

Office for  
**Budget  
Responsibility**

## **Welsh taxes outlook**

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February 2025



# Contents

Chapter 1	Updated tax forecasts .....	1
	Introduction.....	1
	Land transaction tax.....	2
	Landfill disposals tax.....	3
Chapter 2	Evaluating previous forecasts.....	5
	Welsh rates of income tax .....	5
	Land transaction tax.....	6
	Landfill disposals tax.....	8
	Index of charts and tables .....	9



# 1 Updated tax forecasts

## Introduction

- 1.1 The December 2024 *Welsh taxes outlook (WTO)* presented five-year tax forecasts alongside the Welsh Government's draft Budget. It covered the Welsh rates of income tax (WRIT), land transaction tax (LTT) and landfill disposals tax (LDT), as well as the equivalent UK Government taxes that are required to calculate block grant adjustments.<sup>1</sup>
- 1.2 Those forecasts were based on our October 2024 UK-wide economy and fiscal forecasts, plus new receipts data published since then.<sup>2</sup> The Welsh Government has asked us to publish updated forecasts for LTT and LDT – reflecting the outturn data published since the draft Budget in December – alongside its final Budget for 2025-26. These forecasts are still underpinned by determinants from the October 2024 economy and fiscal forecasts for the UK as a whole.<sup>3</sup> The WRIT forecasts have not been updated for this publication, with the December 2024 forecast therefore remaining the latest WRIT forecast.
- 1.3 The ONS's Public Sector Finances (PSF) bulletin published on 22 January showed the latest position for self-assessment income tax receipts for the UK as a whole were slightly (£0.2 billion) above the October forecast profile. We have not yet assessed how much of this relates to non-savings, non-dividend income tax, the element which is subject to the Welsh rates.<sup>4</sup> These payments will largely relate to tax liabilities that accrued in 2023-24 and any implications for the Welsh rates will be reflected in the final outturn liabilities that are published by HMRC later this year.
- 1.4 An initial view on future UK-wide and Welsh income tax will be provided in the next UK-wide *Economic and fiscal outlook* and *Devolved tax and spending forecasts* publications on 26 March. These will also reflect the updated UK-wide economy and fiscal forecasts.

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<sup>1</sup> The methodology for the block grant adjustment is set out in *The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework*, December 2016. The OBR has no direct involvement in these spending decisions or block grant negotiations, but the spending settlements do draw on our tax forecasts.

<sup>2</sup> See our October 2024 *Economic and fiscal outlook*.

<sup>3</sup> Analysts in the Welsh Government produced updated forecasts for LTT and LDT on 7 and 13 February 2025 respectively. The Budget Responsibility Committee scrutinised and finalised these forecasts on 13 February.

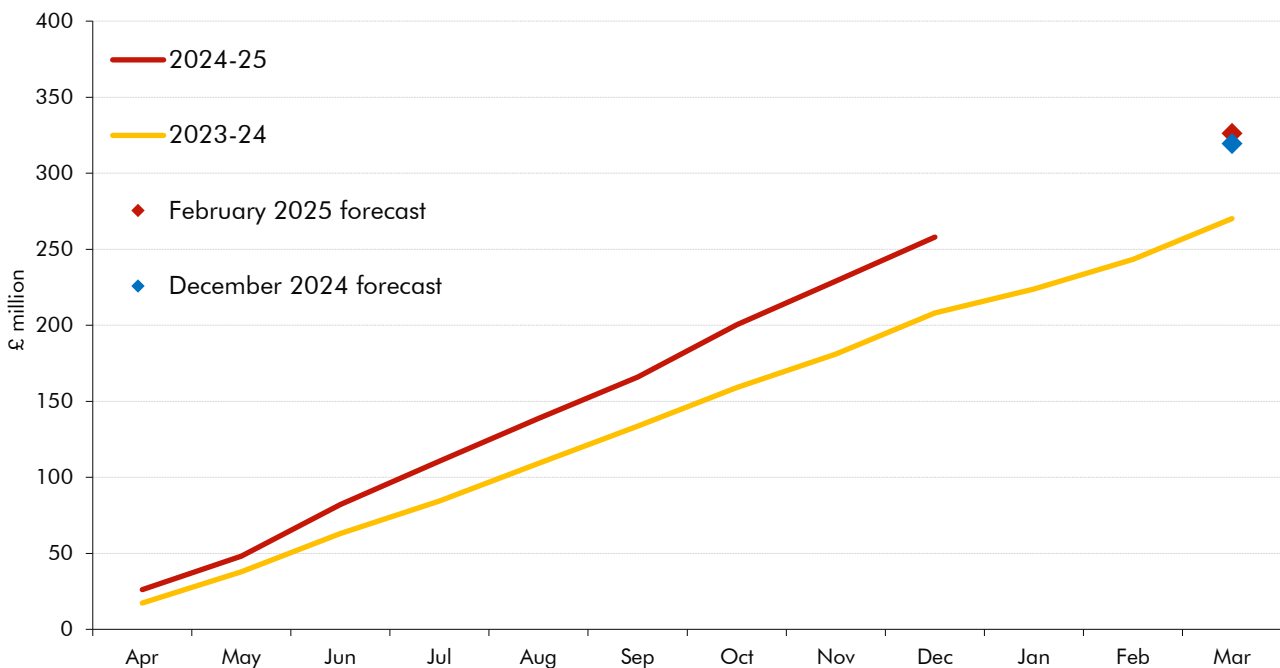
<sup>4</sup> For more details, see: OBR, *Commentary on the Public Sector Finances: December 2024*, January 2025.

## Land transaction tax

### Recent developments

1.5 Chart 1.1 presents monthly LTT receipts outturn for 2024-25 and compares them to the December forecast for receipts. In the nine months of outturn data published for 2024-25 receipts are up 23.9 per cent, £49.7 million on 2023-24 levels. Continued strength in the three months of outturn data released since the December forecast, largely in commercial property, has led us to revise up the forecast by £6.8 million (Table 1.1).

Chart 1.1: Cumulative land transaction tax outturn receipts



Source: WRA, OBR

1.6 The LTT forecast is based on the outlook for the UK-wide property market and an assessment of whether and how far the Welsh property market is deviating from the UK outlook. In the absence of evidence to the contrary, our starting assumption is that Welsh property prices and transactions move in line with those across the UK as a whole. That assumption is maintained in this forecast given that outturn data shows that recent house price changes across the two countries have followed similar paths. There are risks around this assumption, such as the possibility that any further changes in interest rates impact the Welsh property market differently from the rest of the UK.

### Latest forecasts

1.7 Table 1.1 shows the updated LTT forecast and the changes since December. Total receipts have been revised up by £5.6 million (1.4 per cent) on average a year, largely reflecting strength seen in commercial receipts in recent months.

## 1.8 Breaking the overall difference down by component:

- **Residential main rates** receipts are broadly unchanged from the December forecast. A small change has been made to the costings of the multiple dwellings relief (MDR) policy, as it will only be applied to main rates, of £1.3 million a year (0.6 per cent).
- Receipts from **higher rates on additional residential properties** have been revised down by £4.0 million (4.0 per cent) on average a year. This largely reflects slightly weaker additional outturn since the December forecast and the change to the MDR policy explained above.
- **Commercial property** receipts have been revised up by £8.5 million (11.3 per cent) a year on average reflecting continued strength in the additional three months of data since our December forecast.

Table 1.1: Land transaction tax forecast: February 2025 update

	£ million						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
<b>Total LTT</b>							
December forecast	270	319	338	371	410	446	481
February update	270	326	343	377	415	452	486
<b>Difference</b>		7	5	5	5	5	6
<b>Residential main rates</b>							
December forecast	140	167	179	202	230	256	281
February update	140	167	181	204	231	257	282
<b>Difference</b>		0	1	1	1	1	1
<b>Higher rates on additional properties</b>							
December forecast	62	74	90	98	106	113	119
February update	62	71	86	94	102	108	114
<b>Difference</b>		-2	-4	-4	-4	-5	-5
<b>Commercial</b>							
December forecast	67	79	68	71	74	77	81
February update	67	88	76	79	83	86	90
<b>Difference</b>		9	8	8	8	9	9

Source: OBR

## Landfill disposals tax

1.9 Table 1.2 shows the updated LDT forecast. The £3.5 million upward revision in receipts in 2024-25 reflects the inclusion of a large one-off cash receipt, relating to a delayed payment from 2018-19, received in the third quarter of the year. From 2025-26 onwards the forecast has been revised up by an average of £0.5 million a year due to the continued strength in outturn. One of the larger landfill sites in Wales is due to close in 2025-26. This represents a downside risk to the forecast as some waste which would have been landfilled there may be diverted to England or to alternative waste disposal methods.

## Updated tax forecasts

Table 1.2: Landfill disposals tax forecast: February 2025 update

	£ million						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
December forecast	30	31	32	31	31	30	29
February update	30	34	33	32	31	30	30
<b>Difference</b>	<b>0.0</b>	<b>3.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>

Source: OBR



## 2 Evaluating previous forecasts

2.1 Assessing the performance of past forecasts is important for transparency and accountability, and for identifying areas for improvement. We routinely evaluate previous forecasts in *WTO* updates and do so again here, looking at the:

- December 2021 forecast for the **Welsh rates of income tax** in 2022-23;
- February 2023 forecast for **land transaction tax** in 2023-24; and
- February 2023 forecast for **landfill disposals tax** in 2023-24.

### Welsh rates of income tax

2.2 The December 2021 *WTO* forecast was produced as the economy was still in the midst of the pandemic and in the early stages of a high inflationary period that would be exacerbated by the outbreak of the Ukraine war, which helped drive prolonged strong nominal earnings growth. The forecast was based on the UK-wide economy forecast presented in the October 2021 *Economic and fiscal outlook*, the 2018-19 Survey of Personal Incomes, UK-wide PAYE outturn data to August 2021, an initial estimate for self-assessment outturn data for 2019-20, and the most recent real time PAYE information from HMRC.

2.3 Table 2.1 show that Welsh rates of income tax outturn in 2022-23 overshot the December 2021 forecast by £140 million (5.7 per cent). This is the second largest one-year ahead forecast difference since we began forecasting Welsh rates, though much smaller than the 15.5 per cent forecast difference for 2021-22. The £140 million difference can be attributed to three factors:

- The difference associated with **economic determinants of income tax liabilities** generates £88 million of the December 2021 forecast difference, almost two-thirds of the overall error. This largely reflects wages and salaries being notably higher than anticipated. The December forecast assumed earnings growth of 4.0 per cent compared to outturn growth of 6.1 per cent in 2022-23.
- The **fiscal modelling** difference contributes £50 million (35 per cent) to the overall difference. This reflects greater-than-expected fiscal drag, generated by increases in taxpayer numbers and those paying the higher rate of income tax. This was driven by the unforeseen nominal pay strength highlighted above, leading to an effective tax rate that was higher than expected. The fiscal drag effect is slightly offset by the Welsh share of overall UK NSND income tax being lower than forecast.

## Evaluating previous forecasts

- The difference due to **subsequently announced policies** generated a shortfall of £3 million (just 2 per cent of the difference). This largely reflects the reversal of the Health and Social Care levy that was included in our December 2021 forecast but subsequently dropped.

2.4 The December 2024 *WTO* shows how the forecasts for 2022-23 which followed this initial December 2021 forecast compared to the eventual outturn. The subsequent five forecasts were much closer to final outturn, with an average absolute error of 0.7 per cent, largely because UK-wide wages and salaries growth was subsequently much closer to forecast.

Table 2.1: The Welsh rates of income tax in 2022-23: forecast versus outturn

	£ million					
	Forecast	Outturn	Difference	of which:		
				Economic determinants	Fiscal modelling	Policy changes
Welsh rates of income tax	2,478	2,618	140	88	50	3

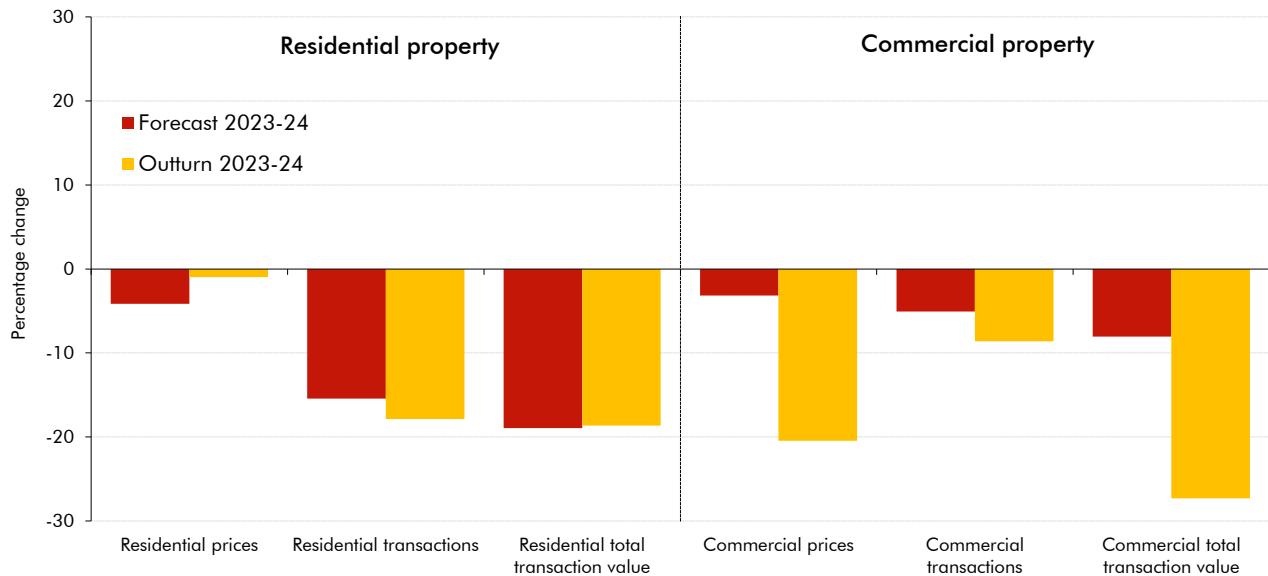
Source: OBR

## Land transaction tax

2.5 Table 2.2 shows that the February 2023 forecast for LTT receipts in 2023-24 came in at £270 million, £42 million (13.6 per cent) lower than forecast. Lower-than-expected total value of transactions explains around 60 per cent of the overall shortfall – labelled ‘economic determinants’ in the table. Chart 2.1 shows that:

- **In the residential property market in Wales**, residential prices fell by 1 per cent rather than the 4.2 per cent fall assumed in the February 2023 forecast. This was somewhat offset by a sharper decline in transactions than forecast of 17.9 per cent relative to the forecast reduction of 15.4 per cent. Taken together this resulted in the value of residential transactions being relatively close to expectations.
- **Outcomes in the Welsh commercial property markets** were, however, significantly weaker than anticipated, largely driven by a large drop in prices of 20.5 per cent, compared to a forecast 3.2 per cent fall. Commercial transactions were also somewhat weaker than forecast. This combined to produce a fall of 27.3 per cent in the total value of commercial transactions, over three times weaker than forecast.

Chart 2.1: Property prices and transactions: forecasts versus outturns



Source: OBR

2.6 Table 2.2 separates the £42 million forecast shortfall into the three individual LTT markets:

- **Residential main rates** underperformed the forecast by £10 million (6.4 per cent). This is more than explained by fiscal modelling error. In particular, outturn in the final quarter of the previous 2022-23 year, which was not available at the time of forecasting, was weaker than assumed in the forecast. This is partially offset by transactions holding up slightly more strongly than we anticipated.
- **Higher rates on additional property** receipts had a shortfall of £3 million relative to forecast, again explained by the fiscal modelling error.
- **Commercial property** receipts had a shortfall of £30 million, accounting for around 70 per cent of the overall underestimate. This is entirely explained by the sharper fall in the value of transactions, which was largely driven by lower prices than forecast, as explained above. Partly offsetting this downside surprise was a £9 million upside surprise related to fiscal modelling. This in part reflects the compositional impacts, due to the stronger performance of transactions nearer the top of the distribution.

Table 2.2: Land transaction tax receipts in 2023-24: forecast versus outturn

	£ million					
	Forecast	Outturn	Difference	of which:		
				Economic determinants	Fiscal modelling	Policy changes
<b>Total LTT forecast</b>	<b>312</b>	<b>270</b>	<b>-42</b>	<b>-26</b>	<b>-16</b>	<b>0</b>
<i>of which:</i>						
Residential (main rates)	150	140	-10	12	-21	0
Residential (higher rates)	65	62	-3	2	-4	0
Non-residential	97	67	-30	-39	9	0

Source: OBR

## Landfill disposals tax

2.7 Table 2.3 compares our February 2023 LDT forecast to outturn, showing an overall shortfall of £11.3 million (27.7 per cent). This is entirely attributed to fiscal modelling changes and mainly driven by a stronger-than-expected decline in standard rate waste after the post-Covid peak. Receipts averaged £11.6 million in the first three quarters of 2022-23, before falling to £7.4 million in the final quarter, after the 2023-24 forecast had been produced.

Table 2.3: Landfill disposals tax receipts in 2023-24: forecast versus outturn

	£ million					
	Forecast	Outturn	Difference	of which:		
				Economic determinants	Fiscal modelling	Policy changes
<b>Total LDT forecast</b>	<b>41</b>	<b>30</b>	<b>-11</b>	<b>0</b>	<b>-11</b>	<b>0</b>

Source: OBR

# Index of charts and tables

Chapter 1	Updated tax forecasts	
	Chart 1.1: Cumulative land transaction tax outturn receipts .....	2
	Table 1.1: Land transaction tax forecast: February 2025 update.....	3
	Table 1.2: Landfill disposals tax forecast: February 2025 update .....	4
Chapter 2	Updated tax forecasts	
	Table 2.1: The Welsh rates of income tax in 2022-23: forecast versus outturn .....	6
	Chart 2.1: Property prices and transactions: forecasts versus outturns .....	7
	Table 2.2: Land transaction tax receipts in 2023-24: forecast versus outturn .....	8
	Table 2.3: Landfill disposals tax receipts in 2023-24: forecast versus outturn.....	8

