Office for
Budget
Responsibility

Devolved tax and spending forecasts

October 2021

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. Given these challenges, we generally use approaches based on estimating and projecting representative shares of relevant UK-wide tax streams for the devolved nations. 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 October 2021 *EFO* describes the timetable that was followed in producing our UK-wide forecasts. We finalised our pre-measures fiscal forecast earlier than usual in order to give the Chancellor a stable base on which to make decisions for the Budget and Spending Review. The pre-measures economy forecast was closed on 24 September and the fiscal forecast on 1 October. They reflect information gathered from financial market prices over the ten days to 15 September. After that, the only changes related to Budget and Spending Review measures and other polices announced since the March 2021 *EFO*.

1.7 Our devolved tax and spending forecasts are consistent with the central forecast for the UK economy and public finances presented in our October 2021 *EFO*. As it explains, the continuing vaccine rollout and booster programme, the risk of further public health interventions, and the potential long-term implications of the pandemic, all remain areas of uncertainty when determining the economic outlook. In addition, in the period since we closed the forecast to new data there has been an unusual amount of economic news from a range of sources including Blue Book revisions to the Quarterly National Accounts data, higher interest rates and higher energy prices. Our preliminary assessment is that the implications of the latest news for our medium-term, UK-wide fiscal forecast are relatively modest, with risks in both directions. We therefore continue to emphasise the unusual degree of uncertainty around the forecasts presented here.

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 14 and 16 September; and
- a **final set of forecasts** was produced on 22 October, 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 their **block grant calculations**.

2 Income tax

Introduction

2.1 Scottish income tax (SIT) and the Welsh rates of income taxes (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 2021-22, thereby keeping income tax at the same overall rates as are paid by taxpayers in England and Northern Ireland.

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

Methodology

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

- first, we generate a **UK 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 the UK 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 receipts. Outturn data on liabilities, for Scotland and the UK, are published with a long lag. For the Welsh rates, the first year of outturn data was published in July 2021. This means that our estimates for past years can change as a result of new data becoming available, as well as the forecasts themselves changing. The latest outturn year for which Scottish and Welsh income tax liabilities are available is 2019-20.

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

UK forecast

2.8 Despite the sharp fall in nominal GDP in 2020-21, UK-wide NSND income tax liabilities actually rose modestly (by £4.4 billion) as incomes were supported by pandemic-related schemes. Revenues rise modestly in 2021-22, then more steadily from 2022-23 onwards. Relative to our March forecast, liabilities were higher than expected in 2020-21, after which they have been revised up more significantly (by an average of £22 billion or 11 per cent). This revision is largely thanks to a faster recovery so far this year, a downward revision to the degree to which we expect real GDP to be scarred by the pandemic (from 3 to 2 per cent), and higher and more sustained inflation boosting nominal GDP. This all results in substantial upward revisions to the income tax base. We have also revised up the expected yield from the income tax threshold freezes announced in the UK Government's March 2021 Budget, as significantly higher inflation increases the amount raised relative to the pre-measures position in which thresholds increased with CPI inflation. On a liabilities basis, the yield in 2025-26 has been revised up by £15.5 billion.

2.9 The effects of individual UK Government policies in this Budget on non-savings, non-dividend income tax liabilities is dominated by the (largely indirect) consequences of two measures whose direct effect is outside the NSND tax base:

- A 1.25 percentage point increase in the rate of NICs on employees, employers and the self-employed for 2022-23 only, which is then replaced by **a new 1.25 per cent health and social care levy** on the same terms from 2023-24 onwards. This reduces income tax via both its indirect effects on wages and the increased incentive to incorporate that it generates. We assume that 80 per cent of the economic incidence of the levy is passed through by firms to lower nominal wages within two years (with the other 20 per cent passed through to consumers via higher prices, and profits absorbing some of the cost in the first year). This leaves nominal wages 0.5 per cent lower from 2023-24 onwards. In addition, increased marginal tax rates for those who are employed or self-employed strengthen the incentive to set up as a company to pay corporate taxes instead of income tax. In total, these effects reduce UK NSND income tax liabilities by amounts rising from £2.2 billion in 2022-23 to £3.9 billion in 2025-26.
- The **1.25 percentage point increase in tax rates levied on dividend income**, which affects NSND income tax liabilities by reducing the incentive for individuals to

incorporate. This increases UK NSND income tax liabilities by £0.1 billion in 2023-24, rising to £0.4 billion by 2025-26, partly offsetting the effects of the levy.

2.10 In addition, the October 2021 Budget and Spending Review announced a material discretionary fiscal loosening, which boosts the level of nominal GDP by 0.4 per cent in 2022-23, with growth slightly weaker thereafter as the direct effect of discretionary easing fades. In isolation, this raises NSND income tax liabilities by a maximum of £4.8 billion in 2022-23 and declining amounts thereafter. From 2024-25 onwards, the NSND income tax losses associated with the health and social care levy outweigh the gains from other sources.

Table 2.1: UK NSND income tax forecast

	£ billion							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast restated	174.9	177.7	178.9	190.8	198.0	212.5	225.0	
October forecast	176.8	182.0	198.0	212.0	223.7	233.8	248.1	261.8
Change	**1.9**	**4.4**	**19.1**	**21.2**	**25.7**	**21.3**	**23.1**	
of which:								
UK NSND outturn alignment		4.6	4.9	5.2	5.5	5.8	6.2	
Pre-measures forecast		-0.2	14.1	13.5	18.0	15.7	19.0	
Effects of UK Government policies		0.0	0.1	2.6	2.3	-0.1	-2.0	
of which:								
Health and social care levy		0.0	0.0	-2.2	-3.0	-3.1	-3.9	
Dividend tax rate increase		0.0	0.0	0.0	0.1	0.3	0.4	
Other direct effects		0.0	0.0	0.0	0.4	0.4	0.5	
Other indirect effects		0.0	0.0	4.8	4.7	2.2	1.0	

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). This is an annual sample of around 768,000 individuals in contact with HMRC during a year through the PAYE, self-assessment or repayment claim systems. Table 2.2 shows how the SPI-based Scottish and Welsh shares of all UK income tax liabilities have changed in recent years. These shares rose slightly in 2018-19, halting the steady decline that had been seen since 2014-15.

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

	Per cent					
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Scotland	7.1	7.1	6.9	6.8	6.5	6.7
Wales	2.8	2.8	2.7	2.7	2.6	2.7

2.12 The most recently available SPI data are for 2018-19. We use this to calculate an initial share of UK NSND income tax liabilities for both Scotland and Wales. We then project these SPI-based shares over the forecast period, making adjustments for:

- **Population.** We use an index based on the latest ONS population projections to reflect the slower growth of the working-age population expected in Scotland and Wales.

- **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 tax payers. We also include RTI data from the current year, incorporating judgements based on the first four months of 2021-22 in our adjustments.

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

- **Outturn.** We align our forecasts to the 2019-20 outturn. This reduces the Scottish share by 0.3 percentage points in each year of the forecast but has little effect on the Welsh share. This is the first time we have been able to do this for Wales, using the first outturn data for the Welsh rates of income tax published in July.

2.13 Table 2.3 reports our latest forecast for the Scottish share and the change since March, which has been revised down by 0.20 percentage points on average across the forecast. This downward revision reflects alignment of the shares with the outturn for 2019-20, which was lower than expected relative to UK NSND receipts, and an adjustment to reflect the effect of the pandemic-driven fall in oil prices on the NSND income tax base.

2.14 In our November 2020 *Devolved tax and spending forecasts* document we discussed the impact of falling oil prices at the start of the pandemic, comparing this to a similar drop in 2016-17, but remained uncertain about the ultimate effects for 2020-21. It is now clearer that the oil price fall reduced the Scottish share of income tax for 2020-21, reflecting Scotland's greater reliance on tax revenues from this sector than the UK as a whole. This has led us to revise down shares in 2020-21 and 2021-22, with a partial recovery in 2022-23. The downward revisions from 2023-24 onwards reflect the pre-existing population-driven downward trend being applied to this lower base.

Table 2.3: Post-measures Scottish share of NSND income tax

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast	6.74	6.72	6.70	6.68	6.67	6.63	6.63	
October forecast	6.69	6.59	6.51	6.50	6.46	6.42	6.37	6.35
Change	**-0.05**	**-0.13**	**-0.19**	**-0.18**	**-0.21**	**-0.21**	**-0.26**	
RTI Index (2019-20=100)		*98.2*	*97.2*	*97.7*	*97.7*	*97.7*	*97.7*	*97.7*
Index of relative population growth (2020-21=100		*100.0*	*99.5*	*99.3*	*99.0*	*98.8*	*98.6*	*98.3*

2.15 In our March forecast we included a temporary adjustment to the Welsh share reflecting in-year RTI data for 2020-21. This adjustment has been removed for this forecast and replaced with updated RTI data for last year and the first four months of 2021-22. This change results in modest reductions in our forecast for the Welsh share between 2020-21 and 2021-22, as shown in Table 2.4.

Table 2.4: Post-measures Welsh share of NSND income tax

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast	1.16	1.18	1.18	1.17	1.17	1.17	1.17	
October forecast	1.15	1.17	1.16	1.17	1.18	1.18	1.17	1.17
Change	**0.00**	**-0.01**	**-0.02**	**0.00**	**0.01**	**0.00**	**0.00**	
RTI Index (2019-20=100)		*100.8*	*100.8*	*100.8*	*100.8*	*100.8*	*100.8*	*100.8*
Index of relative population growth (2020-21=100)		*100.0*	*99.4*	*99.2*	*99.1*	*98.9*	*98.7*	*98.5*

Scottish forecast

2.16 Table 2.5 presents our latest Scottish income tax forecast and the changes since March. Liabilities are up in all years, by an average of £843 million (6 per cent). This is almost entirely explained by the upward revision to pre-measures UK-wide liabilities, which add nearly £1.1 billion a year from 2021-22 onwards. Our lower forecast for the Scottish share of income tax reduces revenue by an average of £428 million a year across the forecast, but this is largely offset by the alignment of outturn data across countries.

2.17 As with UK-wide liabilities: the introduction of the new health and social care levy reduces liabilities (by amounts rising from £211 million in 2023-24 to £300 million in 2025-26); the higher dividend tax rate lifts liabilities modestly (by £14 million a year on average); and the wider boost to the tax base from the discretionary fiscal easing raises liabilities (particularly in 2022-23 and 2023-24, by £312 million and £305 million respectively). The net effect is to lift revenues in the first half of the forecast but reduce them thereafter.

Table 2.5: Changes in Scottish NSND income tax since March

	£ million							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast restated	11,791	11,940	11,988	12,752	13,212	14,097	14,914	
October forecast	11,833	12,004	12,883	13,789	14,451	15,019	15,811	16,621
Change	**41**	**64**	**895**	**1,037**	**1,239**	**923**	**898**	
of which:								
Scottish share modelling		-230	-383	-384	-477	-496	-599	
UK NSND outturn alignment		300	318	336	352	370	393	
UK NSND forecast and other changes		-6	955	910	1,210	1,052	1,271	
Effects of UK Government policies		0	5	174	153	-4	-168	
of which:								
Health and social care levy		0	3	-137	-211	-214	-300	
Dividend tax rate increase		0	0	0	5	15	23	
Other direct effects		0	2	-1	54	52	49	
Other indirect effects		0	0	312	305	143	61	

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.

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 in between each forecast. To facilitate comparisons, we have agreed with the SFC to publish a standard set of income tax comparison tables that will be updated and presented each time either of us publish a new forecast. Tables 2.6 to 2.8 compare our current forecast to the SFC's latest forecast, which was published in August.

2.20 Table 2.6 compares the determinants used in our respective forecasts. Our forecasts relate to the UK as a whole, while the SFC's are specific to Scotland. Even so, both show very similar overall growth in wages and salaries, which rise by around 22 per cent between 2019-20 and 2025-26. The main difference between our forecasts relate to the composition of growth, with employment growth contributing more to our UK-wide forecast and average earnings growth contributing more to the SFC's Scotland-specific forecast. The profile of our forecast across years is more uneven than the SFC's, reflecting the short-term boost to incomes from the fiscal easing in the Budget, which diminishes over time.

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

	Percentage change on a year earlier					
	Outturn	Forecast				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Employment						
SFC	-3.1	1.0	0.5	0.3	0.1	0.0
OBR	-1.7	-0.1	1.3	1.0	0.5	0.4
Difference	1.4	-1.1	0.8	0.7	0.4	0.4
Average nominal earnings						
SFC	2.7	5.1	3.8	3.3	3.2	3.4
OBR	1.4	5.2	4.0	2.5	2.3	3.1
Difference	-1.3	0.0	0.1	-0.8	-0.9	-0.3
Wages & salaries						
SFC[1]	0.0	5.9	4.4	3.6	3.3	3.5
OBR	1.4	5.5	4.8	3.0	2.4	3.2
Difference	1.3	-0.4	0.5	-0.7	-0.9	-0.3
	Index: 2019-20 = 100					
Employment						
SFC	96.9	97.9	98.4	98.7	98.8	98.8
OBR	98.3	98.2	99.5	100.5	101.0	101.4
Difference	1.4	0.3	1.2	1.8	2.3	2.6
Average nominal earnings						
SFC	102.7	108.0	112.1	115.8	119.6	123.7
OBR	101.4	106.6	110.9	113.6	116.2	119.8
Difference	-1.3	-1.3	-1.2	-2.2	-3.3	-3.8
Wages & salaries						
SFC[1]	100.0	105.9	110.5	114.6	118.4	122.5
OBR	101.4	107.0	112.1	115.4	118.2	122.0
Difference	1.3	1.0	1.6	0.9	-0.2	-0.5

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

2.21 Table 2.7 decomposes our forecast for UK NSND income tax and compares our respective forecasts for Scotland. Our forecast shows stronger growth in NSND revenues in England and Northern Ireland than the SFC's forecast shows for growth in Scottish income tax revenues. But thanks to our assumption that a declining share of UK-wide NSND revenues will come from Scotland, our forecast shows *slower* growth in Scottish income tax revenues than the SFC's does. That leaves our forecast £380 million a year lower on average than the SFC's forecast. Implicitly, therefore, our forecast for growth in wages and salaries in Scotland is weaker than the SFC's, despite our UK-wide forecast being similar. In addition, all else equal the SFC's more earnings-led forecast for growth in wages and salaries should be more tax-rich than our employment-led forecast by generating greater fiscal drag.

2.22 Finally, Table 2.8 provides a broadly comparable breakdown of the revisions each of us have made between our previous and latest forecasts (March to October in our case and January to August in the SFC's). It shows that they are driven primarily by changes in forecast determinants as shown by the contribution of the 'Forecast and other changes' line. The smaller contribution of these factors to the change in our forecast is partly a result of the way we model Scottish income tax as a share of UK NSND income tax (which will place some of the equivalent revision in the 'Modelling and outturn' row), but will also relate in part to the differing growth paths in our UK determinants relative to the SFC's Scottish ones.

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

	£ million						
	Outturn	Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
SFC							
SIT (a)	11,833	11,938	13,162	14,069	14,845	15,660	16,556
OBR							
UK NSND	176,791	182,044	197,951	212,010	223,742	233,797	248,079
of which:							
UK ex. SIT and WRIT	162,917	167,913	182,767	195,743	206,662	216,029	229,356
WRIT	2,041	2,127	2,301	2,478	2,629	2,748	2,911
SIT (b)	11,833	12,004	12,883	13,789	14,451	15,019	15,811
OBR vs. SFC (b-a)		66	-279	-280	-394	-641	-744
	Percentage change on a year earlier						
SFC: SIT		0.9	10.3	6.9	5.5	5.5	5.7
OBR: UK ex. SIT and WRIT		3.1	8.8	7.1	5.6	4.5	6.2
Difference		2.2	-1.4	0.2	0.1	-1.0	0.4
	Index (2019-20 = 100)						
SFC: SIT		100.9	111.2	118.9	125.5	132.3	139.9
OBR: UK ex. SIT and WRIT		103.1	112.2	120.1	126.9	132.6	140.8
Difference		2.2	0.9	1.2	1.4	0.3	0.9

Table 2.8: Changes to SFC Scottish income tax and OBR UK NSND excluding SIT and WRIT income tax forecasts

	£ million, unless otherwise stated						
	Outturn	Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
SFC, SIT							
January 2021	11,838	11,850	12,263	12,907	13,481	14,080	14,718
August 2021	11,833	11,938	13,162	14,069	14,845	15,660	16,556
Change since previous	-6	88	899	1,162	1,364	1,580	1,838
Per cent change since previous	0.0	0.7	7.3	9.0	10.1	11.2	12.5
of which:							
Modelling and outturn		-0.5	-0.4	-0.4	-0.4	-0.4	-0.5
Forecast and other changes		1.2	7.7	9.4	10.5	11.7	12.9
Government policies		0.0	0.0	0.0	0.0	0.0	0.0
OBR, UK NSND ex. SIT and WRIT							
March 2021	161,058	163,629	164,792	175,819	182,485	195,901	207,405
October 2021	162,917	167,913	182,767	195,743	206,662	216,029	229,356
Change since previous	1,860	4,284	17,976	19,924	24,177	20,128	21,952
Per cent change since previous	1.2	2.6	10.9	11.3	13.2	10.3	10.6
of which:							
Modelling and outturn		2.7	3.0	2.9	3.0	3.0	3.0
Forecast and other changes		-0.1	7.9	7.1	9.1	7.4	8.4
Government policies		0.0	0.0	1.3	1.2	-0.1	-0.9

Note: The SFC provided revised figures for the percentage breakdown as compared to their original August 2021 publication.

Welsh forecast

2.23 Table 2.9 sets out our latest forecast for the Welsh rates of income tax and a breakdown of the changes since March, while Table 2.10 shows the forecast by tax band. In line with our Scottish forecast, we have revised the Welsh forecast up by £217 million (9 per cent) on average, close to three-quarters of which relates to the improved outlook for UK NSND receipts. Adjustments to the Welsh share provide only a small offset in most years.

2.24 Again as with UK-wide liabilities: the introduction of the new health and social care levy reduces liabilities (by amounts rising from £28 million in 2023-24 to £39 million in 2025-26); the higher dividend tax rate lifts liabilities modestly (by £2 million a year on average); and the wider boost to the tax base from the discretionary fiscal easing raises liabilities (particularly in 2022-23 and 2023-24, by £56 million and £55 million respectively). The net effect is positive in the first years of the forecast but negative thereafter.

Table 2.9: Changes in the Welsh rates of income tax forecast since March

	£ million							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast restated	2,027	2,093	2,113	2,233	2,315	2,495	2,643	
October forecast	2,041	2,127	2,301	2,478	2,629	2,748	2,911	3,063
Change	**14**	**34**	**188**	**245**	**315**	**253**	**268**	
of which:								
Welsh share modelling		-17	-37	-12	0	-11	-14	
UK NSND outturn alignment		53	57	60	64	67	72	
UK NSND forecast and other changes		-2	168	158	210	184	223	
Effects of UK Government policies		0	1	38	41	12	-12	
of which:								
Health and social care levy		0	0	-17	-28	-28	-39	
Dividend tax rate rise		0	0	0	1	3	4	
Other direct effects		0	0	0	13	12	11	
Other indirect effects		0	0	56	55	26	11	

Table 2.10: Forecast of Welsh rates of income tax by tax band

	£ million							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
October forecast	2,041	2,127	2,301	2,478	2,629	2,748	2,911	3,063
of which:								
Basic rate	1,762	1,818	1,953	2,098	2,208	2,292	2,412	2,528
Higher rate	233	260	292	318	346	375	415	445
Additional rate	45	50	57	61	75	82	84	90
	Per cent							
Basic rate	86.3	85.4	84.9	84.7	84.0	83.4	82.9	82.5
Higher rate	11.4	12.2	12.7	12.8	13.1	13.6	14.3	14.5
Additional rate	2.2	2.4	2.5	2.5	2.9	3.0	2.9	2.9

Box 2.1: Evaluating our forecasts for devolved income tax

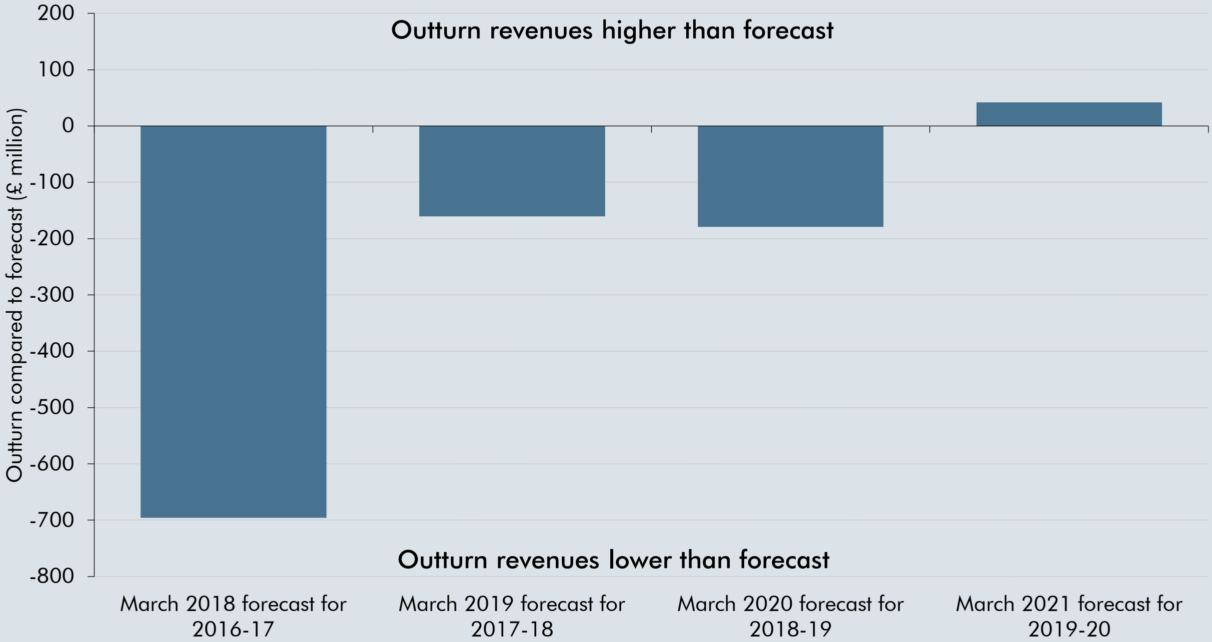
HMRC published 2019-20 outturn data for Scottish income tax and the Welsh rates of income tax in July 2021. This was the first year of Welsh outturn and the fourth year of Scottish outturn.[a] Assessing the performance of our forecasts after the event is important for transparency and accountability, while also helping us to understand and identify ways to improve them.

Chart A shows the narrowing differences between our final March forecasts for Scottish income tax ahead of the release of each HMRC outturn estimate for the past four years. Because of the lag in publishing outturn, these 'forecasts' are produced well after the end of the year to which they relate. At this point, we know UK-wide receipts for the year in question (although self-assessment data are provisional) and know from RTI the breakdown of PAYE receipts by country. These differences therefore shine a light on the performance of our Scottish share modelling.

The narrowing of forecast differences over time reflects:

- **The availability of Scottish income tax outturns.** The £696 million (6.5 per cent) overestimate in our March 2017 forecast for 2016-17 reflected the fact that no outturn data for prior years were available at the time to calibrate our model. Instead, the Scottish share of UK-wide revenues was estimated from the SPI, which proved to be an overestimate. We discussed this in more depth in our October 2018 *Devolved tax and spending forecasts* document.
- **Improved used of RTI data.** The 2016-17 outturn allowed us to calibrate the share of Scottish income tax in our model, so that our forecast could focus exclusively on how the share would change from this starting point. This resulted in much reduced errors for 2017-18 and 2018-19 (£161 million and £179 million overestimates respectively, averaging 1.5 per cent). Our March 2021 forecast for 2019-20 was our most accurate yet (a £42 million or 0.4 per cent underestimate), having benefitted from further refinements to our use of RTI data.

Chart A: Outturn compared to pre-outturn forecast for Scottish income tax



Source: OBR

Lessons learnt in modelling the Scottish income tax share have been applied to our forecasting of the Welsh rates of income tax. But in the absence of an outturn for 2018-19 to which we could calibrate the model, there was a risk that the forecast error in respect of 2019-20 outturn could be large (as had been the case with Scottish income tax revenues for 2016-17). In the event, the 2019-20 outturn was within 1 per cent of our March 2021 forecast.

[a] Devolution of the Welsh rates of income tax took effect from 6 April 2019 and so 2019-20 is the first year of their implementation.

3 Taxes on property transactions

Introduction

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

Methodology

3.2 Our forecasts for property transaction taxes start with our UK-wide property market forecasts, and we assume that Scottish and Welsh prices and transactions will move in line with those for the UK as a whole unless there are clearly reasons to depart from that. As set out in paragraphs 3.4 to 3.7, we have departed from that assumption in this instance in our forecast for 2021-22 due to the different experiences in each property market during 2020-21 brought about by the pandemic and the various temporary tax holidays.

3.3 Both forecasts involve three steps:

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

Latest property market forecasts

3.4 At the whole UK level, house prices have generally outperformed our expectations since the start of the pandemic, while residential transactions rose sharply in the latter part of 2020 and into 2021 (after dropping sharply in the initial lockdown) but are expected to fall later this year. These movements reflect changing housing needs as a result of the pandemic, the build-up of 'forced savings' flowing into house purchases, and time-limited transaction tax holidays. Developments have been uneven across the UK in several respects:

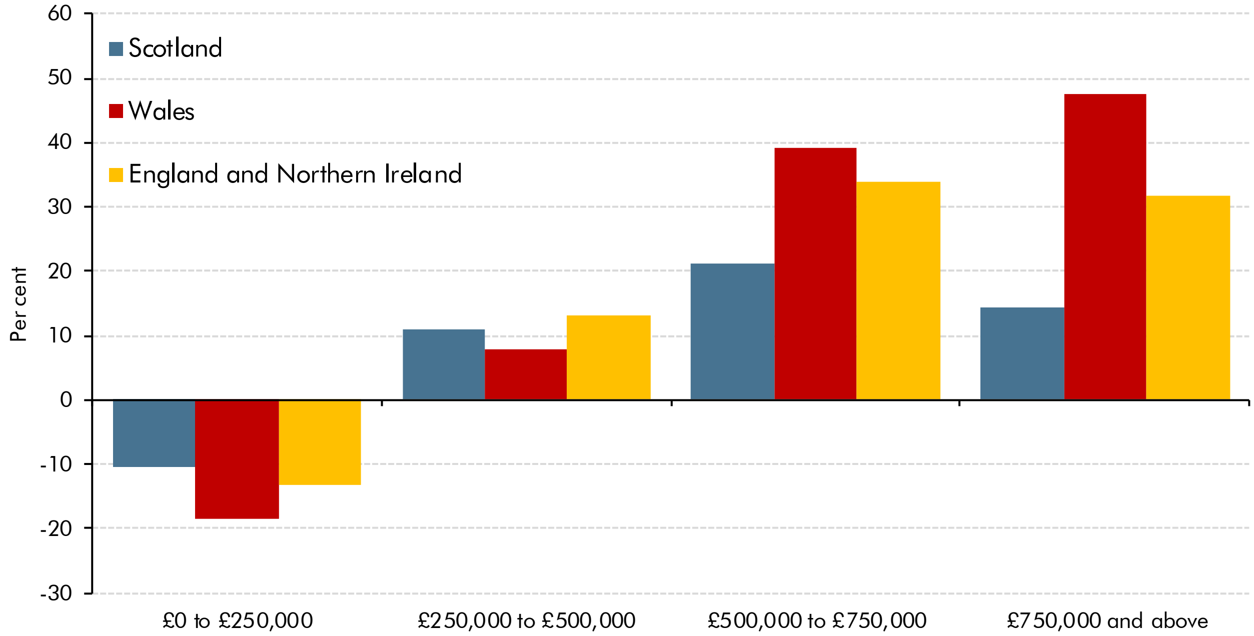
[1] For more detailed explanations of the structure of these taxes and how we produce our forecasts for LBTT and LTT, see our March 2019 *Devolved tax and spending forecasts* or our December 2019 *Welsh taxes outlook*. Also see the 'forecast in-depth' section of our website.

- **House prices.** While annual house price inflation has picked up everywhere, in England and Wales it peaked in June 2021 at 12.9 and 16.5 per cent respectively, whereas in Scotland it reached 16.9 per cent in August. In 2020-21 as a whole, house prices rose by 4.5, 4.7 and 5.4 per cent respectively in England, Scotland and Wales.

- **Property transactions.** UK-wide residential property transactions increased by 1 per cent in 2020-21 as a whole, as the shortfall in transactions in the first half of the year was slightly outweighed by the boom in the second half. In Scotland, transactions fell 6 per cent, reflecting a sharper fall at the start of the year. In Wales they fell 13 per cent, thanks to both a sharper initial fall and a less dramatic rebound.

- **The price distribution of transactions.** All three tax systems have progressive structures (including during the period of temporary tax holidays in each), so differences in the composition of transactions can influence tax receipts. Across the UK, transactions increased much faster for higher-priced properties than for lower-priced ones (Chart 3.1). This increased the effective tax rate relative to what would have been seen had the price distribution of transactions been unchanged from 2019-20.

Chart 3.1: Growth in residential property transactions by price in 2020-21



Source: HMRC, Revenue Scotland, WRA

3.5 The drivers of differences in transactions growth and the more tax-rich composition are likely to be temporary, so we have assumed they unwind over 2021-22. That means transactions bounce back strongly in both Scotland and Wales, while the effective tax rate falls back to a point consistent with the 2019-20 distribution of transactions. Our forecasts for residential prices and transactions in 2021-22 in the Scottish and Welsh property markets therefore diverge from our UK-wide forecasts. From 2022-23 onwards we use the same determinants as in our UK-wide property market forecasts (Table 3.1).

3.6 Relative to March, we have revised up our forecasts for both residential prices and transactions in Scotland and Wales for 2021-22. For prices, this reflects the unexpectedly strong performance in the year to date. For transactions, it reflects a rebound from the sharper than expected falls in transactions in 2020-21. From 2022-23 onwards we expect house price inflation to slow, bringing the house price to income ratio back to pre-pandemic levels. Transactions also fall back in 2022-23, before rising modestly thereafter. Relative to our March forecast, both prices and transactions are higher in 2025-26.

Table 3.1: Forecasts for residential property prices and transactions

	Percentage change on a year earlier						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Scotland							
House prices							
March forecast[1]	4.8	2.8	-1.3	1.6	4.3	4.1	
October forecast	6.7	5.7	2.2	1.0	2.2	3.1	3.6
Change	**1.8**	**2.9**	**3.5**	**-0.5**	**-2.1**	**-1.1**	
Housing transactions							
March forecast	-2.3	12.5	4.1	1.2	0.9	0.8	
October forecast	-8.0	22.0	-1.4	3.2	1.7	1.0	1.2
Change	**-5.6**	**9.6**	**-5.5**	**2.1**	**0.9**	**0.2**	
Wales							
House prices							
March forecast	4.8	2.8	-1.3	1.6	4.3	4.1	
October forecast	6.7	7.8	2.2	1.0	2.2	3.1	3.6
Change	**1.8**	**5.0**	**3.5**	**-0.5**	**-2.1**	**-1.1**	
Housing transactions							
March forecast	-2.3	12.5	4.1	1.2	0.9	0.8	
October forecast	-12.8	29.9	-1.4	3.2	1.7	1.0	1.2
Change	**-10.5**	**17.5**	**-5.5**	**2.1**	**0.9**	**0.2**	

Note: Our March forecasts for 2020-21 were on a UK basis, whereas the outturn numbers displayed for 2020-21 at this event are specific to Scotland and Wales. The figure given for Scotland differs from that in paragraph 3.5 because it shows the change in the volume of residential transactions liable for LTT, rather than the change in total residential transactions.

3.7 As with the residential markets, we assume that commercial transactions in Scotland and Wales will return to the price distribution seen in 2019-20 as pandemic-induced changes in 2020-21 unwind. This involves a strong rebound in transactions in both Scotland and Wales in 2021-22 (Table 3.2). Relative to our March forecast, commercial prices have been revised up 2 per cent by 2025-26, whereas transactions are down 11 per cent.

Table 3.2: Forecasts for commercial property prices and transactions

	Percentage change on a year earlier						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Scotland							
Commercial prices							
March forecast	-8.7	-0.9	0.1	1.8	2.1	2.2	
October forecast	-9.7	2.3	2.2	2.2	1.9	2.0	2.1
Change	**-1.0**	**3.2**	**2.0**	**0.4**	**-0.2**	**-0.2**	
Commercial transactions							
March forecast	-19.5	10.9	4.9	3.9	3.8	3.4	
October forecast	-13.6	16.7	-1.0	1.7	1.4	1.6	1.7
Change	**5.9**	**5.8**	**-5.9**	**-2.2**	**-2.4**	**-1.8**	
Wales							
Commercial prices							
March forecast	-8.7	-0.9	0.1	1.8	2.1	2.2	
October forecast	3.0	2.3	2.2	2.2	1.9	2.0	2.1
Change	**11.6**	**3.2**	**2.0**	**0.4**	**-0.2**	**-0.2**	
Commercial transactions							
March forecast	-19.5	10.9	4.9	3.9	3.8	3.4	
October forecast	-8.7	10.4	-1.0	1.7	1.4	1.6	1.7
Change	**10.8**	**-0.5**	**-5.9**	**-2.2**	**-2.4**	**-1.8**	

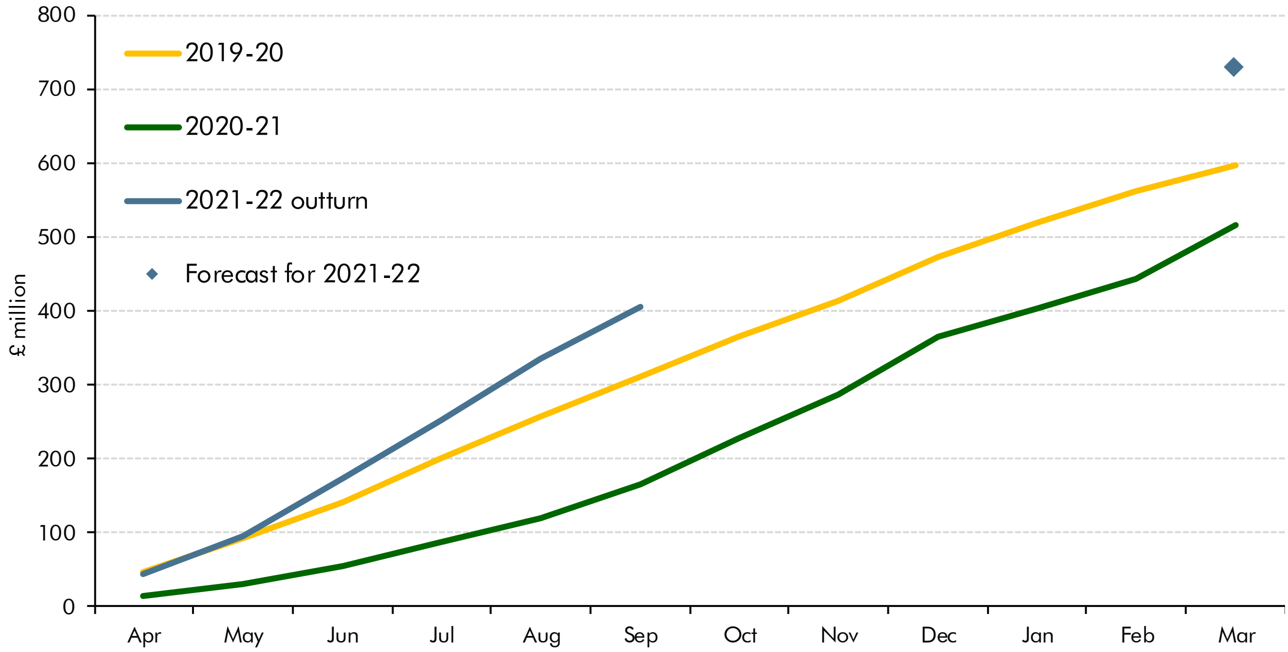
Note: Our March forecasts for 2020-21 were on a UK basis, whereas the outturn numbers displayed for 2020-21 at this event are specific to Scotland and Wales.

Land and buildings transaction tax

Latest LBTT outturn data

3.8 Total LBTT receipts in the first half of 2021-22 are well over double the level recorded in the lockdown-depressed first half of last year, and, more meaningfully, are up 24 per cent relative to 2019-20 (Chart 3.2). This reflects continued momentum in both the residential and commercial markets from the latter part of 2020-21 onwards. We expect receipts in the remainder of the year to follow a path more similar to that seen in 2019-20, since 2020-21 was affected first by lockdowns and then by the Scottish Government's temporary raising of the LBTT nil-rate threshold from 15 July to the end of the year. This leaves receipts in 2021-22 up £132 million (22 per cent) and £212 million (41 per cent) relative to 2019-20 and 2020-21, respectively.

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



Source: Revenue Scotland, OBR

LBTT forecast

3.9 Table 3.3 sets out our latest LBTT forecast compared to March. Receipts are up by an average of £73 million (10 per cent) a year across the forecast period. Around two-thirds of this upward revision is due to a stronger outlook for residential main rates receipts. We describe each element of the forecast next.

Table 3.3: Land and buildings transaction tax forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total LBTT							
March forecast	538	650	688	723	784	847	
October forecast	517	731	773	811	849	895	949
Change	**-21**	**80**	**86**	**88**	**64**	**48**	
Residential LBTT (excluding ADS)							
March forecast	271	367	377	395	438	483	
October forecast	260	404	438	459	485	518	557
Change	**-11**	**38**	**61**	**63**	**47**	**35**	
Additional dwellings supplement (ADS)							
March forecast	119	121	138	144	151	157	
October forecast	115	137	143	152	156	161	167
Change	**-4**	**16**	**5**	**7**	**5**	**4**	
Commercial LBTT							
March forecast	148	163	173	184	195	207	
October forecast	143	189	192	200	208	216	225
Change	**-5**	**27**	**19**	**17**	**12**	**9**	

Residential LBTT forecast

3.10 Table 3.4 shows the sources of revision to our residential LBTT forecast since March. Receipts have been revised up in each year of the forecast, by an average of £56 million (8 per cent). This is largely thanks to a more optimistic near-term outlook for prices, the effects of which diminish from 2022-23 onwards as our latest forecast for house prices converges towards the levels forecast in March. Modelling changes (largely the result of calibrating the model to the lower than expected outturn in 2020-21) provide a small but increasing offset from 2022-23 onwards.

Table 3.4: Changes to the residential LBTT forecast since March

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast	390	488	515	540	589	640	
October forecast	375	542	581	611	641	679	724
Change		**54**	**67**	**71**	**52**	**39**	
of which:							
Data updates		-4	0	0	0	1	
Model updates		4	-2	-3	-8	-15	
Price forecast		39	73	69	51	42	
Transactions forecast		15	-5	4	8	10	

Commercial LBTT forecast

3.11 Table 3.5 sets out the changes to our commercial LBTT forecast since March. Receipts have been revised up in each year, but by progressively smaller amounts. The largest contributor to both the level and profile of the revision is transactions, which have been revised up in 2021-22 but grow more slowly from that higher level thereafter. Aligning our forecast to the in-year receipts data, and modest upward revisions to prices, raise receipts in each year.

Table 3.5: Changes to the commercial LBTT forecast since March

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2025-26
March forecast	148	163	173	184	195	207	
October forecast	143	189	192	200	208	216	225
Change		**27**	**19**	**17**	**12**	**9**	
of which:							
Data updates		7	4	5	5	5	
Price changes		3	8	9	9	9	
Transaction changes		16	7	3	-1	-5	

Comparison with the Scottish Fiscal Commission's latest forecast

3.12 Table 3.6 compares the SFC's latest forecast, published in August, to ours. Our forecasts use the same models, so differences between them will largely relate to our different assumptions about property markets and differences in the latest available receipts data. Overall, we predict higher receipts in each year, largely reflecting a significantly more optimistic forecast for residential main rates. This stems from the unexpectedly strong performance of house prices in 2021-22, the effects of which diminish over subsequent years, and our stronger outlook for transactions growth. These two effects combined mean our forecast for LBTT receipts is £63 million higher than the SFC's by 2026-27. Differences in our forecasts for the additional dwellings supplement and commercial receipts are considerably smaller, and largely reflect access to slightly more recent data.

Table 3.6: Comparison between Scottish Fiscal Commission and OBR forecasts

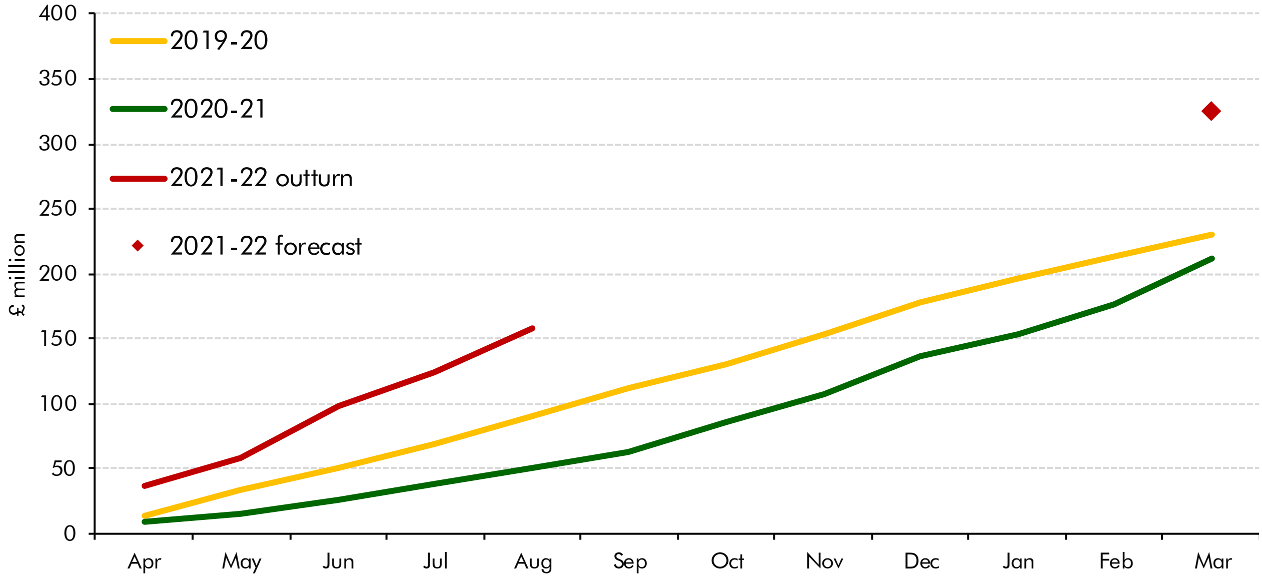
	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total LBTT							
SFC August 2021	517	653	694	733	777	829	886
OBR October 2021	517	731	773	811	849	895	949
Difference		**78**	**80**	**78**	**72**	**66**	**63**
Residential LBTT (excluding ADS)							
SFC August 2021	260	338	360	385	417	455	497
OBR October 2021	260	404	438	459	485	518	557
Difference		**66**	**78**	**74**	**68**	**63**	**60**
Additional dwellings supplement (ADS)							
SFC August 2021	115	121	133	140	144	149	155
OBR October 2021	115	137	143	152	156	161	167
Difference		**16**	**10**	**12**	**12**	**12**	**12**
Commercial LBTT							
SFC August 2021	143	194	201	208	216	225	235
OBR October 2021	143	189	192	200	208	216	225
Difference		-4	-9	-8	-8	-9	-9

Land transaction tax forecast

Latest LTT outturn data

3.13 LTT receipts in the first half of 2020-21 were depressed by lockdowns but then recovered in later months, supported in particular by the sharp compositional shift towards higher-value transactions shown in Chart 3.1 above. This momentum has been carried into 2021-22, with receipts totalling £157 million in the first five months, three times higher than at the same point in 2020-21 and £68 million (three-quarters) higher than the same point in 2019-20 (Chart 3.3). Following the ending of the nil-rate threshold rise on 30 June a greater share of residential transactions became liable for LTT again. Combined with the strength of house prices, we expect receipts across 2021-22 as a whole to exceed outturns in each of the preceding two years by significant margins.

Chart 3.3: Cumulative monthly LTT receipts: 2019-20 to 2021-22



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

Latest forecast

3.14 Table 3.7 sets out our latest forecast for LTT and its components. Relative to March, overall receipts are up in every year, by an average of £64 million (22 per cent), reflecting the upward revisions to our forecasts for both residential main rates and commercial LTT.

Table 3.7: Land transaction tax forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total LTT							
March forecast	190	260	272	285	310	338	
October forecast	212	324	337	353	373	400	430
Change		**64**	**65**	**69**	**63**	**61**	
Residential (excluding additional properties)							
March forecast	83	131	133	141	158	177	
October forecast	89	149	172	182	195	214	236
Change		**19**	**39**	**42**	**38**	**37**	
Additional properties							
March forecast	59	77	84	86	90	95	
October forecast	66	84	83	85	88	92	97
Change		**7**	**-1**	**-1**	**-2**	**-3**	
Commercial							
March forecast	49	52	55	58	62	66	
October forecast	58	91	82	86	89	93	97
Change		**39**	**27**	**27**	**27**	**27**	

Residential LTT forecast

3.15 Table 3.8 sets out the changes in our residential LTT forecasts since March. The upward revision in each year is driven by the more optimistic outlook for house prices, boosting receipts by an average of £35 million a year. Our expectation of a stronger rebound in transactions this year adds to receipts in 2021-22, but this effect is reversed in 2022-23 as transactions fall back from this year's elevated levels, with little impact in subsequent years.

3.16 After we published our March forecast the Welsh Government extended its LTT holiday from an end date of 31 March 2021 to 30 June 2021. We estimate that around 7,300 transactions will have benefitted from this extension, with an average LTT saving of £1,700 to give an overall cost of £12 million.

Table 3.8: Changes in residential LTT since March

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast	142	208	217	226	248	272	
October forecast	154	233	255	267	283	307	333
Change		**25**	**38**	**41**	**36**	**35**	
of which:							
Price changes		28	46	44	37	34	
Transaction changes		8	-5	-1	1	2	
Policy: extend LTT holiday		-12	0	0	0	0	
Modelling and other		1	-2	-2	-2	-2	

Commercial LTT forecast

3.17 Table 3.9 shows changes in our commercial LTT forecast relative to March. Receipts in 2021-22 have been revised up by £39 million (74 per cent), reflecting strength in outturn receipts and commercial prices. Receipts from 2022-23 onwards have been revised up by £27 million a year, largely thanks to an improved outlook for prices, alongside our assumption that around half the strength in 2021-22 outturn persists. Commercial LTT receipts can be volatile from year to year, so this forecast is particularly uncertain.

Table 3.9: Changes in commercial LTT since March

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast	49	52	55	58	62	66	
October forecast	58	91	82	86	89	93	97
Change		**39**	**27**	**27**	**27**	**27**	
of which:							
Modelling changes		-1	-1	-1	-1	-1	
Price changes		13	15	16	17	18	
Transaction changes		7	4	2	1	0	
Outturn data		18	8	9	9	9	

4 Landfill taxes

Introduction

4.1 Landfill tax applies to 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 Receipts in 2020-21 totalled £106 million, £11 million higher than our March forecast, following a strong recovery from the sharp fall in the first quarter of the year. This momentum has continued into 2021-22 with first quarter receipts at their highest level since the second quarter of 2019-20.

[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.

4.5 Table 4.1 sets out our forecast for Scottish landfill tax receipts. The downward trend reflects increases in recycling and growth in alternative infrastructure such as incineration capacity. The majority of the revision to our forecast since March is due to stronger than expected receipts in 2020-21, the effects of which push through the forecast.

4.6 The Scottish Government has legislated to ban biodegradable municipal waste (BMW) going to landfill from 31 December 2025. This will prevent any biodegradable household (or other similar) waste from entering landfill. Based on our forecast for the composition of waste arising, we expect this to reduce Scottish receipts by £19 million in 2025-26 and £80 million in 2026-27. The estimated effect of the ban is little changed from March.

4.7 The ban is also expected to affect landfill tax receipts in England. We assume 86 per cent of this BMW is diverted to sites in England, thereby adding £16 million and £69 million to our forecasts for UK landfill tax receipts in 2025-26 and 2026-27, respectively. This is based on our assumption of a 14 per cent tax gap for Scottish landfill.[3]

Table 4.1: Scottish landfill tax forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast	95	92	90	73	75	63	
October forecast	106	109	107	90	93	77	18
Change	**11**	**17**	**17**	**17**	**18**	**14**	
of which:							
Outturn data		13	15	15	15	12	
Determinants		4	1	2	2	1	
Modelling and other		1	1	0	0	0	

Welsh landfill disposals tax forecast

4.8 LDT receipts in Wales totalled £32 million in 2020-21, slightly higher than our March forecast. Receipts remained strong in the first quarter of 2021-22, totalling £12 million.

4.9 Table 4.2 presents our LDT forecast and the changes since March. We have revised receipts in 2021-22 up £7 million in light of the strong outturn data in the first quarter. Part of this strength is assumed to persist, but its effect on the forecast has been offset from 2022-23 onwards by updated inputs to our modelling of the effect of additional incineration capacity.

[3] This was based on the landfill tax gap of 13.6 per cent for England and Northern Ireland estimated by HMRC in *Measuring tax gaps 2019 edition: Tax gap estimates for 2017-18*, June 2019. HMRC have since revised up the UK landfill tax gap to 29 per cent, but as this change relates to introducing a new liability for waste disposed of at unauthorised sites, we do not believe the revision is relevant here.

Table 4.2: Welsh LDT forecast

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March forecast	31	34	34	33	33	32	
October forecast	32	42	33	33	33	33	33
Change	**1**	**7**	**0**	**0**	**1**	**1**	
of which:							
Outturn data		7	3	3	3	3	
Modelling and other		0	-3	-2	-2	-2	

A Illustrative forecasts for taxes not yet devolved

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

Aggregates levy

A.2 The aggregates levy is a tax on the commercial exploitation of rock, sand and gravel. It is due from any business that quarries, dredges or imports these products. The UK Government has legislated to devolve the levy to Scotland and has committed to keeping devolution to Wales under review. In February 2019 longstanding litigation against the levy was concluded and the UK Government announced a full review. The results of the review were published in July 2020,[1] outlining the Government's next steps and the scope for further consultation. In the response to the review, the Government confirmed its commitment to devolving the levy to Scotland. But as yet no date has been set for devolution to take effect, so we continue to present illustrative forecasts for the levy.

A.3 Our methodology uses the average of the most recent estimated Scottish and Welsh shares of UK aggregates levy receipts produced by the ONS, the Scottish Government and HMRC. These all relate to 2018-19.[2] As this is still the most recent year of data, we have not revised the shares relative to March. The aggregates levy rate was frozen for a further year in this Budget (having now been frozen each year since 2009), lowering UK-wide receipts in each year of the forecast. Table A.1 shows the effects of this, combined with other revisions to our pre-measures forecast, on our illustrative projections for revenue in Scotland and Wales.

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

Table A.1: Aggregates levy illustrative forecasts

	£ million					
	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
UK forecast						
March 2021	405	445	462	480	503	
October 2021	402	421	445	464	484	506
Change	**-3**	**-24**	**-17**	**-16**	**-19**	
Scottish forecast						
March 2021	62	68	70	73	77	
October 2021	61	64	68	71	74	77
Change	**0**	**-4**	**-3**	**-2**	**-3**	
Welsh forecast						
March 2021	29	32	33	35	36	
October 2021	29	30	32	34	35	37
Change	**0**	**-2**	**-1**	**-1**	**-1**	

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 Scottish Government, the ONS and HMRC.[4] We have revised down our UK-wide forecast for 2021-22 since March, due to the continuation of travel restrictions extending disruption in the aviation industry. But we have revised receipts up slightly from 2022-23 to 2025-26, reflecting both higher RPI inflation (which determines how much duty rates rise in future) and Budget measures, including the expansion of the number of duty rate bands from two to three from April 2023. It is possible that these Budget measures could affect the share of APD receipts attributable to Scotland, but given their relatively small scale we have not attempted to estimate such effects.

[3] Destinations fall into three bands based on distance from London, with a new Band C added at this Budget. 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 the new Band C to flights with a terminus over 5,500 miles from London.
[4] The ONS *Country and Regional Public Sector Finances* estimates 9.4 per cent; the Scottish Government's *Government Expenditure and Revenues Scotland* estimates 9.3 per cent; while HMRC's *Disaggregation of HMRC tax receipts* estimates 10.2 per cent.

Table A.2: Air passenger duty illustrative forecast

	£ million					
	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
UK forecast						
March 2021	1348	2022	3096	4273	4425	
October 2021	1093	2076	3207	4399	4515	4774
Change	**-256**	**54**	**111**	**126**	**90**	
Scottish forecast						
March 2021	129	194	297	410	425	
October 2021	105	199	308	422	433	458
Change	**-25**	**5**	**11**	**12**	**9**	

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 has been delayed. Due to the current economic climate the Scottish Government has agreed with the Treasury to delay 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 assignment or a confirmed position on any alternative policies we continue to produce illustrative forecasts of VAT assignment on the basis that was initially agreed.

A.8 The formal methodology for VAT assignment is being developed by HMRC, the Treasury and the Scottish Government. We have no role in validating or approving the chosen methodology. For this illustrative projection we have taken the latest estimated share, which relates to 2019, as the starting point. We then factor in slower population growth in Scotland relative to the UK as a whole. Table A.3 shows our latest illustrative projection, which is up slightly from March, reflecting the upward revision to our UK VAT forecast.

[5] Scottish Government, *Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy*, January 2021.

Table A.3: VAT assignment illustrative projection

	£ billion						
	Estimated outturn	Projection					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
UK	101.5	151.0	155.0	159.4	163.4	167.9	172.8
of which:							
Assigned to Scottish Government	4.0	6.0	6.1	6.3	6.4	6.6	6.8
VAT from Scotland retained by UK Government	4.0	6.0	6.1	6.3	6.4	6.6	6.8
VAT from the rest of the UK	93.4	139.0	142.7	146.8	150.5	154.7	159.3
	Per cent						
Assigned to Scottish Government	3.98	3.96	3.96	3.95	3.94	3.93	3.92
Scottish population share	8.1	8.1	8.1	8.0	8.0	8.0	8.0
Memo: index Scottish population share (2018-19 = 100)	98.9	98.6	98.4	98.2	98.0	97.8	97.6

B Forecasts required for the block grant adjustments

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

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

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

- As regards **income tax** (Table B.1), near-term differences largely reflect different policy settings in Scotland versus the rest of the UK – particularly in respect of the higher rate threshold. In the longer term, growth rates are similar across countries, with the remaining differences largely down to assumptions about relative population growth.

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

- As regards **landfill taxes** (Table B.4), the paths of all taxes are uneven thanks to pandemic-related effects unwinding and the timing of new waste infrastructure coming

[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.

on stream. The introduction of the biodegradable municipal waste ban in Scotland in from 31 December 2025 explains the large variation in growth rates in 2026-27.

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

	£ billion							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Whole UK NSND income tax	**176.8**	**182.0**	**198.0**	**212.0**	**223.7**	**233.8**	**248.1**	**261.8**
of which:								
Welsh Government income tax (WRIT basis)	2.0	2.1	2.3	2.5	2.6	2.7	2.9	3.1
UK Government NSND income tax from Wales	2.6	2.8	3.0	3.3	3.5	3.7	4.0	4.2
Scottish income tax[1]	11.8	12.0	12.9	13.8	14.5	15.0	15.8	16.6
England and Northern Ireland NSND income tax	160.3	165.1	179.7	192.5	203.2	212.3	225.4	238.0
Whole UK NSND income tax excluding Scottish income tax	165.0	170.0	185.1	198.2	209.3	218.8	232.3	245.2
UK Government NSND income tax[2]	162.9	167.9	182.8	195.7	206.7	216.0	229.4	242.2
	Percentage change on a year earlier							
Whole UK NSND income tax		**3.0**	**8.7**	**7.1**	**5.5**	**4.5**	**6.1**	**5.5**
of which:								
Welsh Government income tax (WRIT basis)		4.2	8.2	7.7	6.1	4.5	5.9	5.2
UK Government NSND income tax from Wales		5.7	9.2	8.0	7.4	5.5	6.7	5.7
Scottish income tax		1.4	7.3	7.0	4.8	3.9	5.3	5.1
England and Northern Ireland NSND income tax		3.0	8.8	7.1	5.5	4.5	6.2	5.6
Whole UK NSND income tax excluding Scottish income tax		3.1	8.8	7.1	5.6	4.5	6.2	5.6
UK Government NSND income tax[2]		3.1	8.8	7.1	5.6	4.5	6.2	5.6

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

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

	£ billion							
	Outturn	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
England and Northern Ireland NSND income tax (WRIT basis)	**59.5**	**61.3**	**66.6**	**71.4**	**75.2**	**78.2**	**82.6**	**86.9**
of which:								
Basic rate	40.8	41.9	45.3	48.7	51.0	52.6	55.1	57.6
Higher rate	11.3	12.0	13.2	14.2	15.1	16.0	17.3	18.3
Additional rate	7.5	7.4	8.1	8.5	9.0	9.5	10.2	11.0
Welsh Rates	**2.0**	**2.1**	**2.3**	**2.5**	**2.6**	**2.7**	**2.9**	**3.1**
of which:								
Basic rate	1.8	1.8	2.0	2.1	2.2	2.3	2.4	2.5
Higher rate	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Additional rate	0.0	0.0	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)		**3.0**	**8.6**	**7.2**	**5.3**	**4.0**	**5.7**	**5.2**
of which:								
Basic rate		2.8	8.0	7.5	4.8	3.2	4.7	4.5
Higher rate		6.4	10.5	7.4	6.4	6.1	7.9	5.7
Additional rate		-1.0	8.6	5.6	6.2	5.5	7.0	7.8
Welsh Rates		**4.3**	**8.2**	**7.7**	**6.1**	**4.5**	**5.9**	**5.2**
of which:								
Basic rate		3.2	7.4	7.5	5.2	3.8	5.3	4.8
Higher rate		11.5	12.3	9.0	8.7	8.5	10.7	7.2
Additional rate		11.1	13.2	8.2	23.2	8.4	2.6	7.2

Table B.3 Property transactions taxes

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Whole UK property transaction taxes	**9,396**	**14,650**	**15,731**	**16,380**	**17,150**	**18,095**	**19,335**
of which:							
Land transaction tax (Wales)	212	324	337	353	373	400	430
LBTT (Scotland)	517	731	773	811	849	895	949
SDLT (England and Northern Ireland)	8,667	13,595	14,620	15,216	15,929	16,800	17,956
UK excluding Scottish LBTT	8,879	13,920	14,957	15,569	16,301	17,200	18,385
	Percentage change on a year earlier						
Whole UK property transaction taxes		**55.9**	**7.4**	**4.1**	**4.7**	**5.5**	**6.9**
of which:							
Land transaction tax (Wales)		52.8	4.1	4.7	5.5	7.2	7.5
LBTT (Scotland)		41.3	5.8	4.9	4.7	5.5	6.0
SDLT (England and Northern Ireland)		56.9	7.5	4.1	4.7	5.5	6.9
UK excluding Scottish LBTT		56.8	7.5	4.1	4.7	5.5	6.9

Table B.4 Landfill taxes

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Whole UK landfill taxes	**730**	**738**	**681**	**664**	**633**	**570**	**573**
of which:							
Landfill disposals tax (Wales)	32	42	33	33	33	33	33
Scottish landfill tax	106	109	107	90	93	77	18
Landfill tax (England and Northern Ireland)	592	587	540	541	507	461	522
UK excluding Scottish landfill tax	624	628	574	574	540	494	555
	Percentage change on a year earlier						
Whole UK landfill taxes		**1.0**	**-7.7**	**-2.4**	**-4.7**	**-9.9**	**0.4**
of which:							
Landfill disposals tax (Wales)		30.8	-20.0	-0.1	-0.6	-0.8	-0.3
Scottish landfill tax		2.8	-2.2	-15.5	3.0	-17.7	-76.5
Landfill tax (England and Northern Ireland)		-0.9	-7.9	0.0	-6.3	-9.1	13.3

Table B.5 Social security spending

	£ million						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Carer's allowance	3,048	3,091	3,402	3,716	4,009	4,401	4,855
Personal independence payment	13,651	14,927	16,816	19,006	20,967	23,068	24,942
Disability living allowance	5,810	5,553	5,578	5,642	5,437	5,248	5,426
Attendance allowance	5,348	5,356	5,616	6,000	6,297	6,584	6,798
Industrial injuries disablement benefit	706	691	693	699	690	679	670
Severe disablement allowance	72	63	57	50	43	35	26

Note: These forecasts are for spending in England and Wales on benefits which have now been devolved to Scotland. Carers allowance was devolved in September 2018 and all other benefits in this table were devolved in April 2020.