Office for
**Budget
Responsibility**

Devolved tax and spending forecasts

March 2020

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, devolved income tax and devolved social security spending. 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 It is not possible to replicate in full the methodologies we use to produce our UK-wide forecasts when producing these devolved tax and spending 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 Scottish and Welsh shares of relevant UK-wide tax or social security spending streams. 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 build tax-specific models.

1.4 The methodology 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.

1.5 Our March 2020 *EFO* describes the timetable that was followed in producing the UK-wide forecasts that provide the foundation for these devolved tax and spending forecasts. As is usual, we closed our pre-measures economy and fiscal forecasts well ahead of the Budget to provide a stable base against which the Chancellor could assess his policy measures. The pre-measures economy forecast was closed on 18 February and the fiscal forecast on 25 February. And they reflect information gathered from financial market prices over the ten days to 11 February. After that, the only changes related to Budget measures and other policy announcements – including the new migration regime and the higher National Living Wage. After we had closed our pre-measures forecast, news about the spread of coronavirus prompted unusually large movements in asset prices, while other forecasters reassessed the economic outlook to take on board its likely adverse economic consequences. At this stage, the ultimate spread and economic impact of coronavirus are highly uncertain, but they represent a clear downside risk to the forecasts we present.

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

- officials in HMRC, the Scottish Fiscal Commission (SFC) 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 challenge meeting attended by those officials on 12 and 14 February; and
- eight days before the UK Budget, a **final set of forecasts** were produced using our final economy forecast, including the impact of UK Government policies.

1.7 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 disposals 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;
- Annex B presents forecasts for devolved **social security spending** in Scotland; and
- Annex C presents forecasts that the respective Governments use as part of their **block grant calculations**.

2 Income tax

Introduction

2.1 Scottish income tax and the Welsh rates of income taxes 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 paid 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 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, as well as the power 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 National Assembly for Wales has passed a resolution setting the Welsh rates for each band of income tax at 10p in 2020-21, thereby keeping income tax at the same level as the rest of the UK.

2.4 This chapter presents our approach to forecasting Scottish income tax and the Welsh rates and presents our latest forecasts for each of them.[1]

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.

2.6 Unlike fully devolved taxes, comprehensive and timely information on income tax receipts is only available at a UK level. For Scotland, outturn data have been published, but only with a long lag. For the Welsh rates, the first year of outturn data are expected in summer 2021.

[1] For more detailed explanation on the structure of both Scottish income tax and the Welsh rates and on 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 *WTO* and *Mathews*, *Working paper no. 14: Devolved income tax: forecasting by tax bands,* September 2018.

This means that estimates for past years can change as a result of new data becoming available, as well as the forecasts themselves changing.

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.[2]

UK forecast

2.8 Table 2.1 sets out our latest forecast and the source of revisions to it since December. The forecast is little changed in 2019-20, but we have revised it up by generally increasing amounts over subsequent years. UK NSND liabilities have been revised up in 2018-19, which feeds through to subsequent years. We have revised down our pre-measures forecast, largely reflecting a weaker forecast for productivity and earnings growth and lower-than-expected self-assessment receipts this year. UK Government corporation tax and capital gains tax measures increase income tax via their effects on incentives to incorporate and to convert capital gains to income respectively. The indirect effects of UK Government decisions boost income tax more materially thanks to the cyclical effects of fiscal easing on incomes and the higher path for the National Living Wage boosting wages and salaries.

Table 2.1: UK NSND income tax forecast

	£ billion							
	Outturn	Forecast						
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
December forecast	165.1	173.3	177.2	187.1	194.3	201.9	210.3	
March forecast	165.1	174.0	176.6	187.7	197.1	206.7	214.9	223.8
Change		**0.7**	**-0.6**	**0.5**	**2.8**	**4.7**	**4.6**	
of which:								
UK NSND outturn alignment		0.7	0.7	0.7	0.8	0.8	0.8	
Pre-measures forecast		-0.3	-1.6	-1.8	-1.5	-0.5	0.2	
Indirect effects of UK		0.3	0.4	1.8	3.1	3.7	2.7	
Direct effects of UK Government policies			-0.1	-0.2	0.4	0.7	0.8	

[1] Includes gift aid estimates.

Scottish and Welsh shares

2.9 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 730,000 individuals in contact with HMRC during a year through the PAYE, SA or repayment claim systems. Table 2.2 shows how the SPI-based Scottish and Welsh shares of UK income tax liabilities have fallen in recent years. The pace of decline has quickened since 2014-15.

[2] See Mathews (2018) Working paper No.14 *Devolved income tax: forecasting by tax bands.*

Table 2.2: Scottish and Welsh historic share of all income tax liabilities

	Per cent					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Scotland	7.2	7.1	7.1	6.9	6.8	6.5
Wales	2.9	2.8	2.8	2.7	2.7	2.6

2.10 Since our December forecast HMRC has published SPI data for 2017-18. We use this to calculate an initial share of UK income tax liabilities for both Scotland and Wales. We then adjust these SPI-based shares over the forecast period, giving the resulting forecast shares a similar downward trajectory to that displayed in Table 2.2. These adjustments are 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.
- **RTI 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.
- **Previously announced policies:** any effects of these that are expected to alter the Scottish or Welsh share are incorporated – for example, personal allowance changes.
- **Outturn:** we align our forecast for the Scottish share to the latest annual outturn. This alignment reduces the share by 0.1 percentage points in each year of the forecast. We cannot do this for Wales as no outturn data are available yet. HMRC expects to publish its first yearly outturn for Wales in the summer of 2021.

2.11 Table 2.3 displays our latest forecast for the Scottish share compared to December, which we have revised up in each year of the forecast. This reflects incorporation of the latest SPI data and the effect of the Scottish Government's decision to freeze the higher rate threshold in 2020-21, which results in more Scottish taxpayers paying the higher rate.

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

	Per cent of UK total for non-savings, non-dividend liabilities						
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
December forecast	6.68	6.78	6.75	6.74	6.72	6.71	
March forecast (pre-measures)	6.74	6.81	6.82	6.81	6.79	6.77	6.76
Change	**0.07**	**0.03**	**0.07**	**0.07**	**0.06**	**0.07**	
Index of relative population growth (2018-19=100)	*100.0*	*99.7*	*99.5*	*99.2*	*98.9*	*98.7*	*98.4*

2.12 Table 2.4 shows the latest Welsh share, which we have revised down relative to December. This reflects the new 2017-18 SPI data, which implied a slightly lower Welsh share.

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

	Per cent of UK total for non-savings, non-dividend liabilities						
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
December forecast	1.19	1.18	1.18	1.18	1.18	1.17	
March forecast (pre-measures)	1.16	1.16	1.16	1.15	1.15	1.15	1.14
Change	**-0.03**	**-0.03**	**-0.02**	**-0.03**	**-0.03**	**-0.03**	
Index of relative population growth (2018-19=100)	*100.0*	*99.7*	*99.3*	*99.0*	*98.7*	*98.3*	*97.9*

Scottish forecast

2.13 Table 2.5 presents our latest Scottish income tax forecast and the changes since December. Overall receipts are up in each year, with the upward revision generally increasing in size year by year. Sources of upward revision include the higher Scottish share, the Scottish Government's higher rate threshold freeze, UK Budget measures and, most importantly, the indirect effects of the UK Budget (described above). These more than offset the effect of the weaker pre-measures UK NSND forecast. The Scottish Government's decision to freeze the higher rate threshold at £43,430 in 2020-21 yields £55 million in that year.

Table 2.5: Changes in Scottish NSND income tax since December

	£ million							
	Outturn	Forecast						
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
December forecast	10,916	11,571	12,017	12,629	13,096	13,576	14,105	
March forecast	10,916	11,735	12,020	12,792	13,416	14,045	14,588	15,165
Change		**164**	**3**	**162**	**320**	**469**	**484**	
of which:								
Scottish share modelling		116	45	76	72	73	81	
UK NSND outturn alignment		46	48	51	52	54	56	
Scottish Government policy: HRT freeze		0	0	55	57	60	63	
UK NSND forecast and other changes[1]		-21	-110	-123	-99	-34	14	
Indirect effects of UK Government policies		23	25	120	206	250	182	
Direct effects of UK Government policies		0	-4	-17	31	65	88	

[1] Includes gift aid estimates.

2.14 Table 2.6 compares our forecast for Scottish income tax to the SFC's latest forecast. The main difference between our forecasts is the starting point in 2018-19, where we draw on UK-wide income tax receipts and our estimate of the Scottish share whereas the SFC forecasts from a 2017-18 liabilities base using its Scottish-specific earnings forecast. Beyond that the difference between our forecasts widens a little in the years where receipts in our forecast are boosted by the indirect effects of fiscal easing, before narrowing again.

Table 2.6: Comparison between Scottish Fiscal Commission and OBR forecasts

	£ billion						
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
SFC February 2020	11.4	11.7	12.4	12.9	13.4	14.1	14.7
OBR March 2020	11.7	12.0	12.8	13.4	14.0	14.6	15.2
Difference	**0.4**	**0.3**	**0.4**	**0.5**	**0.6**	**0.5**	**0.4**
Difference (per cent)	*3.1*	*2.9*	*3.4*	*4.0*	*4.5*	*3.8*	*3.0*

Welsh forecast

2.15 Table 2.6 sets out our latest forecast for the Welsh rates and a breakdown of the changes since December. We have revised revenues down in the short term but up by the end of the forecast. Sources of downward revision include the weaker pre-measures UK NSND forecast and the lower Welsh share. Sources of upward revision include UK Budget measures and, most importantly, the indirect effects of the fiscal easing in the UK Budget package.

Table 2.7: Changes in the Welsh rates forecast since December

	£ million							
	Estimated outturn		Forecast					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
December forecast	1,967	2,053	2,089	2,206	2,286	2,368	2,456	
March forecast	1,928	2,021	2,041	2,170	2,273	2,377	2,466	2,558
Change		**-31**	**-48**	**-37**	**-13**	**9**	**10**	
of which:								
Welsh share		-40	-41	-41	-44	-46	-47	
UK NSND outturn alignment		8	8	9	9	9	9	
UK NSND forecast and other changes[1]		-4	-19	-21	-17	-6	3	
Indirect effects of UK Government policies		4	4	21	35	43	31	
Direct effects of UK Government policies		0	-1	-4	4	9	13	

[1] Includes gift aid estimates.

Table 2.8: Forecast of Welsh rates by tax band

	£ million							
	Estimated outturn		Forecast					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
March forecast	1,928	2,021	2,041	2,170	2,273	2,377	2,466	2,558
of which:								
Basic rate	1,646	1,727	1,758	1,864	1,949	2,036	2,111	2,184
Higher rate	242	250	233	251	265	278	290	303
Additional rate	41	45	50	54	59	63	66	71
	Per cent							
Basic rate	85.4	85.4	86.2	85.9	85.8	85.7	85.6	85.4
Higher rate	12.5	12.4	11.4	11.6	11.7	11.7	11.7	11.8
Additional rate	2.1	2.2	2.4	2.5	2.6	2.6	2.7	2.8

Shaded cells represent notional estimates for years when tax devolution has not occurred.

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 forecast each of them.[1]

Methodology

3.2 All our forecasts for property transaction taxes use UK-wide property market determinants, as we assume that Scottish and Welsh prices and transactions will generally rise in line with those for the UK as a whole. We have made an exception in this forecast, reflecting the faster house price inflation recently recorded in Wales versus the UK as a whole. This adds 3.2 percentage points uplift to house price inflation underpinning our LTT forecast in 2019-20 relative to SDLT and LBTT. We assume that this momentum will be carried into 2020-21, so have added 1.6 percentage points to Welsh house price inflation in 2020-21.

3.3 Both forecasts involve three steps:

- first, we produce an **in-year estimate**, using the latest outturn and other data as it becomes available over the course of the year;
- next, we produce our **pre-measures forecast**, drawing on several models to project the property marked 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 Table 3.1 compares our latest forecasts for property market determinants against those from March 2019, on which our December forecasts for LBTT and LTT were based. House price inflation is significantly higher, with a cumulative 5-year rise of 27 per cent, versus 15 per cent in our March 2019 forecast. UK-wide commercial determinants though are much weaker than in our previous forecast, especially transactions, which fell in 2019-20.

[1] For more detailed explanation 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.

Table 3.1: Forecasts for UK property prices and transactions

	Percentage change on a year earlier					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
House prices						
March 2019 forecast	0.2	2.2	3.9	4.1	4.2	
March 2020 forecast	1.6	4.2	7.1	5.4	4.2	3.9
Change	**1.4**	**2.1**	**3.2**	**1.3**	**0.0**	
Housing transactions						
March 2019 forecast	-1.2	5.7	3.5	2.8	2.6	
March 2020 forecast	-0.1	5.7	1.5	3.0	2.1	2.2
Change	**1.1**	**0.0**	**-2.0**	**0.2**	**-0.5**	
Commercial property prices						
March 2019 forecast	-1.6	-0.9	1.9	2.0	2.0	
March 2020 forecast	-1.8	-1.4	0.0	0.7	2.1	2.1
Change	**-0.2**	**-0.5**	**-1.9**	**-1.3**	**0.1**	
Commercial transactions						
March 2019 forecast	1.2	1.5	1.6	1.6	1.6	
March 2020 forecast	-5.1	-1.7	1.7	1.4	1.3	1.5
Change	**-6.3**	**-3.2**	**0.1**	**-0.2**	**-0.4**	

Land and buildings transaction tax forecast

3.5 In the fiscal year to December, LBTT receipts were up around £50 million on the same period last year, largely due to the strength of residential receipts. Commercial receipts are broadly in line with the levels seen in previous years, though monthly paths can be volatile.

3.6 Table 3.2 presents our latest forecast for LBTT compared to December. It is up by £19 million in 2019-20, rising to an increase of £91 million by 2023-24, largely due to a significantly stronger forecast for residential LBTT. This is only slightly offset by a weaker outlook for receipts from commercial LBTT and the additional dwellings supplement (ADS).

Table 3.2: Land and buildings transaction tax forecast

	£ million						
	Outturn	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Total LBTT							
December forecast	554	608	643	692	745	802	
March forecast	554	614	666	746	820	889	961
Change	**0**	**6**	**23**	**54**	**75**	**86**	
Residential LBTT (excluding ADS)							
December forecast	262	270	302	341	381	424	
March forecast	262	289	333	399	460	514	570
Change	**0**	**19**	**31**	**59**	**79**	**91**	
Additional dwellings supplement (ADS)							
December forecast	99	138	144	152	162	170	
March forecast	99	133	139	150	159	167	175
Change	**0**	**-5**	**-5**	**-3**	**-2**	**-3**	
Commercial LBTT							
December forecast	193	200	198	199	202	208	
March forecast	193	191	194	197	200	208	216
Change	**0**	**-8**	**-4**	**-2**	**-2**	**-1**	

3.7 Table 3.3 shows the sources of changes to our forecast since December. The first three changes relate to our pre-measures forecast. They show that the positive effects of higher house price inflation and modelling updates more than offset fewer property transactions.

3.8 The next three lines relate to policy changes. The Scottish Government's introduction of a new tax band for non-residential leases on 7 February raises around £10 million a year from 2020-21 onwards. All leases where the net present value of the rent exceeds £2 million will now be charged a 2 per cent rate (up from 1 per cent) on the value of the lease above the £2 million threshold. The Scottish Fiscal Commission (SFC) estimates that this will affect around 300 leases in 2020-21.[2]

3.9 The direct effects of UK Government policies on LBTT are small – the knock-on effects from capital gains tax policy changes. More significantly, the large fiscal easing announced in the Budget is expected to boost household income growth and therefore house prices.

[2] For more information on this costing see the SFC's *Scotland's economic and fiscal forecasts*, February 2020.

Table 3.3: Changes to the LBTT forecast since December

	£ million						
	Outturn	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2023-24
December forecast	554	608	643	692	745	802	
March forecast	554	614	666	746	820	889	961
Change		**6**	**23**	**54**	**75**	**86**	
of which:							
Property prices		8	20	31	42	55	
Property transactions		-8	-17	-21	-23	-27	
Modelling and data		3	7	16	25	37	
Scottish Government policy: leases		1	9	9	9	10	
UK Government policy: indirect effects		0	5	21	23	13	
UK Government policy: direct effects		1	-1	-1	-1	-1	

3.10 Table 3.4 compares the SFC's latest forecast to ours. We use the same forecast models as the SFC, so the differences are almost entirely attributable to different assumptions about property markets. In particular, our house price forecast (rising 29 per cent over six years, in part due to the effects of UK-wide fiscal policy) is materially higher than the SFC's (10 per cent). Thanks to the progressive structure of the residential LBTT system, this generates even larger differences between our residential receipts forecasts (with 117 per cent growth in ours between 2019-20 and 2024-25 versus 42 per cent growth in the SFC's forecast).

Table 3.4: Comparison between Scottish Fiscal Commission and OBR forecasts

	£ million						
	Outturn	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Total LBTT							
SFC February 2020	554	613	641	666	692	720	749
OBR March 2020	554	614	666	746	820	889	961
Change	**0**	**0**	**24**	**80**	**127**	**169**	**212**
Residential LBTT (excluding ADS)							
SFC February 2020	262	288	303	319	336	354	371
OBR March 2020	262	289	333	399	460	514	570
Change	**0**	**1**	**29**	**80**	**124**	**161**	**198**
Additional dwellings supplement (ADS)							
SFC February 2020	99	134	129	131	134	137	140
OBR March 2020	99	133	139	150	159	167	175
Change	**0**	**-1**	**10**	**19**	**25**	**30**	**36**
Commercial LBTT							
SFC February 2020	193	191	209	216	222	230	238
OBR March 2020	193	191	194	197	200	208	216
Change	**0**	**0**	**-15**	**-19**	**-22**	**-23**	**-22**

Land transaction tax forecast

3.11 Receipts outturn data in the three months since our previous LTT forecast has been slightly higher than we expected. But year-to-date receipts in 2019-20 are very similar to 2018-19. Nevertheless we have revised up our forecast for 2019-20 reflecting a one-off commercial property transaction, the liability for which is expected to be paid in March (see below).

3.12 Table 3.5 shows our latest forecast for LTT and its components. Relative to December overall receipts are up in each year of the forecast, by an average of £24 million, although with an uneven profile. Apart from in 2019-20, almost all the increase is due to residential main rates, with commercial LTT and the higher rates on additional properties being little changed from 2020-21 onwards.

Table 3.5: Land transaction tax forecast

	£ million						
	Outturn	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Total LTT							
December forecast	228	226	245	268	294	322	
March forecast	228	266	254	288	319	349	379
Change		**40**	**9**	**19**	**25**	**26**	
Residential (excluding additional properties)							
December forecast	95	100	117	133	151	171	
March forecast	95	103	124	151	175	197	220
Change		**3**	**7**	**18**	**24**	**26**	
Additional properties							
December forecast	60	59	62	66	71	76	
March forecast	60	59	62	68	74	78	83
Change		**-1**	**0**	**2**	**3**	**2**	
Commercial							
December forecast	72	66	66	69	72	75	
March forecast	72	104	68	69	70	73	76
Change		**38**	**1**	**0**	**-2**	**-2**	

3.13 Table 3.6 breaks down changes in our forecast since December. On a pre-measures basis, the stronger outlook for house prices accounts for most of the upward revision in later years, outweighing the smaller negative effect from fewer transactions. The transfer of the Core Valley Lines (CVL) rail network into public ownership (as announced by the Welsh Government in their Budget on 25 February) adds £34 million to receipts in 2019-20.

3.14 As with LBTT, the main effect from the UK Budget comes via house prices, which we assume will be boosted by the fiscal easing via its effects on household income growth. The direct effects on LTT receipts from UK Government capital gains tax policies are small.

Table 3.6: Changes in LTT since December

	£ million						
	Outturn	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
December forecast	228	226	245	268	294	322	
March forecast	228	266	254	288	319	349	379
Change		**40**	**9**	**19**	**25**	**26**	
of which:							
Property prices		3	9	15	21	28	
Property transactions		-2	-5	-6	-7	-9	
In-year outturn		4	3	3	2	2	
Core Valley Lines transfer		34	0	0	0	0	
UK Government policy: indirect effects		0	2	9	10	6	
UK Government policy: direct effects		1	-1	0	0	0	

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 two 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 the **in-year estimate** using 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 forecast models take account of alternatives to landfilling, 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 and LDT rise in line with RPI inflation in each year of the forecast, consistent with each Government's default indexation assumption.

4.4 At the time of closing our pre-measures forecasts we had outturn data for the first three quarters of 2019-20 for LDT, but only the first two quarters for Scottish landfill tax.

Scottish landfill tax forecast

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.

[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] We have set out more information on our landfill taxes forecasts in the 'forecasts in-depth' pages on our website.

Our forecast for 2024-25 incorporates the initial impact from the delayed introduction of the Scottish Government's biodegradable municipal waste (BMW) ban. This has been delayed from 2021 to 2025, so we assume it affects the final quarter of 2024-25, reducing receipts by £14 million in that year. (The larger effects on receipts up to 2024-25 from delaying the BMW ban were reflected in our December forecast.)

4.6 There is relatively little change in the forecast overall. Outturn data for the second quarter of 2019-20 was slightly stronger than our December forecast assumed, which pushes through to future years. In later years, increases in incineration capacity growth reduce receipts.

4.7 The UK Government's introduction of a plastic packaging tax is expected to reduce plastic waste sent to landfill, lowering receipts by £1 million a year from 2022-23 onwards.[3]

Table 4.1: Scottish landfill tax forecast

	£ million						
	Outturn	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
December forecast	149	116	110	112	94	90	
March forecast	149	124	116	109	92	77	65
Difference		**8**	**6**	**-3**	**-2**	**-12**	
of which:							
Increased incineration capacity		0	-2	-10	-7	-17	
Other		9	8	7	6	5	
Effects of UK Government policies		0	0	0	-1	-1	

Welsh landfill disposals tax forecast

4.8 Table 4.2 presents our LDT forecast, which is little changed since December. Third quarter receipts were slightly lower than expected, taking an average of £1 million a year off the forecast. The introduction of the plastic packaging tax lowers receipts by less than £1 million.

Table 4.2: Welsh LDT forecast

	£ million						
	Outturn	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
December forecast	44	38	36	35	35	35	
March forecast	44	36	34	33	33	33	32
Change		**-2**	**-1**	**-2**	**-2**	**-2**	
of which:							
Data		-2	-1	-1	-1	-1	
Other		0	0	0	0	-1	

[3] See Annex A in our *Economic and fiscal outlook* for more detail.

A Illustrative forecasts for taxes not yet devolved

A.1 In this annex we present illustrative forecasts for three taxes slated for devolution that 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. We do not yet know the outcome of the review or when devolution will occur, so our forecasts remain illustrative.

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.[1] The Scottish share is higher than we assumed last year, while the Welsh share is lower. We have revised down our UK-wide aggregates levy forecast. Table A.1 shows the combined effects of these changes on our illustrative forecasts.

[1] 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*. The changes in shares this year compared to last are due to revised estimates following a resumption in the publication of the yearbook after several years.

Table A.1: Aggregates levy illustrative forecasts

	£ million					
	Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
UK forecast						
March 2019	394	407	426	447	467	
March 2020	393	386	402	421	438	458
Change	**-1**	**-22**	**-24**	**-26**	**-29**	
Scottish forecast						
March 2019	58	60	63	66	69	
March 2020	60	59	61	64	67	70
Change	**2**	**-1**	**-2**	**-2**	**-2**	
Welsh forecast						
March 2019	38	40	42	44	45	
March 2020	28	28	29	31	32	33
Change	**-10**	**-12**	**-12**	**-13**	**-14**	

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.[2] 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 We use the average of the most recent estimated Scottish shares of total UK-wide APD receipts produced by the Scottish Government, the ONS and HMRC.[3] This yields a higher Scottish share than used in our previous forecasts in March 2019. We revised up our UK-wide forecast, but this does not reflect the near-term disruption to air travel from the coronavirus outbreak, so it is clearly subject to downside risks. Table A.2 shows the combined effect of these changes on our illustrative forecast for Scottish APD receipts.

[2] Destinations fall into two bands based on distance from London, with the higher duty rate applying to flights of more than 2,000 miles.
[3] 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					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
UK forecast						
March 2019	3749	3891	4045	4244	4448	
March 2020	3798	4039	4212	4410	4601	4799
Change	**49**	**149**	**167**	**166**	**153**	
Scottish forecast						
March 2019	334	347	361	378	396	
March 2020	365	388	404	423	442	461
Change	**31**	**41**	**44**	**45**	**45**	

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. The UK and Scottish Governments initially agreed to commence VAT assignment from 2019-20 but the current position is that this has been delayed to April 2021.

A.7 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 2017, 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 2019, reflecting HMRC's latest estimate of the 2017 share.[4]

[4] The change is explained in *Scottish VAT Assignment*, available on HMRC's website.

Table A.3: VAT assignment illustrative projection

	£ billion						
	Estimated outturn	Projection					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
UK	132.2	136.2	136.1	144.8	150.9	155.2	159.8
of which:							
Assigned to Scottish Government	5.7	5.8	5.8	6.1	6.4	6.6	6.7
VAT from Scotland retained by UK Government	5.7	5.8	5.8	6.1	6.4	6.6	6.7
VAT from the rest of the UK	120.8	124.6	124.5	132.5	138.1	142.0	146.3
	Per cent						
Assigned to Scottish Government	4.3	4.3	4.3	4.2	4.2	4.2	4.2
Scottish population share	8.2	8.1	8.1	8.1	8.1	8.0	8.0
Memo: index Scottish population share (2016-17 = 100)	*99.4*	*98.6*	*98.3*	*98.0*	*97.8*	*97.6*	*97.4*

B Social security expenditure

B.1 The Scotland Act 2016 makes provision for several social security benefits to be devolved to the Scottish Government. The majority of these support people who are disabled or in ill-health, or those who care for them. The Scottish Parliament also has powers to create new benefits, to top up reserved benefits and to change some aspects of universal credit. In terms of our forecast, the switch from spending from DWP annually managed expenditure (AME) to Scottish Government AME is neutral. Fluctuations in social security spending could affect future decisions on the use of borrowing and reserves by the Scottish Government.

B.2 This chapter projects spending on benefits in Scotland on the assumption that UK Government policy continues unchanged, as is required for the block grant adjustments. We do not include policy decisions or intentions announced by the Scottish Government. Nor do we cover benefits that for England and Wales are managed within DWP's departmental expenditure limit (DEL). In contrast, the Scottish Government AME forecast presented in our main *EFO* does include Scottish Government policy decisions announced since March 2019, as well as previously announced changes. The largest new policies are:

- A new **Scottish child payment** of £10 per week for low-income families with dependent children. It is expected to cost £160 million a year by 2024-25.
- The **child disability payment** that will replace DLA for children in Scotland from mid-2020. The cost of this change rises to £25 million a year by 2024-25.

Carer's allowance

B.3 Spending on carer's allowance has been revised down by an average of £30 million a year over the forecast due to changes in our UK-wide forecast (Table B.1). This is largely driven by a downward revision in the assumed proportion of claimants on personal independence payment and disability living allowance with a related carer's allowance claim. We have also lowered our assumption about the proportion of severe disability premia claimants who migrate to universal credit, and whose carer becomes eligible for carer's allowance.

Table B.1: Carer's allowance forecast

	£ million						
	Outturn	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
March 2019	152	287	305	326	355	385	
March 2020	152	269	284	299	319	343	369
Change		**-18**	**-21**	**-27**	**-36**	**-42**	

Disability benefits

B.4 Several disability benefits will be devolved to Scotland from April, including:

- **Personal independence payment** (PIP): this can be claimed by people aged between 16 and state pension age, although claimants can continue to receive PIP when they reach state pension age. It has two components – a daily living one and a mobility one – as well as two daily living rates.

- **Disability living allowance** (DLA): this can be newly claimed by children aged under 16, though they need to switch to PIP when they turn 16. Claimants aged under 65 when PIP was introduced have been progressively moved to PIP, but this will not be completed before devolution. The Scottish Government has confirmed that from April 2020 DLA recipients in Scotland will no longer be invited to move to PIP. DLA also has two components: a 'care' component paid at three rates and a 'mobility' component that is paid at two rates.

- **Attendance allowance**: this can only be claimed by people aged over state pension age (or age 65 prior to November 2018). It is available in respect of care needs only, and is paid at two rates – a higher rate and a lower rate.

B.5 Industrial injuries disablement benefit and severe disablement allowance will also be devolved from April 2020.[1]

B.6 Our forecast, shown in Table B.2, is based on the Scottish expenditure share of the spending on each benefit in Great Britain in 2018-19. It is then grown across the forecast using an index of the Scottish share of the total population in Great Britain.[2]

Table B.2: Disability and other benefits forecast

	£ million						
	Outturn	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Personal independence payment	1117	1310	1442	1581	1720	1860	1961
Disability living allowance	895	821	763	726	698	673	673
Attendance allowance	505	526	544	559	577	598	615
Industrial injuries disablement benefit	9	9	8	8	8	7	7
Severe disablement allowance	9	9	8	8	8	7	7
Total	**2536**	**2675**	**2766**	**2882**	**3009**	**3146**	**3263**

Note: Covers benefits in AME only.

[1] These were described in more detail in our March 2019 *Devolved tax and spending forecasts* publication.
[2] In Northern Ireland, spending on benefits is administered by the Northern Ireland Executive and is not included in the calculations of the block grant adjustment for Scotland.

C Forecasts required for the block grant adjustments

C.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 our tax and spending forecasts.

C.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 excluding that on savings and dividends, stamp duty land tax and landfill tax, all from England and Northern Ireland. We also set out forecasts for social security streams that are being devolved to Scotland, comparing spending in England and Wales to Scotland.

C.3 Tables C.1 to C.4 compare our current forecasts for the devolved taxes to their UK Government equivalents, while Table C.5 compares the forecasts for social security spending. 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 C.1), near-term differences largely reflect different policy settings in Scotland versus the rest of the UK – in particular 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 C.3), differences in near-term growth rates are heavily influenced by the strength or weakness of the latest receipts data. In the later years of the forecast, growth rates are expected to be higher in Scotland and Wales than for the equivalent UK Government tax in England and Northern Ireland. This reflects the more progressive structure of the devolved taxes, which means more transactions fall into the higher tax bands as house prices rise.

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

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

	£ billion							
	Outturn	Forecast						
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Whole UK NSND income tax	**165.1**	**174.0**	**176.6**	**187.7**	**197.1**	**206.7**	**214.9**	**223.8**
of which:								
Welsh Government income tax (WRIT basis)	1.9	2.0	2.0	2.2	2.3	2.4	2.5	2.6
UK Government NSND income tax from Wales	2.5	2.6	2.6	2.8	2.9	3.1	3.2	3.3
Scottish income tax[1]	10.9	11.7	12.0	12.8	13.4	14.0	14.6	15.2
England and Northern Ireland NSND income tax	149.8	157.6	159.9	169.9	178.5	187.2	194.6	202.8
Whole UK NSND income tax excluding Scottish income tax	154.2	162.3	164.5	174.9	183.7	192.6	200.3	208.7
UK Government NSND income tax[2]	152.3	160.2	162.5	172.7	181.4	190.3	197.9	206.1
	Percentage change on a year earlier							
Whole UK NSND income tax		**5.4**	**1.5**	**6.3**	**5.0**	**4.8**	**4.0**	**4.2**
of which:								
Welsh Government income tax (WRIT basis)		4.8	1.0	6.3	4.8	4.6	3.8	3.7
UK Government NSND income tax from Wales		4.8	-0.1	6.7	5.1	4.7	3.9	4.1
Scottish income tax		7.5	2.4	6.4	4.9	4.7	3.9	4.0
England and Northern Ireland NSND income tax		5.2	1.4	6.3	5.1	4.9	4.0	4.2
Whole UK NSND income tax excluding Scottish income tax		5.2	1.4	6.3	5.0	4.9	4.0	4.2
UK Government NSND income tax[2]		5.2	1.4	6.3	5.1	4.9	4.0	4.2

Note: Shaded cells represent notional estimates for years when tax devolution has not occurred.

[1] Currently outturn data is only available for 2017-18, and 2018-19 remains a forecast.

[2] Whole UK NSND income tax excluding Scottish income tax and Welsh Government income tax (WRIT basis).

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

	£ billion							
	Outturn	Forecast						
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
England and Northern Ireland NSND income tax (WRIT basis)	**85.2**	**89.5**	**90.6**	**96.0**	**100.7**	**105.3**	**109.3**	**113.6**
of which:								
Basic rate	37.7	39.6	40.7	43.0	45.0	47.1	48.8	50.7
Higher rate	30.8	32.2	32.2	34.2	35.7	37.3	38.6	40.1
Additional rate	16.7	17.6	17.6	18.9	19.9	20.9	21.8	22.8
Welsh Rates	**1.9**	**2.0**	**2.0**	**2.2**	**2.3**	**2.4**	**2.5**	**2.6**
of which:								
Basic rate	1.6	1.7	1.8	1.9	1.9	2.0	2.1	2.2
Higher rate	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Additional rate	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
	Percentage change on a year earlier							
England and Northern Ireland NSND income tax (WRIT basis)		**5.0**	**1.2**	**6.0**	**4.8**	**4.6**	**3.8**	**3.9**
of which:								
Basic rate		5.1	2.8	5.5	4.8	4.5	3.7	3.8
Higher rate		4.7	0.0	6.0	4.6	4.4	3.6	3.8
Additional rate		5.3	0.0	7.1	5.3	5.2	4.3	4.6
Welsh Rates		**4.8**	**1.0**	**6.3**	**4.8**	**4.6**	**3.8**	**3.7**
of which:								
Basic rate		4.9	1.8	6.0	4.6	4.4	3.7	3.5
Higher rate		3.4	-6.8	7.9	5.4	5.0	4.2	4.5
Additional rate		10.1	10.9	9.3	8.5	6.5	4.7	7.9

Note: Shaded cells represent notional estimates for years when tax devolution has not occurred.

Table C.3: Property transactions taxes

	£ million						
	Outturn	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Whole UK property transaction taxes	**12,724**	**12,654**	**13,717**	**14,608**	**16,093**	**17,291**	**18,514**
of which:							
Land transaction tax (Wales)	228	266	254	288	319	349	379
LBTT (Scotland)	554	614	666	746	820	889	961
SDLT (England and Northern Ireland)	11,942	11,774	12,797	13,574	14,954	16,053	17,174
UK excluding Scottish LBTT	12,169	12,040	13,051	13,862	15,273	16,402	17,553
	Percentage change on a year earlier						
Whole UK property transaction taxes		**-0.5**	**8.4**	**6.5**	**10.2**	**7.4**	**7.1**
of which:							
Land transaction tax (Wales)		16.8	-4.5	13.3	11.0	9.1	8.7
LBTT (Scotland)		10.7	8.5	12.0	9.9	8.4	8.1
SDLT (England and Northern Ireland)		-1.4	8.7	6.1	10.2	7.4	7.0
UK excluding Scottish LBTT		-1.1	8.4	6.2	10.2	7.4	7.0

Note: Shaded cells represent notional estimates for years when tax devolution has not occurred.

Table C.4: Landfill taxes

	£ million						
	Outturn	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Whole UK landfill taxes	**838**	**813**	**775**	**785**	**723**	**629**	**597**
of which:							
Landfill disposals tax (Wales)	44	36	34	33	33	33	32
Scottish landfill tax	149	124	116	109	92	77	65
Landfill tax (England and Northern Ireland)	645	653	625	642	598	519	500
UK excluding Scottish landfill tax	689	689	659	676	631	551	532
	Percentage change on a year earlier						
Whole UK landfill taxes		**-3.0**	**-4.7**	**1.3**	**-7.9**	**-13.1**	**-5.0**
of which:							
Landfill disposals tax (Wales)		-17.3	-6.2	-2.1	-1.5	-1.0	-0.7
Scottish landfill tax		-16.7	-6.6	-5.7	-15.5	-16.3	-15.5
Landfill tax (England and Northern Ireland)		1.2	-4.3	2.8	-6.9	-13.2	-3.7

Table C.5: Social security spending

	£ million							
	Outturn		Forecast					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Personal independence payment								
England and Wales	7716	9503	13076	14835	16113	17798	19623	20877
Scotland	931	1117	1310	1442	1581	1720	1860	1961
Disability living allowance								
England and Wales	8368	7218	4731	3622	3190	2616	1943	1669
Scotland	999	895	821	763	726	698	673	673
Attendance allowance								
England and Wales	5027	5158	5409	5616	5798	6000	6250	6452
Scotland	492	505	526	544	559	577	598	615
Carer's allowance								
England and Wales	2579	2773	2888	3060	3229	3456	3733	4030
Scotland	249	262	269	284	299	319	343	369
Industrial injuries disablement benefit								
England and Wales	718	715	839	839	834	835	841	833
Scotland	12	9	9	8	8	8	7	7
Severe disablement allowance								
England and Wales	107	87	90	86	83	80	77	73
Scotland	12	9	9	8	8	8	7	7

Note: Covers benefits in AME only. Shaded cells represent notional estimates for years when devolution has not occurred. Carer's allowance was devolved in September 2018. The 2017-18 number is the Scottish share of DWP's published outturn and the remaining years are grown in line with relative population growth from that point. The 2018-19 number is different to the our forecast of devolved carer's allowance as presented in Annex B.