC	4.4	4.1	2.9	2.9	3.1	3.2	3.3
OBR	6.5	5.4	3.5	1.6	1.7	2.1	2.7
Difference	2.0	1.3	0.6	-1.3	-1.5	-1.1	-0.5
<b>Wages and salaries</b>							
SFC <sup>1</sup>	6.7	5.7	2.7	2.7	2.9	3.0	3.0
OBR	8.0	6.3	3.3	1.5	2.3	2.9	3.2
Difference	1.3	0.6	0.6	-1.2	-0.7	0.0	0.3
Index: 2020-21 = 100							
<b>Employment</b>							
SFC	101.6	103.1	102.9	102.7	102.4	102.2	101.9
OBR	98.9	99.7	99.6	99.6	100.5	101.5	102.2
Difference	-2.6	-3.4	-3.3	-3.1	-2.0	-0.7	0.3
<b>Average nominal earnings</b>							
SFC	104.4	108.7	111.9	115.1	118.7	122.6	126.6
OBR	106.5	112.2	116.1	118.0	120.0	122.5	125.9
Difference	2.0	3.5	4.3	2.9	1.3	0.0	-0.7
<b>Wages and salaries</b>							
SFC <sup>1</sup>	106.7	112.7	115.8	118.9	122.4	126.0	129.7
OBR	108.0	114.8	118.6	120.4	123.1	126.7	130.8
Difference	1.3	2.1	2.9	1.5	0.7	0.7	1.0

<sup>1</sup> Refers to the SFC's total nominal earnings series.

2.21 Table 2.7 breaks down our forecast for UK NSND income tax and compares our respective forecasts for Scottish income tax. While we have stronger growth in 2021-22 through to 2023-24 (with cumulative growth 2.6 percentage points higher by 2023-24), our forecast is then lower than the SFC's thereafter. By 2027-28, our revenue forecast in cash terms is 2.6 per cent lower than the SFC's. In part, this is due to the differences in our earnings growth forecast in the later years of the forecast. But the largest contribution comes from our different assumptions for the higher-rate threshold. The SFC's fixed higher-rate threshold assumption adds progressively larger amounts to its revenue forecast, rising from £129 million in 2023-24 to £503 million by 2026-27. This compares with the overall £576 million difference between our forecasts in 2026-27. We will review this policy assumption with the Scottish Government ahead of our next forecast.

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
<b>SFC</b>								
SIT (a)	12,118	13,342	14,386	15,143	15,954	16,754	17,484	18,298
<b>OBR</b>								
UK NSND	180,305	207,303	224,750	237,902	245,759	254,790	267,010	282,503
of which:								
UK ex. SIT and WRIT	166,217	191,401	207,561	219,860	227,171	235,568	246,939	261,333
WRIT	2,140	2,401	2,604	2,795	2,927	3,027	3,162	3,348
SIT (b)	11,948	13,501	14,584	15,247	15,661	16,195	16,908	17,822
OBR vs. SFC (b-a)	-170	159	199	104	-293	-560	-576	-476
	Percentage change on a year earlier							
<b>SFC</b>								
SIT (a)		10.1	7.8	5.3	5.4	5.0	4.4	4.7
<b>OBR</b>								
UK ex. SIT and WRIT		15.2	8.4	5.9	3.3	3.7	4.8	5.8
SIT (b)		13.0	8.0	4.5	2.7	3.4	4.4	5.4
OBR vs. SFC (b-a)		2.9	0.2	-0.7	-2.6	-1.6	0.1	0.7
	Index (2020-21 = 100)							
<b>SFC</b>								
SIT (a)		110.1	118.7	125.0	131.7	138.3	144.3	151.0
<b>OBR</b>								
UK ex. SIT and WRIT		115.2	124.9	132.3	136.7	141.7	148.6	157.2
SIT (b)		113.0	122.1	127.6	131.1	135.5	141.5	149.2
OBR vs. SFC (b-a)		2.9	3.4	2.6	-0.6	-2.7	-2.8	-1.8

## Welsh forecast

**2.22** Table 2.8 sets out our latest forecast for the Welsh rates of income tax and a breakdown of the changes since March, while Table 2.9 shows the forecast by tax band. Similar to our Scottish forecast, we have revised down our Welsh forecast in all years and by an average of £55 million (1.9 per cent). This largely reflects downward revisions to our UK-wide forecast, with only modest revisions to our forecasts for the Welsh share.

**2.23** Of the UK Government policies affecting revenue from the Welsh rates, not going ahead with the health and social care levy increases Welsh liabilities by an average of £11 million a year, reaching £20 million in 2026-27. Freezing income tax thresholds for a further two years to April 2028 also raises £27 million in 2027-28. The basic rate cut reversal has no direct impact on NSND revenues for the Welsh Government because the basic cut would have affected the reserved portion of the basic rate rather than the Welsh rates. It does have modest indirect effects on liabilities incurred under the Welsh rates. Other policies, including lowering the additional-rate threshold, also have limited impacts on Welsh liabilities.

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

	£ million							
	Outturn	Forecast						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	2,181	2,412	2,645	2,805	2,961	3,134	3,291	
November forecast	2,140	2,401	2,604	2,795	2,927	3,027	3,162	3,348
<b>Change</b>	<b>-41</b>	<b>-12</b>	<b>-40</b>	<b>-9</b>	<b>-34</b>	<b>-107</b>	<b>-129</b>	
<i>of which:</i>								
Welsh share modelling		1	-12	8	46	39	35	
UK NSND outturn alignment		-49	-53	-57	-62	-66	-69	
UK NSND forecast and other		36	25	33	-30	-94	-111	
UK Government policies		0	0	6	13	15	16	

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
November forecast	2,140	2,401	2,604	2,795	2,927	3,027	3,162	3,348
<i>of which:</i>								
Basic rate	1,843	2,040	2,211	2,375	2,490	2,573	2,677	2,824
Higher rate	251	299	327	350	363	377	404	436
Additional rate	46	61	66	71	74	77	82	88
	Per cent							
Basic rate	86.1	85.0	84.9	85.0	85.1	85.0	84.6	84.3
Higher rate	11.7	12.5	12.6	12.5	12.4	12.5	12.8	13.0
Additional rate	2.2	2.5	2.5	2.5	2.5	2.6	2.6	2.6



# 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.<sup>1</sup>

## 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. We used different country-specific assumptions in our previous two forecasts for 2021-22 (due to the different experiences in each property market during 2020-21 brought about by the pandemic and by the various temporary tax holidays) but have now reverted to our standard approach for the 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 2022-23;
- 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 Our LBTT and LTT forecasts are based on the property market forecasts shown in Table 3.1. These are the same as the UK-wide forecasts published in our *Economic and fiscal outlook*. The differing paths for individual property markets through 2020-21 and 2021-22 due to the pandemic and the different tax holidays in place in each have largely worked through now, so our forecasts for all three property transaction taxes are based on the same determinants, but adjusted for the behavioural consequences of individual tax measures.

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<sup>1</sup> 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 'In-depth' section of our website.

- 3.5 House price inflation in 2022-23 has been revised up since our March forecast, reflecting stronger-than-expected outturn data. But prices are now expected to fall in 2023-24 and 2024-25, and to rise only modestly in 2025-26, thanks to significantly higher mortgage rates and the wider economic downturn. Cumulative growth in house prices between 2021-22 and 2026-27 has been revised down by 9.1 percentage points. Housing transactions have been revised down between 2022-23 and 2024-25, reflecting the effects of the recession and higher interest rates already feeding through to housing transactions in outturn. Housing transactions recover from 2025-26 onwards, but cumulative growth between 2021-22 and 2026-27 has been revised down by 9.6 percentage points.
- 3.6 As with the residential markets, we assume that commercial prices and transactions fall in the near term as a result of the recession and higher interest rates. Relative to March, commercial prices are much lower in 2023-24, with more modest changes in other years. This reflects the trough in commercial prices happening sooner than that for residential prices, followed by a more gradual recovery thereafter. The near-term downward revisions to our commercial transactions forecast are smaller than those to our residential forecast, a difference informed by their relative changes during the financial crisis.

Table 3.1: Forecasts for property prices and transactions

	Percentage change on a year earlier						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>House prices</b>							
March forecast	10.2	5.7	1.0	1.8	2.6	3.2	
November forecast	9.6	9.2	-4.2	-4.0	2.1	3.2	3.6
<b>Change</b>	<b>-0.6</b>	<b>3.6</b>	<b>-5.1</b>	<b>-5.7</b>	<b>-0.6</b>	<b>0.0</b>	
<b>Housing transactions</b>							
March forecast	13.9	-4.2	2.9	2.0	1.2	1.2	
November forecast	15.7	-14.0	-15.4	0.6	11.0	15.2	8.6
<b>Change</b>	<b>1.8</b>	<b>-9.9</b>	<b>-18.3</b>	<b>-1.4</b>	<b>9.7</b>	<b>14.0</b>	
<b>Commercial property prices</b>							
March forecast	11.3	-0.7	2.4	1.8	1.9	2.0	
November forecast	12.4	-0.6	-3.2	2.2	0.9	1.5	1.9
<b>Change</b>	<b>1.1</b>	<b>0.1</b>	<b>-5.6</b>	<b>0.3</b>	<b>-1.0</b>	<b>-0.5</b>	
<b>Commercial transactions</b>							
March forecast	20.3	-1.1	2.1	1.7	1.7	1.7	
November forecast	22.8	-3.0	-5.1	0.9	6.2	6.4	2.0
<b>Change</b>	<b>2.5</b>	<b>-1.9</b>	<b>-7.1</b>	<b>-0.8</b>	<b>4.6</b>	<b>4.7</b>	

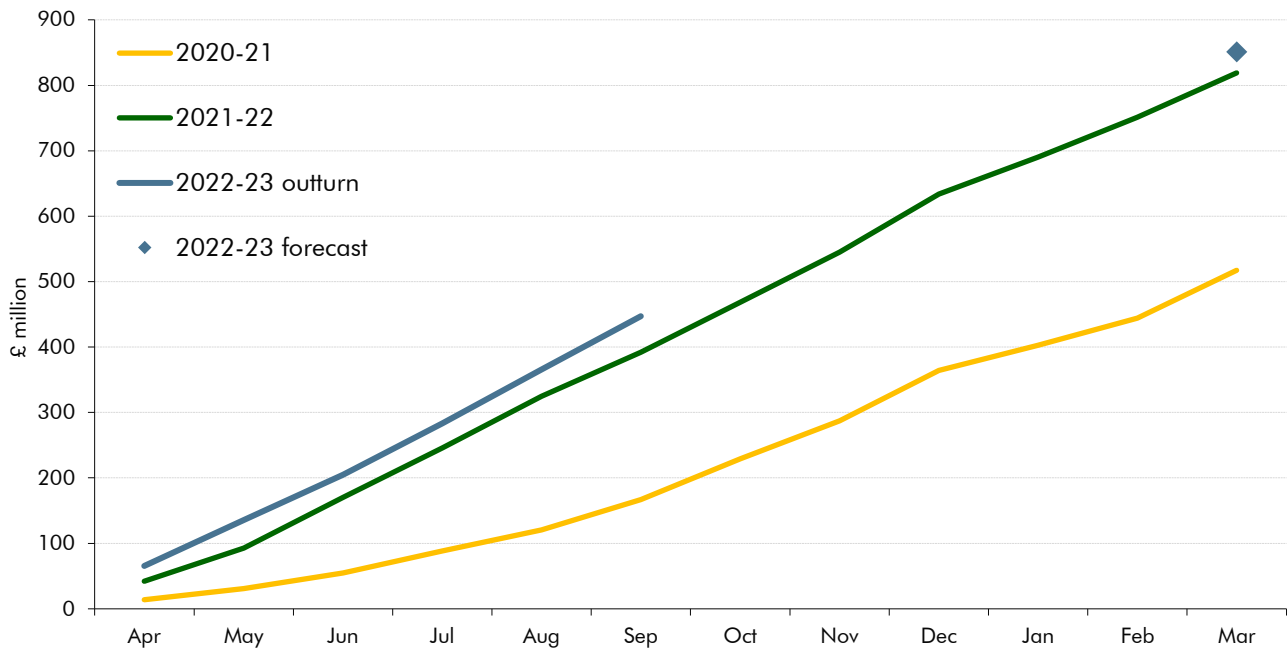
## Land and buildings transaction tax

### Latest LBTT outturn data

- 3.7 Total LBTT receipts in the first half of 2022-23 are up 13.9 per cent relative to 2021-22 and 136 per cent relative to the lockdown-depressed first half of 2020-21. We expect receipts growth to moderate over the remainder of the year, leaving receipts in 2022-23 up £33 million (4.0 per cent) on 2022-21 and £342 million (67 per cent) on 2020-21.



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 March.<sup>2</sup> We have revised up our 2022-23 forecast by £15 million in light of marginally stronger outturn data. But receipts have been revised down in each year thereafter, by an average of £195 million (20.5 per cent), reflecting the impact of higher mortgage rates and the wider economic downturn on both prices and transactions, described above. This means that LBTT receipts fall year on year in both 2023-24 and 2024-25, with a peak-to-trough decline of 20.7 per cent. We describe each element of the forecast next.

<sup>2</sup> These figures are presented on the SFC'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

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Total LBTT</b>							
March forecast	786	836	882	925	976	1038	
November forecast	799	852	697	676	765	901	1014
<b>Change</b>		15	-185	-249	-211	-136	
<b>Residential LBTT (excluding ADS)</b>							
March forecast	418	470	494	523	559	604	
November forecast	419	478	370	340	395	487	570
<b>Change</b>		9	-124	-182	-164	-117	
<b>Additional dwellings supplement (ADS)</b>							
March forecast	135	138	148	153	158	164	
November forecast	131	133	107	108	125	150	168
<b>Change</b>		-5	-41	-45	-32	-14	
<b>Commercial LBTT</b>							
March forecast	233	229	240	250	259	270	
November forecast	250	241	220	228	244	265	276
<b>Change</b>		12	-20	-22	-15	-6	

### Residential LBTT forecast

3.9 Table 3.3 shows the sources of revision to our residential LBTT forecast since March. Receipts have been revised down from 2023-24 onwards, by an average of £180 million a year (25.6 per cent). This is driven by a weaker outlook for both housing transactions and house prices, with the former having the largest effect in the near term and the latter dominating by the end of the forecast. Stronger outturn data and modelling adjustments modestly offset these effects throughout.

Table 3.3: Changes to the residential LBTT forecast since March

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	553	608	641	675	716	767	
November forecast	549	611	477	448	521	637	738
<b>Change</b>		3	-165	-227	-196	-131	
<i>of which:</i>							
Price changes		36	-26	-71	-134	-125	
Transaction changes		-69	-175	-194	-102	-51	
Outturn data and modelling		36	36	38	40	45	

### Commercial LBTT forecast

3.10 Table 3.4 sets out the changes to our commercial LBTT forecast since March. Receipts have been revised down from 2023-24 onwards, by an average of £16 million a year (6.2 per cent). As in our residential LBTT forecast, this reflects lower transactions (particularly in the

near term) and prices (particularly in the medium term), partially offset by the effects of aligning our forecast to stronger-than-expected in-year receipts data.

Table 3.4: Changes to the commercial LBTT forecast since March

	£ million						
	Outturn		Forecast				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	233	229	240	250	259	270	
November forecast	250	241	220	228	244	265	276
<b>Change</b>		12	-20	-22	-15	-6	
<i>of which:</i>							
Price changes		1	-16	-16	-19	-22	
Transaction changes		-5	-21	-24	-14	-3	
Outturn data and modelling		16	17	17	18	19	

### Comparison with the Scottish Fiscal Commission's latest forecast

3.11 Table 3.5 compares the SFC's latest forecast, published in May, 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. Our forecast is an average of £112 million a year lower than the SFC's between 2023-24 and 2026-27, a difference that is seen across all three components of LBTT. This largely reflects our weaker outlook for transactions and prices, thanks to a deeper downturn than anticipated in May as the energy crisis has intensified.

Table 3.5: Comparison between Scottish Fiscal Commission and OBR forecasts

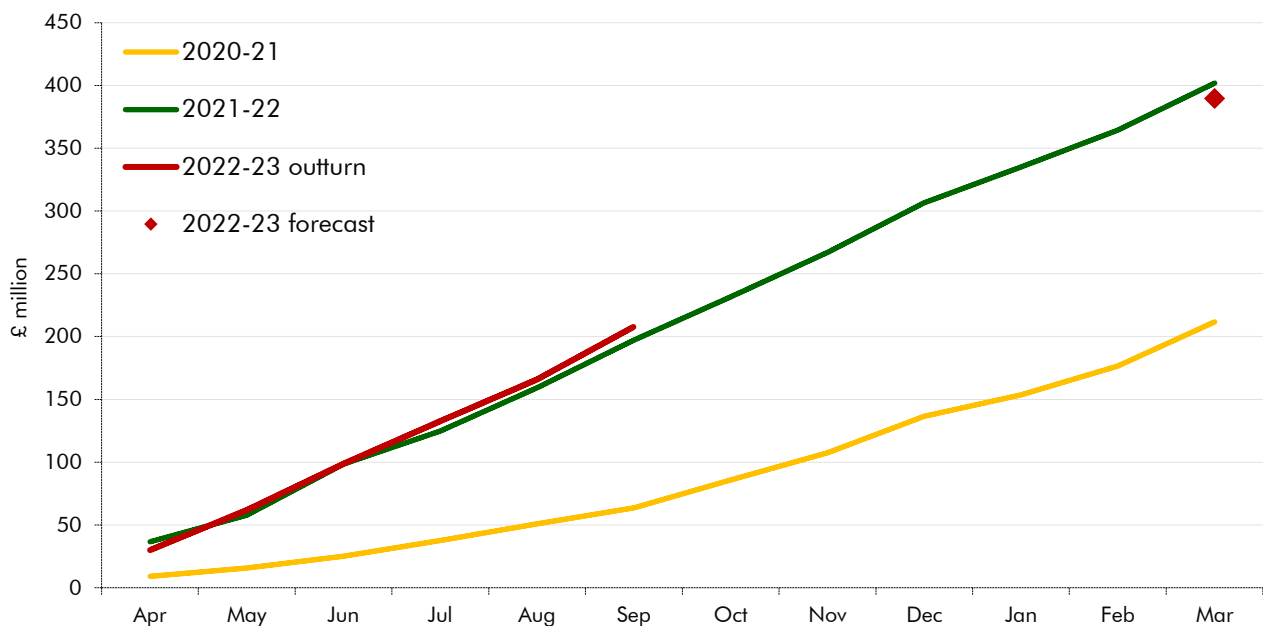
	£ million						
	Outturn		Forecast				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Total LBTT</b>							
SFC May 2022	799	797	821	849	886	932	987
OBR November 2022	799	852	697	676	765	901	1014
<b>Difference</b>		55	-124	-173	-121	-31	26
<b>Residential LBTT (excluding ADS)</b>							
SFC May 2022	417	394	402	418	442	475	514
OBR November 2022	419	478	370	340	395	487	570
<b>Difference</b>		85	-32	-78	-47	13	56
<b>Additional dwellings supplement (ADS)</b>							
SFC May 2022	132	134	139	142	145	150	155
OBR November 2022	131	133	107	108	125	150	168
<b>Difference</b>		-2	-33	-34	-20	0	13
<b>Commercial LBTT</b>							
SFC May 2022	251	269	280	289	298	308	319
OBR November 2022	250	241	220	228	244	265	276
<b>Difference</b>		-28	-60	-61	-54	-44	-43

## Land transaction tax forecast

### Latest LTT outturn data

3.12 LTT receipts in the first half of 2022-23 are currently similar to those in 2021-22, but are up by £144 million (227 per cent) on 2020-21, which was heavily affected by lockdown restrictions. We expect receipts to weaken slightly over the remainder of this year, resulting in total receipts in 2022-23 being £12 million (3 per cent) below 2021-22 outturns.

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 March, receipts have been revised down in every year of the forecast, by an average of £112 million (24 per cent), reflecting downward revisions to both prices and transactions, described above. This weaker outlook for the property market means that LTT receipts fall each year from 2021-22 to 2024-25, with a peak-to-trough decline of 26 per cent.

Table 3.6: Land transaction tax forecast

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Total LTT</b>							
March forecast	390	412	431	453	482	514	
November forecast	402	389	310	297	337	399	449
<b>Change</b>		<b>-22</b>	<b>-121</b>	<b>-156</b>	<b>-145</b>	<b>-115</b>	
<b>Residential (excluding additional properties)</b>							
March forecast	179	214	226	239	259	282	
November forecast	181	198	146	131	153	189	223
<b>Change</b>		<b>-15</b>	<b>-80</b>	<b>-108</b>	<b>-107</b>	<b>-92</b>	
<b>Additional properties</b>							
March forecast	89	89	91	94	98	102	
November forecast	91	81	63	62	73	88	99
<b>Change</b>		<b>-8</b>	<b>-27</b>	<b>-32</b>	<b>-25</b>	<b>-14</b>	
<b>Commercial</b>							
March forecast	123	109	115	119	124	130	
November forecast	130	110	100	104	112	121	126
<b>Change</b>		<b>1</b>	<b>-14</b>	<b>-15</b>	<b>-13</b>	<b>-9</b>	

### Residential LTT forecast

3.14 Table 3.7 sets out the changes in our residential LTT forecasts since March. Residential receipts have been revised down in every year of the forecast, by an average of £102 million a year. This is largely thanks to downward revisions to outlook for housing transactions and house prices, with the former dominating in the near term and the latter in the medium term. An increase in the LTT threshold from £180,000 to £225,000 from 10 October 2022 costs an average of £10 million a year from 2023-24 onwards.

Table 3.7: Changes in residential LTT since March

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	267	303	316	333	357	384	
November forecast	272	279	209	193	225	278	322
<b>Change</b>		<b>-23</b>	<b>-107</b>	<b>-141</b>	<b>-132</b>	<b>-106</b>	
<i>of which:</i>							
Price changes		18	-11	-38	-46	-55	
Transaction changes		-32	-85	-91	-70	-32	
Outturn data and modelling		-3	-2	-3	-6	-7	
Policy changes		-5	-9	-9	-10	-12	

### Commercial LTT forecast

3.15 Table 3.8 shows changes in our commercial LTT forecast relative to March. Receipts have been revised down from 2023-24 onwards by an average of £13 million a year, again reflecting the weaker outlook for both prices and transactions.

Table 3.8: Changes in commercial LTT since March

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	123	109	115	119	124	130	
November forecast	130	110	100	104	112	121	126
<b>Change</b>	<b>8</b>	<b>1</b>	<b>-14</b>	<b>-15</b>	<b>-13</b>	<b>-9</b>	
<i>of which:</i>							
Price changes	0	0	-7	-7	-9	-10	
Transaction changes	0	-2	-10	-12	-7	-1	
Outturn data and modelling	0	3	3	3	3	3	

# 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.<sup>1</sup>

## 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).<sup>2</sup> 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 2022-23 by £13 million (13.1 per cent) relative to March, reflecting strong outturn data in the year to date, which we assume persists across the forecast period (whereas in March we assumed strength in outturn was a one-off

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<sup>1</sup> 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.

<sup>2</sup> More information on our landfill taxes forecasts is available in the 'In-depth' pages on our website.

reflecting catch-up activity). This is partially offset by the effects of lower household consumption as a result of the energy price shock, which persists across the forecast and results in downward revisions to receipts from 2024-25 onwards.

- 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 £81 million in 2024-26 to just £16 million in 2026-27 and 2027-28. We assume that the majority of this fall will reflect waste being diverted to England. The estimated effect of this ban is little changed from March.

Table 4.1: Scottish landfill tax forecast

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	123	101	83	85	70	18	
November forecast	125	114	83	81	65	16	16
<b>Change</b>		13	0	-4	-5	-2	
<i>of which:</i>							
Determinants		-11	-13	-16	-14	-2	
Modelling and other		24	13	12	8	-1	

## Welsh landfill disposals tax forecast

- 4.6 Table 4.2 presents our latest Welsh LDT forecast. Receipts in 2022-23 have been revised up by £9 million (25.5 per cent) relative to March, reflecting higher-than-expected outturn data in the first quarter of 2022-23. From 2023-24 onwards, we have revised up our forecast by an average of £5 million a year, as we expect the majority, but not all, of the in-year strength to persist across the remainder of the forecast period.

Table 4.2: Welsh LDT forecast

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March forecast	47	35	35	35	35	34	
November forecast	45	44	41	41	40	39	39
<b>Change</b>		9	6	6	5	4	



# 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.<sup>1</sup>

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.<sup>2</sup> As Table A.1 shows, we have modestly reduced revenue in Scotland thanks to a reduction in the Scottish share of aggregates levy receipts. We have revised up revenue in Wales modestly thanks to upward revisions to UK-wide receipts.

Table A.1: Aggregates levy illustrative forecasts

	£ million					
	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>UK forecast</b>						
March 2022	421	453	474	494	516	
November 2022	421	472	484	497	516	541
<b>Change</b>	<b>0</b>	<b>19</b>	<b>10</b>	<b>3</b>	<b>0</b>	
<b>Scottish forecast</b>						
March 2022	64	69	72	75	79	
November 2022	63	71	73	75	77	81
<b>Change</b>	<b>-1</b>	<b>2</b>	<b>0</b>	<b>-1</b>	<b>-2</b>	
<b>Welsh forecast</b>						
March 2022	30	32	34	35	37	
November 2022	31	34	35	36	37	39
<b>Change</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	

<sup>1</sup> Scottish Government, *Breaking New Ground? Developing a Scottish tax to replace the UK Aggregates Levy: consultation*, Sept 2022.

<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup> We have revised up our UK forecast for 2022-23 and 2023-24 as the travel industry is experiencing a stronger-than-anticipated recovery from pandemic-related disruption. Scottish and UK receipts have been revised down from 2024-25 onwards thanks to weaker consumption as a result of the energy price shock. Scottish receipts have also been revised down as a result of a lower Scottish share of UK-wide receipts.

Table A.2: Air passenger duty illustrative forecast

	£ million					
	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>UK forecast</b>						
March 2022	2852	3610	4406	4585	4786	
November 2022	3489	3830	4275	4462	4687	4993
<b>Change</b>	<b>637</b>	<b>219</b>	<b>-131</b>	<b>-124</b>	<b>-99</b>	
<b>Scottish forecast</b>						
March 2022	274	347	423	440	459	
November 2022	308	338	377	393	413	440
<b>Change</b>	<b>34</b>	<b>-9</b>	<b>-46</b>	<b>-47</b>	<b>-46</b>	

## VAT assignment

- A.1 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.2 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

<sup>3</sup> 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.

<sup>4</sup> 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*.

until the review of the Scottish Government’s Fiscal Framework has been completed.<sup>5</sup> 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 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.3** 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 March this has been revised up in 2022-23 – thanks to stronger-than-expected outturns in UK receipts – but revised down thereafter. This downward revision reflects a reduced Scottish population share, alongside lower overall UK receipts thanks to the near-term economic downturn and the associated shift in consumer spending towards lower- and zero-rated products such as energy and food.

**Table A.3: VAT assignment illustrative projection**

	£ billion						
	Estimated outturn	Projection					
		2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
UK	156.8	157.1	157.4	161.7	166.5	170.7	176.7
of which:							
Assigned to Scottish Government	5.7	5.7	5.7	5.8	6.0	6.1	6.3
VAT from Scotland retained by UK Government	5.7	5.7	5.7	5.8	6.0	6.1	6.3
VAT from the rest of the UK	145.4	145.7	146.0	150.0	154.5	158.5	164.1
	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
<i>Memo: index Scottish population share (2019-20 = 100)</i>	99.4	99.0	98.7	98.4	98.2	97.9	97.7

<sup>5</sup> Scottish Government, *Scotland’s Fiscal Outlook: The Scottish Government’s Medium-Term Financial Strategy*, January 2021.



## 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.<sup>1</sup> 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 medium term, growth rates are similar across countries, with the remaining differences largely reflecting relative population growth. The exception to this is 2023-24, when the reduction in the additional-rate threshold takes effect, raising more in England than Scotland (where there are only indirect impacts) and Wales (where there are proportionately fewer additional-rate taxpayers).
  - 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 impact of new policy measures. Stamp duty land tax was cut in the Growth Plan, but the Autumn Statement announced that this would be a temporary measure ending in March 2025. Meanwhile there has been an increase in the threshold and main rate of land transaction tax, but no change to land and buildings transaction tax policy.

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<sup>1</sup> *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.*

## Forecasts required for the block grant adjustments

- 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
<b>Whole UK NSND income tax</b>	<b>180.3</b>	<b>207.3</b>	<b>224.7</b>	<b>237.9</b>	<b>245.8</b>	<b>254.8</b>	<b>267.0</b>	<b>282.5</b>
<i>of which:</i>								
Welsh Government income tax (WRIT basis) <sup>1</sup>	2.1	2.4	2.6	2.8	2.9	3.0	3.2	3.3
UK Government NSND income tax from Wales	2.8	3.2	3.4	3.7	3.8	4.0	4.2	4.4
Scottish income tax <sup>1</sup>	11.9	13.5	14.6	15.2	15.7	16.2	16.9	17.8
England and Northern Ireland NSND income tax	163.5	188.2	204.1	216.2	223.3	231.6	242.8	256.9
Whole UK NSND income tax excluding Scottish income tax	168.4	193.8	210.2	222.7	230.1	238.6	250.1	264.7
UK Government NSND income tax <sup>2</sup>	166.2	191.4	207.6	219.9	227.2	235.6	246.9	261.3
		Percentage change on a year earlier						
<b>Whole UK NSND income tax</b>		<b>15.0</b>	<b>8.4</b>	<b>5.9</b>	<b>3.3</b>	<b>3.7</b>	<b>4.8</b>	<b>5.8</b>
<i>of which:</i>								
Welsh Government income tax (WRIT basis)		12.2	8.5	7.3	4.7	3.4	4.5	5.9
UK Government NSND income tax from Wales		14.4	8.7	7.2	4.5	3.6	5.0	6.4
Scottish income tax		13.0	8.0	4.5	2.7	3.4	4.4	5.4
England and Northern Ireland NSND income tax		15.2	8.4	5.9	3.3	3.7	4.8	5.8
Whole UK NSND income tax excluding Scottish income tax		15.1	8.4	5.9	3.3	3.7	4.8	5.8
UK Government NSND income tax <sup>2</sup>		15.2	8.4	5.9	3.3	3.7	4.8	5.8

<sup>1</sup> Currently outturn data is only available for 2020-21, and 2021-22 remains a forecast.

<sup>2</sup> 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
<b>England and Northern Ireland NSND income tax (WRIT basis)</b>	<b>60.7</b>	<b>69.8</b>	<b>75.8</b>	<b>80.2</b>	<b>83.0</b>	<b>86.0</b>	<b>90.0</b>	<b>95.0</b>
<i>of which:</i>								
Basic rate	41.5	47.8	52.0	55.4	57.5	59.5	61.9	65.2
Higher rate	11.4	12.6	13.7	13.0	13.3	13.8	14.6	15.5
Additional rate	7.7	9.3	10.1	11.9	12.2	12.8	13.4	14.3
<b>Welsh Rates</b>	<b>2.1</b>	<b>2.4</b>	<b>2.6</b>	<b>2.8</b>	<b>2.9</b>	<b>3.0</b>	<b>3.2</b>	<b>3.3</b>
<i>of which:</i>								
Basic rate	1.8	2.0	2.2	2.4	2.5	2.6	2.7	2.8
Higher rate	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Additional rate	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
		Percentage change on a year earlier						
<b>England and Northern Ireland NSND income tax (WRIT basis)</b>		<b>15.1</b>	<b>8.5</b>	<b>5.9</b>	<b>3.5</b>	<b>3.6</b>	<b>4.6</b>	<b>5.6</b>
<i>of which:</i>								
Basic rate		15.2	8.7	6.5	3.8	3.5	4.1	5.3
Higher rate		10.6	8.4	-5.1	2.6	3.6	5.9	6.2
Additional rate		21.1	8.0	18.0	3.0	4.2	5.3	6.5
<b>Welsh Rates</b>		<b>17.7</b>	<b>8.5</b>	<b>7.3</b>	<b>4.7</b>	<b>3.4</b>	<b>4.5</b>	<b>5.9</b>
<i>of which:</i>								
Basic rate		15.9	8.4	7.4	4.8	3.3	4.0	5.5
Higher rate		28.5	9.3	6.8	3.9	3.9	7.1	7.9
Additional rate		35.4	8.8	6.8	4.3	4.7	5.8	8.1

Table B.3: Property transactions taxes

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Whole UK property transaction taxes</b>	<b>15,299</b>	<b>17,029</b>	<b>12,444</b>	<b>12,279</b>	<b>14,582</b>	<b>17,765</b>	<b>20,116</b>
<i>of which:</i>							
Land transaction tax (Wales)	402	389	310	297	337	399	449
LBTT (Scotland)	799	852	697	676	765	901	1,014
SDLT (England and Northern Ireland)	14,098	15,788	11,438	11,306	13,480	16,465	18,654
<b>UK excluding Scottish LBTT</b>	<b>14,500</b>	<b>16,177</b>	<b>11,748</b>	<b>11,603</b>	<b>13,817</b>	<b>16,864</b>	<b>19,102</b>
		Percentage change on a year earlier					
<b>Whole UK property transaction taxes</b>		<b>11.3</b>	<b>-26.9</b>	<b>-1.3</b>	<b>18.8</b>	<b>21.8</b>	<b>13.2</b>
<i>of which:</i>							
Land transaction tax (Wales)		-3.2	-20.5	-4.1	13.5	18.3	12.5
LBTT (Scotland)		6.6	-18.2	-3.0	13.2	17.9	12.5
SDLT (England and Northern Ireland)		12.0	-27.6	-1.2	19.2	22.1	13.3
<b>UK excluding Scottish LBTT</b>		<b>11.6</b>	<b>-27.4</b>	<b>-1.2</b>	<b>19.1</b>	<b>22.0</b>	<b>13.3</b>

Table B.4: Landfill taxes

	£ million						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Whole UK landfill taxes</b>	<b>854</b>	<b>835</b>	<b>775</b>	<b>740</b>	<b>682</b>	<b>670</b>	<b>683</b>
of which:							
Landfill disposals tax (Wales)	45	44	41	41	40	39	39
Scottish landfill tax	125	114	83	81	65	16	16
Landfill tax (England and Northern Ireland)	683	677	651	619	578	616	628
UK excluding Scottish landfill tax	728	722	692	659	618	655	667
		Percentage change on a year earlier					
<b>Whole UK landfill taxes</b>		<b>-2.1</b>	<b>-7.3</b>	<b>-4.4</b>	<b>-7.8</b>	<b>-1.8</b>	<b>1.8</b>
of which:							
Landfill disposals tax (Wales)		-2.6	-6.4	-1.4	-3.0	-2.3	-0.2
Scottish landfill tax		-9.2	-27.3	-2.2	-20.1	-75.8	2.4
Landfill tax (England and Northern Ireland)		-0.8	-4.0	-4.9	-6.5	6.5	2.0

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	3,313	3,856	4,201	4,369	4,651	4,884
Personal independence payment <sup>1</sup>	15,053	17,603	21,677	24,628	26,505	28,498	30,710
Disability living allowance <sup>1</sup>	5,715	5,945	6,538	6,969	6,921	6,834	6,882
Attendance allowance <sup>1</sup>	5,307	5,626	6,432	7,063	7,310	7,512	7,741
Industrial disablement benefit	705	683	724	736	705	676	656
Severe disablement allowance	63	58	56	49	43	36	29
Cold weather payment	0	17	17	17	17	17	17

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.

<sup>1</sup> This does not include the two disability cost of living payments in 2022-23 and 2023-24.



