

Office for  
**Budget  
Responsibility**

**Economic and fiscal outlook**  
Devolved taxes forecast

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December 2014



# 1 Introduction

- 1.1 The Office for Budget Responsibility (OBR) was established in 2010 to provide independent and authoritative analysis of the UK's public finances. Twice a year, alongside the Budget and Autumn Statement, we produce forecasts for the UK economy and the public finances. We publish these in our *Economic and fiscal outlook (EFO)*.
- 1.2 Since 2012, we have also forecast some tax streams that are devolved to the Scottish Parliament. Alongside the December 2014 *EFO* we have also produced, for the first time, forecasts of taxes where there are already firm plans for these taxes to be devolved to the National Assembly for Wales. Our forecasts for devolved taxes are published alongside each *EFO* and are consistent with our main UK forecasts. As with those UK forecasts, these extend over a 5-year forecast period – to 2019-20 in this *EFO*.

## The Scotland Act 2012

- 1.3 The Scotland Act 2012 gave new powers to the Scottish Parliament relating to taxation and borrowing. From April 2015, stamp duty land tax (SDLT) and landfill tax will be fully devolved to Scotland. The Scottish Government has announced that it will replace SDLT with a new land and buildings transaction tax at that point. From April 2016, the Scottish Parliament will be asked to set a Scottish rate of income tax, to replace a 10p reduction from each band of UK income tax.
- 1.4 The Command Paper: *Strengthening Scotland's Future*<sup>1</sup> – published alongside the Scotland Bill in 2010 – set out our role in providing forecasts of Scottish income tax, landfill tax, stamp duty land tax and aggregates levy receipts. Currently, the Treasury notionally assigns these forecast receipts to the Scottish Budget to show how much of what is currently grant funding would be replaced by tax. The Scottish Budget will not be varied in line with fluctuations in tax receipts until the devolution of these taxes takes place.

## The Wales Bill

- 1.5 The Wales Bill proposes new powers for the Welsh Assembly relating to taxation and borrowing. It provides for the full devolution of SDLT and landfill tax from April 2018. Subject to the outcome of a referendum in Wales on the introduction of Welsh rates of income tax, the Welsh Assembly will also be able to set new Welsh rates for each band of income tax that would replace a reduction in the rate of UK income tax. The timing of such a change has not yet been specified. The Government is also intending to devolve aggregates levy, subject to the resolution of current legal challenges.

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<sup>1</sup> *Strengthening Scotland's Future*, November 2010, Cm 7973.

- 1.6 The Command Paper: *Wales Bill: Financial Empowerment and Accountability*<sup>2</sup> – published alongside the Wales Bill earlier this year – required us to begin to forecast Welsh taxes alongside Autumn Statement 2014 and twice a year thereafter. This will initially include forecasts for stamp duty land tax, landfill tax, aggregates levy and the Welsh rate of income tax. Our forecasts will reflect any Welsh replacement taxes – as with Scotland’s land and buildings transactions tax – when details of any changes become sufficiently clear. The Treasury will notionally assign these forecast receipts to the Welsh Budget to show how much of what is currently grant funding would be replaced by tax. Again, the Welsh Budget will not be varied in line with fluctuations in tax receipts until the devolution of these taxes has been fully implemented.

## Methodology

- 1.7 We published a methodology note in March 2012 that described how we planned to forecast Scottish tax receipts.<sup>3</sup> It explained that it is not possible to replicate in full the methodology we use to produce our UK-wide forecasts. In particular, the macroeconomic data that we would need to produce a Scottish macroeconomic forecast and economic determinants were generally not available at a Scottish level or were only available with a long lag. That remains the case. We are therefore not able to produce a Scottish macroeconomic forecast to drive the Scotland tax forecast. These challenges apply equally to forecasting Welsh taxes.
- 1.8 Given these challenges, the methodologies we use – described in more detail in subsequent chapters – are generally based on estimating and projecting Scottish and Welsh shares of relevant UK tax streams. We typically assume that the shares will continue at recent average levels, unless available evidence suggests we should adjust those assumptions to ensure our forecasts are central. For example, if a newly announced policy can be expected to have a disproportionate impact on the Scottish or Welsh share of a particular tax, or there is evidence pointing to different trends in an underlying tax base.
- 1.9 The exception to this is our forecast for the new land and buildings transaction tax (LBTT) that the Scottish Government has announced will replace SDLT from April 2015. As the Scottish Government has to date only published a forecast of LBTT receipts for one year, we commissioned HM Revenue and Customs (HMRC) to produce a 5-year forecast for LBTT receipts. As a new tax, this forecast will clearly be subject to even greater uncertainty than our previous forecasts for the Scottish share of UK SDLT receipts. That forecast was itself subject to considerable uncertainty given its sensitivity to the growth of property transactions, which can be volatile from year to year.
- 1.10 As with our UK forecasts, 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.

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<sup>2</sup> *Wales Bill: Financial Empowerment and Accountability*, March 2014, Cm 8838.

<sup>3</sup> *Forecasting Scottish taxes*, March 2012.

- 1.11 We consider these methodologies to remain work-in-progress. The OBR's role in forecasting started three years ahead of the initial devolution of these taxes in Scotland. This has allowed us to develop and improve forecasts in light of experience and the availability of new information sources.

## The forecast process

- 1.12 The process for producing the devolved tax forecasts has been as follows:
- HMRC officials produced draft Scottish and Welsh tax forecasts using a near-final pre-measures UK economic and fiscal forecasts. This took into account the tax forecasts for 2015-16 contained in the Scottish Government's Draft Budget, published in October 2014. The BRC and OBR staff discussed these forecasts with HMRC, Scottish Government, Scottish Fiscal Commission and Welsh Government officials on 19 and 24 November; and
  - in the final week before the Autumn Statement, HMRC officials provided us with a final set of Scottish and Welsh forecasts using our final post-measures UK economic and fiscal forecasts, and taking into account Autumn Statement policy measures. Due to the confidentiality of the measures, we were unable to involve the Scottish Government and Welsh Government in this stage of the process.
- 1.13 The Scottish Government produced a forecast for 2015-16 receipts from the new Scottish LBTT and landfill tax in its draft budget. The Scottish Government was unable to provide us with information about expected receipts from these taxes over the remainder of our 5-year forecast period, so we commissioned HMRC to provide these forecasts. We will continue to work with the Scottish and Welsh Governments, and with the Scottish Fiscal Commission, to ensure that we can bring all relevant information to bear in producing these forecasts. At this stage, the forecast we present in this document is our own. Differences between our own forecast and the Scottish Government forecasts for 2015-16 are explained in Chapters 3 and 4.

## Summary of forecasts

- 1.14 Tables 1.1 and 1.2 detail the forecasts for the Scottish and Welsh taxes. This includes the Scottish share of SDLT receipts in 2014-15 and receipts from the new LBTT from 2015-16 onwards.

Table 1.1: Summary of December 2014 Scottish tax forecasts

	£ million					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Income tax	4383	4510	4757	5058	5354	5674
LBTT	475	499	600	676	749	811
Landfill tax	109	103	96	97	101	108
Aggregates levy	52	51	51	52	53	54
<b>Total</b>	<b>5019</b>	<b>5163</b>	<b>5504</b>	<b>5883</b>	<b>6257</b>	<b>6647</b>

Table 1.2: Summary of December 2014 Welsh tax forecasts

	£ million					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Income tax	1930	1981	2092	2229	2364	2510
SDLT	165	168	190	211	231	246
Landfill tax	54	51	48	48	50	53
Aggregates levy	26	25	25	26	26	27
<b>Total</b>	<b>2175</b>	<b>2225</b>	<b>2356</b>	<b>2514</b>	<b>2670</b>	<b>2836</b>

## 2 Income tax

### Scottish rate of income tax

- 2.1 Under the Scotland Act 2012, the existing basic, higher and additional rates of income tax levied by the UK Government will from April 2016 be reduced by 10p in the pound for those individuals defined as Scottish taxpayers. The Scottish Parliament will then levy a new Scottish rate of income tax, which will apply equally to Scottish taxpayers in all of the main UK bands. The new Scottish rate of income tax will need to be set every year by the Scottish Parliament. The block grant from the UK Government to Scotland will then be reduced to reflect the fiscal impact of the devolution of these tax-raising powers.
- 2.2 The Scottish rate of income tax will be paid by Scottish taxpayers, who will be defined as a UK taxpayer either resident in Scotland or whose closest connection is with Scotland. It will be levied on non-savings, non-dividend income (i.e. earnings from employment, self-employment, pension income, foreign income, taxable benefits and income from property). Tax liabilities for a particular year would include both PAYE (largely paid in the same year as the activity that created the tax liability) and self-assessment (which is usually paid in the year after the activity that took place to create the tax liability).
- 2.3 In our forecast, we assume a 10p rate is levied in every year.

### Welsh rate of income tax

- 2.4 The Wales Bill includes provision for a referendum to determine whether the Welsh Assembly will be able to introduce a Welsh rate of income tax. The income tax levied by the UK Government would be reduced by 10p in the pound for those individuals defined as Welsh taxpayers. The Welsh Assembly would then levy separate Welsh rates for each band of income tax. The new Welsh income tax rates would need to be set every year by the Welsh Assembly. The block grant from the UK Government to Wales would then be reduced to reflect the fiscal impact of the devolution of these tax-raising powers.
- 2.5 The forecasts presented in this document assume that the referendum results in the implementation of a Welsh rate of income tax and that the Welsh Assembly then levies a 10p rate across all the income tax bands in every year.

### Methodology

- 2.6 We generate a UK forecast for non-savings, non-dividend income tax liabilities from the full UK income tax receipts forecast published in our *EFO*. The key components of the UK forecast are:

- total pay-as-you-earn (PAYE) liabilities;
- self-assessment (SA) liabilities on non-savings, non-dividend income. The forecast for SA in the *EFO* is on a receipts basis (i.e. when the cash is received). This is adjusted to be on a liabilities basis (i.e. when the activity occurred) and to exclude the savings and dividend elements of SA; and
- PAYE repayments and repayments to pension providers, from our income tax repayments forecast.

2.7 We then apply the latest estimated Scottish and Welsh share to the UK total of these forecast components. We then include deductions in respect of the Scottish and Welsh shares of Gift Aid repayments. Finally, we add estimates of the Scottish and Welsh element of policy measures announced in Autumn Statement 2014.

2.8 Information on the share of UK income tax in Scotland and Wales is derived from the Survey of Personal Incomes (SPI), an annual survey based on a sample of about 700,000 individuals in contact with HMRC during the course of the year through the PAYE, SA or repayment claim systems. This is only available with a long lag, with data currently only available up to 2011-12. An estimate for 2012-13 will be available for our next forecast. In the run up to the devolution of the Scottish rate of income tax, HMRC will be able to identify each individual taxpayer as Scottish or not, and flag them appropriately on its PAYE and SA systems. Once this has been done, it will be possible to determine the Scottish share of UK liabilities with much greater precision.

2.9 The Scottish and Welsh shares can be affected by a number of factors. These include:

- different economic trends between Scotland/Wales and the UK as a whole;
- different movements in the income distribution between Scotland/Wales and the UK; and
- different effects of policy measures.

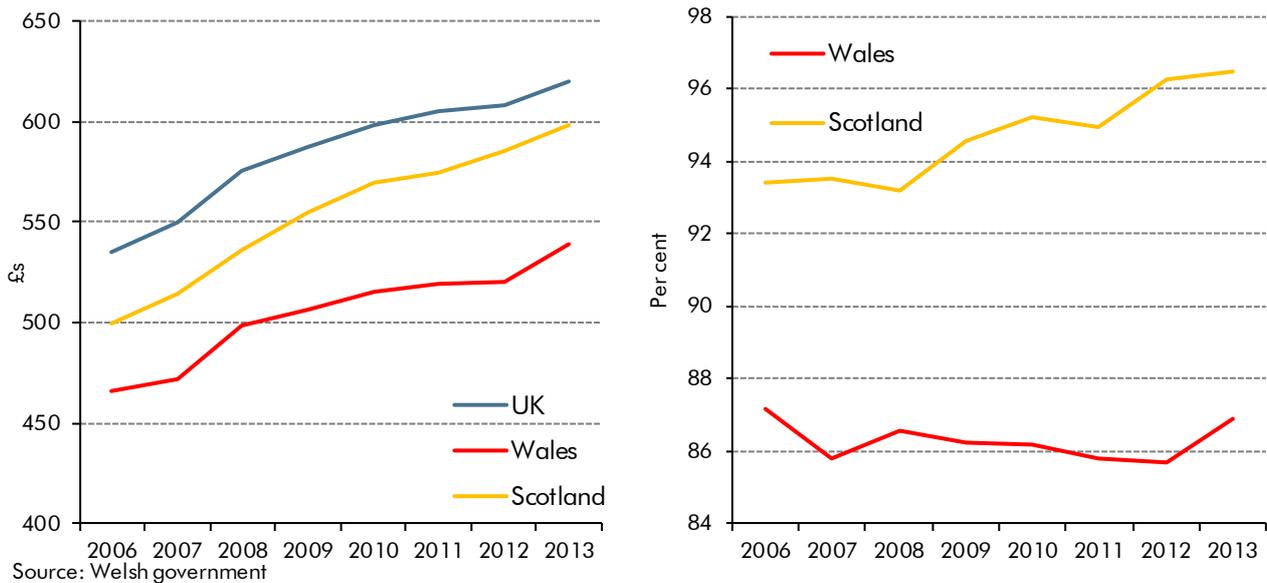
2.10 The Scottish share was very stable over the period from 2001-02 to 2010-11, with the share close to 3.15 per cent in most years. The share in Wales has varied more and there is some indication of a downward trend in the share from 2002-03. Table 2.1 shows the estimates of the Scottish and Welsh share from the SPI.

Table 2.1: Scottish and Welsh income tax shares

	Per cent of UK total for non-savings, non-dividend liabilities												
	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12
Scotland	3.04	3.03	3.14	3.15	3.23	3.15	3.13	3.15	3.14	n/a	3.16	3.15	3.08
Wales	1.45	1.40	1.48	1.51	1.55	1.53	1.50	1.47	1.44	n/a	1.42	1.42	1.37

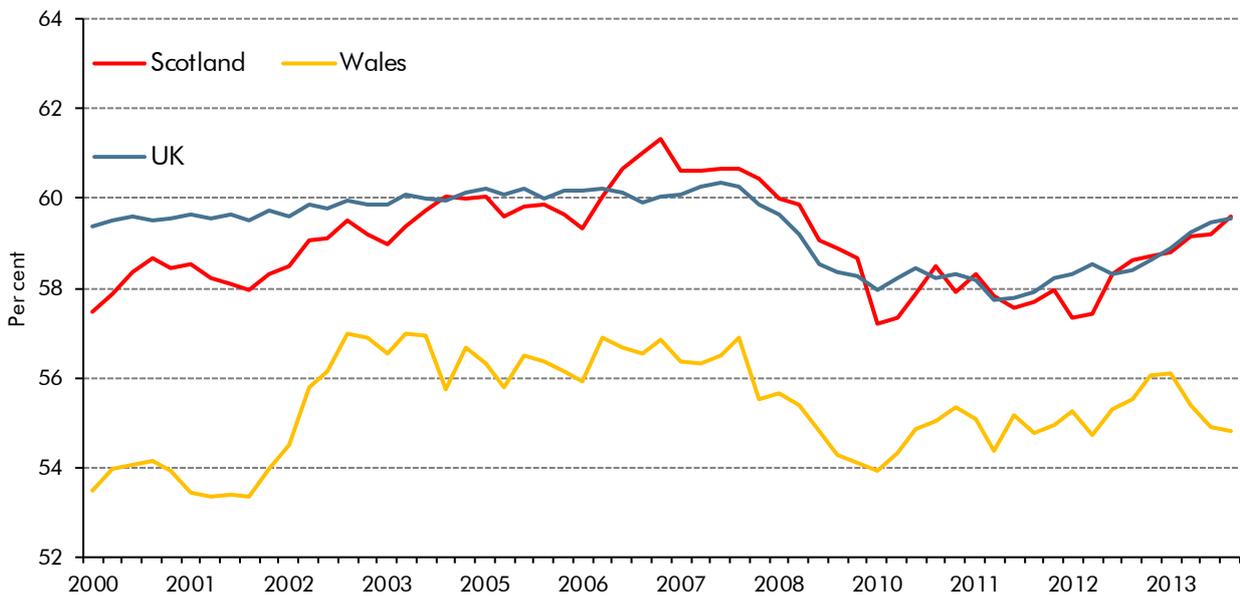
2.11 Different experiences with the share of UK income tax can partly be explained by different labour market trends in Wales and Scotland relative to the rest of the UK. Earnings growth in Wales has typically been below that in Scotland and the rest of the UK. Since 1999, average earnings in Scotland have increased from 92 per cent of the UK-wide average to over 96 per cent in 2013. Average earnings in Wales have fallen from 88 per cent of the UK-wide average in 1999 to 87 per cent in 2013.

Chart 2.1: Scottish and Welsh average earnings as a percentage of the UK average



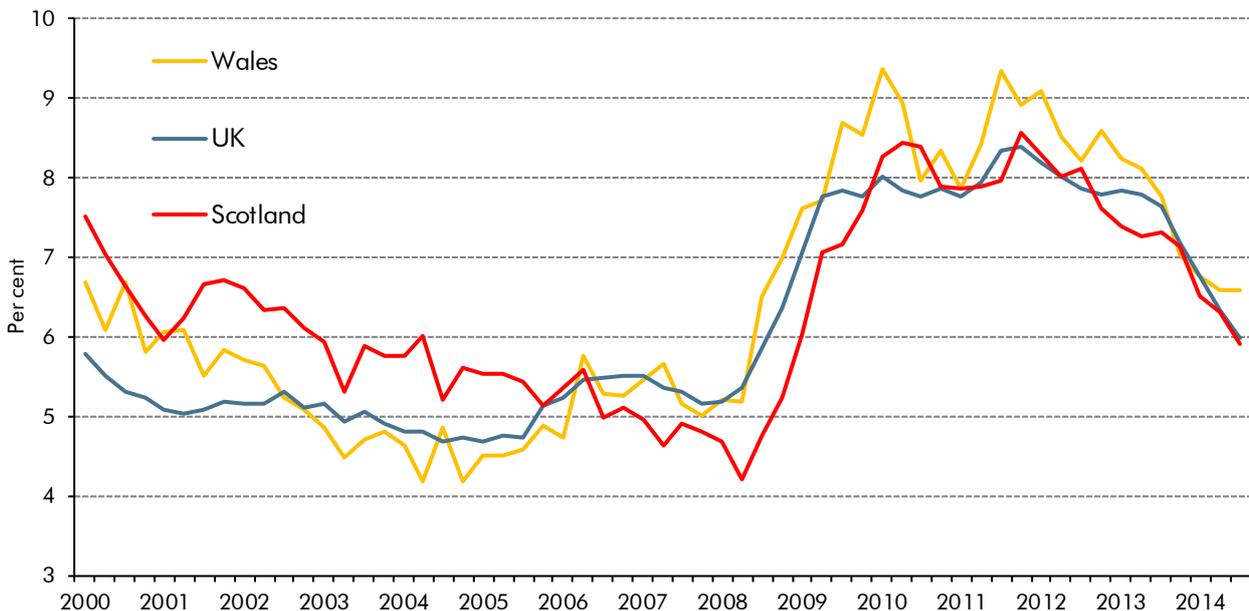
2.12 Charts 2.2 and 2.3 show that employment and unemployment trends in Scotland have generally been more similar to the UK as a whole than has been the case in Wales. In particular, the employment rate has typically been lower in Wales, mainly reflecting a higher inactivity rate. The latest unemployment rate for Wales is only  $\frac{1}{2}$  per cent higher than in Scotland and the UK as a whole.

Chart 2.2: Employment rates in the UK, Scotland and Wales



Source: ONS

Chart 2.3: Unemployment rates in the UK, Scotland and Wales



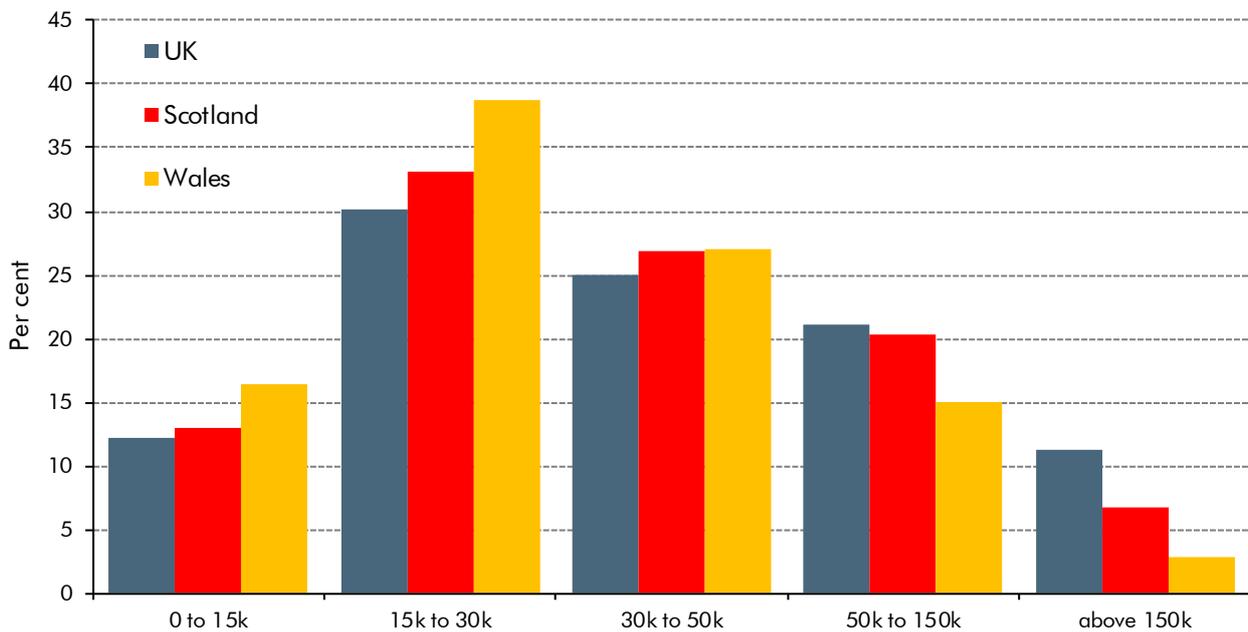
Source: ONS

2.13 The Scottish and Welsh shares of income tax fell in 2011-12 and we have allowed for this trend to persist through to 2015-16. This reflects asymmetric effects from policy measures. In recent years, revenue-raising policies have generally affected the top end of the income distribution. These include the additional rate of income tax for incomes over £150,000, the withdrawal of personal allowances over £100,000, freezes in the basic rate limit and higher rate thresholds and anti-avoidance measures. In contrast, tax reductions such as raising the

personal allowance to £10,600 from 2015-16 have been concentrated at the lower end of the income distribution.

2.14 Chart 2.4 shows the proportion of total taxpayer income by income bands. The proportion of taxpayer income generated from individuals with incomes below £30,000 is higher in Scotland, and particularly so in Wales. We have therefore made adjustments to the Scottish and Welsh share to account for recent policy measures that are not yet reflected in the SPI data.

Chart 2.4: Proportion of total taxpayer income by income bands (2011-12)



Source: HMRC

2.15 Finally, we add the estimated Scottish and Welsh share of newly announced policy measures to the pre-measures forecast.

## UK forecast

2.16 Table 2.2 shows the UK forecast of tax liabilities on non-savings, non-dividend (NSND) income. To aid comparison with the previous forecast, we have constructed a December forecast that excludes the Budget 2014 measures. Compared with March, the UK forecast is lower in each year. Receipts are £2.3 billion lower in 2014-15 and £7.4 billion lower by 2018-19.

Table 2.2: UK forecast of tax liabilities on non-savings, non-dividend income (prior to Autumn Statement 2014 measures)

	£ million							
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
December 2014								
Post Budget 2014 measures	141.5	147.4	151.6	157.7	165.8	176.2	186.6	197.8
Pre Budget 2014 measures (a)	141.5	147.1	151.2	157.9	166.3	177.2	187.8	199.0
March 2014 (pre-measures) (b)	142.3	147.5	153.4	163.2	173.4	184.4	195.2	
Difference (a-b)	-0.8	-0.4	-2.3	-5.3	-7.2	-7.2	-7.4	

- 2.17 PAYE receipts have been weaker than expected so far in 2014-15, reflecting lower-than-expected earnings growth and a steeper fall in the effective tax rate than expected. This more than offsets the effect from stronger employment. The effective tax rate on the wages and salaries of employees will have been reduced by the increase in the personal allowance to £10,000, falling real wages and by changes in the composition of employment. Lower paid age groups and lower paid occupations and industries have recently seen stronger growth in employment.
- 2.18 We expect earnings growth to remain subdued for longer than in March. This is the key driver of the deterioration in the UK forecast for tax liabilities on NSND income beyond 2014-15. We also assume that the effective tax rate will take longer to rebound. Although receipts are lower throughout the forecast, we still expect a pick-up in the growth of PAYE receipts in the final years of the forecast. With tax thresholds and allowances uprated with inflation after 2015-16, above-inflation wage growth lifts receipts via positive fiscal drag, as people find more of their incomes moving above different tax thresholds.
- 2.19 We have revised down our estimates for SA liabilities from 2012-13 onwards. An analysis of 2012-13 SA returns suggests that liabilities for that year were £0.6 billion lower than we estimated in March. The lower starting point helps to explain the weaker forecast. Growth in self-employment has continued to surprise on the upside. We have assumed that much of the upside surprise has been concentrated at the lower end of the income distribution and will have only a modest effect on receipts. This would be consistent with the limited information on self-employment incomes currently available for recent years. There is a small upward effect on the UK forecast from repayments, which have been lower than expected in 2014-15.
- 2.20 The main measures affecting income tax in Autumn Statement 2014 were:
- the further increase in the personal allowance to £10,600 in 2015-16;
  - changes to the Budget 2014 pension flexibility measure following consultation; and
  - anti-avoidance measures such as that on investment managers' disguised fee income.

## Scottish forecast

2.21 Table 2.3 shows our latest forecast of the Scottish share of income tax. These are little changed from our March forecast. As noted earlier, the fall in the share between 2011-12 and 2015-16 reflects the asymmetric effect of policy measures in recent years. We have not made any further adjustments.

Table 2.3: Scottish share of income tax

	Per cent of UK total for non-savings, non-dividend liabilities								
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
March 2014	3.08	3.05	2.92	2.92	2.92	2.92	2.92	2.92	
December 2014	3.08	3.05	2.92	2.92	2.90	2.90	2.90	2.90	2.90

2.22 Table 2.4 provides a forecast for Scottish income tax liabilities on non-savings, non-dividend income. These are the liabilities specifically for the Scottish rate. Prior to a decision in the Scottish Parliament on the new Scottish tax rate for 2016-17, the forecast assumes that a 10p Scottish rate will be levied. Matching the UK forecast, we expect more rapid growth in tax liabilities from 2016-17 onwards.

Table 2.4: Scottish income tax forecast

	£ million							
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Scottish income tax liabilities (pre-measures)	4273	4258	4383	4529	4764	5065	5362	5685
Autumn Statement 2014 measures	0	0	0	-19	-7	-7	-8	-11
Scottish income tax liabilities (post-measures)	4273	4258	4383	4510	4757	5058	5354	5674

2.23 The announcement that the personal allowance would be raised from £10,000 to £10,600 in April 2015, rather than to £10,500, has a slightly more than proportional effect on the Scottish forecast, given the distribution of income in Scotland. This is partly offset by the effect of further policy decisions on the Budget 2014 pensions flexibility measure.

2.24 Table 2.5 provides a breakdown of the change in the Scottish income tax forecast since March. With little change in the Scottish share, most of the downward revisions reflect the lower paths for earnings growth and the effective tax rate in the UK forecast.

Table 2.5: Changes in Scottish income tax since March

	£ million							
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
March 2014	4299	4271	4449	4668	4974	5286	5607	
December 2014	4273	4258	4383	4510	4757	5058	5354	5674
Change in income tax	-25	-12	-66	-158	-217	-228	-253	
of which:								
Scottish share	-1	-3	-4	1	3	6	9	
Other (including previous measures)	0	2	4	14	-3	-18	-36	
Autumn Statement 2014 measures	0	0	0	-19	-7	-7	-8	
UK forecast	-24	-12	-66	-154	-209	-209	-217	

## Welsh forecast

2.25 Table 2.6 shows our forecast for the Welsh share of income tax. As with the Scottish share, we expect the asymmetric effect of policy measures over recent years to have reduced the Welsh share in the first half of the decade. We have not made any further adjustments.

Table 2.6: Welsh share of income tax

	Per cent of UK total of non-savings, non-dividend liabilities								
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
December 2014	1.37	1.36	1.29	1.29	1.28	1.28	1.28	1.28	1.29

2.26 Table 2.7 provides a forecast for Welsh income tax liabilities on non-savings, non-dividend income. These are the liabilities specifically for the Welsh rate. It assumes that a 10p rate is implemented by the Welsh Assembly. Again, matching the UK forecast, we expect more rapid growth in tax liabilities from 2016-17 onwards. With income more skewed to the bottom end of the income distribution in Wales, the raising of the personal allowance to £10,600 has a slightly larger than proportionate effect on Welsh income tax liabilities than in Scotland.

Table 2.7: Welsh income tax forecast

	£ million							
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welsh income tax liabilities (pre-measures)	1902	1874	1930	1991	2098	2234	2370	2517
Autumn Statement 2014 measures	0	0	0	-10	-5	-5	-6	-7
Welsh income tax liabilities (post-measures)	1902	1874	1930	1981	2092	2229	2364	2510

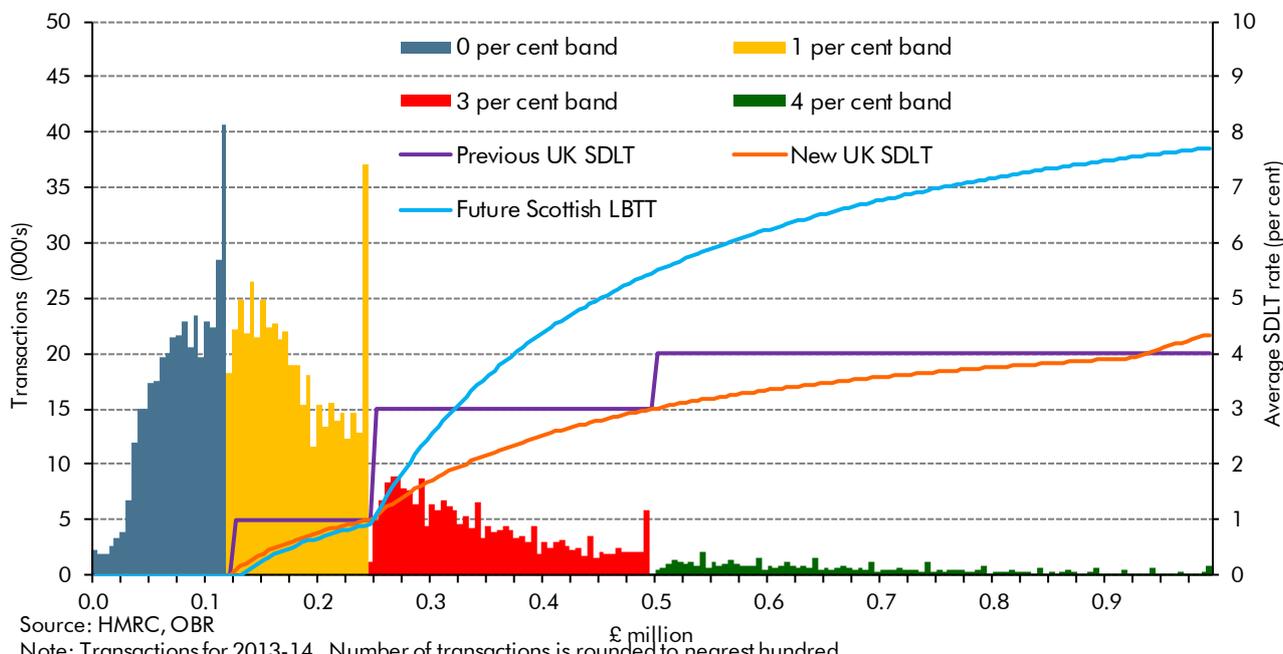
## 3 Taxes on property transactions

### Scottish land and building transaction tax

- 3.1 The Scotland Act provided for stamp duty land tax (SDLT) to be entirely devolved to Scotland in April 2015, which included the power to change the tax system as well as tax rates. The Land and Building Transaction Tax (Scotland) Act 2013 received Royal Assent on 31 July 2013.
- 3.2 In April 2015, the LBTT will replace the current UK-wide SDLT within Scotland. But there are also reforms to the UK SDLT tax system taking place this year. The main changes affect the taxation of property transactions in Scotland are:
- on 4 December 2014, the UK SDLT regime will move from a 'slab' to a 'slice' system. As a result, between December 2014 and April 2015 property transactions will be taxed under the new UK SDLT regime, before moving to the LBTT regime in April 2015. The UK changes are discussed in detail in our *EFO*;
  - a requirement to pay LBTT prior to registration of the title, intended to encourage prompt payment; and
  - modifications to reliefs and exemptions, including the withdrawal of sub-sale relief arrangements.
- 3.3 The Scottish Government announced the new rates and bands in its October 2014 Draft Budget. These rates are still subject to approval by the Scottish Parliament. For residential property the rates are:
- 0 per cent on residential properties worth up to £135,000;
  - 2 per cent on the portion to £250,000;
  - 10 per cent on to £1,000,000; and
  - 12 per cent on value above £1,000,000.
- 3.4 Chart 3.1 shows how the amount of tax paid on transactions at different property prices differs between the old 'slab' SDLT system, the new 'slice' UK SDLT system and the forthcoming Scottish LBTT system. It shows that there are substantial differences at some prices. For example, the purchaser of a £260,000 house – just above the 3 per cent threshold in the old UK SDLT system and the 2 per cent threshold in the Scottish LBTT system

– would pay £5,000 (or 64 per cent) less in tax. By contrast, the purchaser of a £1.5 million house would pay £62,700 (184 per cent) more in tax.

Chart 3.1: UK SDLT and Scottish LBTT tax schedules



3.5 The new rates for commercial property are:

- 0 per cent on commercial properties up until £150,000
- 3 per cent between £150,000 and £300,000; and
- 4.5 per cent above £350,000.

## Welsh rate

3.6 The Wales Bill provides for SDLT to be fully devolved to Wales in April 2018. The Welsh Assembly has not yet announced any change from the UK system. Until any announcements are made and sufficient detail is available, our Welsh forecast will assume that the new UK SDLT system would remain after the tax is fully devolved.

## Methodology

3.7 Taxes on property transactions are the only devolved tax where the methods used for forecasting Scottish and Welsh taxes differ.

3.8 The Scottish LBTT forecast has been estimated using HMRC’s stamp duty model (SDM). The SDM is a micro simulation model used for policy simulations and was used to grow a 10

per cent weighted sample of Scottish transactions using OBR economic determinants for house prices and transactions.

- 3.9 Our LBTT forecast assumes that house prices and residential property transactions will rise in line with growth in the UK forecasts for these two determinants from the final quarter of 2014. House prices have grown in line with data on Scottish house prices from the 2012-13 base year, thereby incorporating the sharp rise in prices recorded in recent months.
- 3.10 The method to forecast Welsh SDLT relies on the UK SDLT forecast. The forecast for UK SDLT receipts is compiled using an econometric forecasting model that links receipts to transactions and prices. Assumptions on the share of Welsh SDLT are made based on historical receipts data. HMRC have access to detailed SDLT data that provide an accurate estimate of Welsh share of both commercial and residential receipts.
- 3.11 Table 3.1 shows how these shares have evolved since 2007-08. It shows that the Scottish and Welsh shares have generally been on a declining path, which has reflected the relative strength of London prices over the period. Relative to the pre-crisis level at the end of 2007, average house prices in Scotland are up 3.9 per cent and in Wales are up 2.4 per cent. By contrast, average house prices in London are up more than 43 per cent.

Table 3.1: Historical Scottish and Welsh shares and SDLT receipts

	£m						
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>UK</b>							
Total	9958	4796	4885	5960	6130	6907	9273
Residential	6680	2950	3290	4040	4220	4905	6450
Commercial	3278	1846	1595	1920	1910	2002	2823
<b>Totals</b>							
Scotland:	565	320	250	330	275	283	389
of which:							
Residential	340	185	135	165	155	170	215
Commercial	225	135	115	165	120	113	175
Wales:	210	115	100	115	125	105	150
of which:							
Residential	130	55	55	65	65	70	90
Commercial	80	60	45	50	60	35	60
<b>Per cent of UK total</b>							
Scotland:							
Residential share	5.1	6.3	4.1	4.1	3.7	3.5	3.3
Commercial share	6.9	7.4	7.2	8.6	6.3	5.5	6.2
Wales:							
Residential share	1.9	1.9	1.7	1.6	1.5	1.5	1.4
Commercial share	2.4	3.2	2.8	2.6	3.1	1.7	2.1
residential share less London	2.7	2.6	2.4	2.4	2.5	2.4	2.4

- 3.12 The Scottish and Welsh share of recent policy measures is added to the pre-measures forecast. Finally, the Scottish and Welsh share of Autumn Statement 2014 policy measures is added to the forecast.

## UK forecast

- 3.13 The pre-measures UK forecast was produced on the basis of the old ‘slab’ SDLT regime, with the costing of the new ‘slice’ regime added to generate the final post-measures forecast. UK SDLT receipts are forecast to increase from £11.5 billion in 2014-15 to £19.5 billion in 2019-20. This reflects growth in house prices, a recovery in residential property transactions back to their historical average and that the combination of higher house prices and fixed tax thresholds push up the effective tax rate.

Table 3.2: UK SDLT forecast

	£ billion						
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Residential SDLT	7.0	8.7	9.9	11.7	13.4	15.1	16.4
Commercial SDLT	2.4	2.8	2.7	2.8	2.9	3.0	3.1
Total SDLT	9.4	11.5	12.6	14.5	16.3	18.1	19.5

## Scottish forecast

- 3.14 Our forecast for Scottish LBTT in 2015-16 of £499 million is higher than the Scottish Government’s estimate of £441 million. This is despite including forestalling and other behavioural effects, which would reduce expected receipts. A higher forecast would be consistent with the evidence of stronger receipts so far in 2014-15 from the Scottish element of UK SDLT than we expected in March, but such are the uncertainties around all costings of this type that the difference between the two estimates should not be regarded as significant. In particular, differences between forecasts and eventual outturns for the number of property transactions in Scotland could result in LBTT receipts in 2015-16 that are higher than our forecast or lower than the Scottish Government’s forecast. Our UK-wide forecast for property transactions in 2014-15 was revised up by 6 per cent between our December 2013 and March 2014 forecasts, but has been revised down by 11 per cent in our latest forecast.
- 3.15 The Scottish Government forecast allowed for the smoothing of the price distribution around the thresholds of the old ‘slab’ system. There were ‘dead zones’ in the price distribution, where very few transactions took place immediately above the threshold at which the tax liability jumped. This was particularly noticeable around the £250,000 threshold, where many transactions take place, but also at higher thresholds where fewer transactions take place. The Scottish Government’s forecast did not take into account a number of other behavioural effects of the new tax regime.

- 3.16 We assumed some behavioural responses to the new tax regime in our Scottish forecast, consistent with those used to estimate the fiscal impact of the new 'slice' SDLT regime in the UK. More detail can be found in Box 4.5 of the *EFO*. These include:
- that the future transaction costs (such as stamp duty) associated with buying a house are reflected in the price of the house. The lower tax rates at the bottom of the price distribution will have a positive effect on prices, whereas the significantly higher rates at the top will have the opposite effect;
  - changes in the tax liability resulting from the introduction of LBTT will affect the frequency of transactions. For the large majority of those that will face a lower tax liability under the LBTT system, compared with the old 'slab' system, this would raise transactions; and
  - adjustments at the lower end of the distribution to reflect that lower LBTT would allow a purchaser to put more of their savings towards a deposit, enabling more would-be purchasers to meet lenders' loan-to-value criteria. And at the top end, to allow for higher effective tax rates encouraging efforts to evade or avoid the tax.
- 3.17 Our forecast also takes into account the bringing forward of some higher-priced transactions in order to avoid the higher rates in 2015-16 and some delayed transactions at the lower end. This increases UK SDLT receipts under the old system by £14 million in 2014-15 and reduces the LBTT forecast by £25 million in 2015-16.
- 3.18 We have also incorporated an effect on the 2014-15 forecast from the operation of the new UK 'slice' system in Scotland from 4 December. This is assumed to lower receipts by around £15 million because of the price distribution of transactions in Scotland.

Table 3.3: Scotland SDLT and LBTT forecast

	£ million					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Scottish SDLT (pre-measures) <sup>1</sup>	476	503	567	629	685	734
Forestalling effect - Scotland	14	-25				
Effect of UK SDLT reform	-15					
Scottish LBTT		499	600	676	749	811
<b>Scottish tax from SDLT and LBTT</b>	<b>475</b>	<b>499</b>	<b>600</b>	<b>676</b>	<b>749</b>	<b>811</b>

<sup>1</sup> Based on constant share of UK SDLT.

## Welsh forecast

- 3.19 As described above, the Welsh SDLT forecast is based on a constant share of the UK SDLT forecast. The Welsh share of residential SDLT has drifted down over the past four years, primarily because of the strength of the London housing market. We assume that rises in house prices will be more evenly distributed across the UK over the rest of the forecast period. As a result, we hold the Welsh share constant at 1.4 per cent throughout the

## Taxes on property transactions

forecast period. The Welsh share of commercial SDLT is more volatile, so we use a three-year average and project this forward. A share of 2.3 per cent has been used across the forecast period.

- 3.20 We then included the assumed Welsh share of SDLT measures in order to produce the final post-measures forecast. It has been estimated from administrative SDLT data that the policy to change the UK SDLT regime will have a disproportionately large impact on Welsh receipts. This is because the distribution of house prices in Wales is skewed towards lower prices, where transactions will face lower tax rates under the new system. We assume this reduces the Welsh share of SDLT to 1.06 per cent from 2015-16 onwards. The Welsh share in 2014-15 has been adjusted down to 1.2 per cent from 1.4 per cent to reflect that the new SDLT regime will only be in place from 4 December.

Table 3.4: Welsh SDLT forecast

	£ million						
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Residential SDLT	90	106	107	124	142	158	171
Commercial SDLT	60	59	61	65	69	73	75
Total SDLT	150	165	168	190	211	231	246

# 4 Environmental taxes

## Landfill tax

### Scottish rate

- 4.1 Landfill tax will be fully devolved to the Scottish Government in April 2015. In October 2014 as part of the Scottish Government's Draft Budget, it was announced that the landfill tax rates will be set in line with those in the rest of the UK in 2015-16.

### Welsh rate

- 4.2 The Wales Bill provides for landfill tax to be fully devolved from April 2018. As with SDLT, we assume that the Welsh Assembly will implement the UK regime and forecast landfill tax on that basis. We will update this assumption when sufficient detail about any replacement tax is available.

## Methodology

- 4.3 The Scottish and Welsh landfill tax forecasts are produced by applying an assumption about the path of the Scottish and Welsh share of landfill tax to the UK forecast.
- 4.4 The UK forecast is compiled using a forecast for the tonnage of waste sent to landfill, which is multiplied by the appropriate tax rate. The tonnage forecast is generated from separate Department of Food, Environment and Rural Affairs (DEFRA) projections of municipal solid waste, and commercial and industrial waste, sent to landfill. The amount of municipal waste going into landfill is determined by comparing the cost of alternative waste treatment options. DEFRA's models cover England, so are scaled up to get to a UK-wide forecast. The split between standard and lower tax rates is based on historical trends. The tax rates are assumed to be updated in line with inflation in the absence of announced policy.
- 4.5 Prior to devolution, there is no directly available data on the Scottish or Welsh share of landfill tax, since landfill operators provide data returns that cover sites throughout the UK. The Scottish share uses data from the Scottish Environmental Protection Agency while the Welsh share is calculated using data on the amount of waste sent to landfill available from the Environment Agency. This is compared with similar data for England and Northern Ireland to calculate the Scottish and Welsh share. Table 4.1 shows the historic path of these shares.

Table 4.1: Landfill tax: historic share

	Tonnes (million)					
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
England	63.9	59.0	51.3	43.9	43.8	44.0
Scotland	7.3	7.0	5.9	4.7	4.6	4.6
Wales	3.8	3.1	2.8	2.5	2.3	2.2
Northern Ireland	2.0	1.9	1.7	1.6	1.5	1.3
<b>UK</b>	<b>77.0</b>	<b>71.1</b>	<b>61.8</b>	<b>52.7</b>	<b>52.3</b>	<b>52.1</b>
	Per cent of UK total					
Scotland	9.5	10.0	9.5	9.0	8.9	8.9
Wales	4.9	4.4	4.5	4.7	4.4	4.2

## UK forecast

4.6 Since our March 2014 forecast, we have revised down our UK landfill tax forecast. This is related to lower than expected receipts so far this year that knock through to later years. We have not made any other significant changes to the forecast.

Table 4.2: UK Landfill tax forecast

	£ million						
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
March 2014	1246	1304	1220	1118	1090	1127	
December 2014	1178	1226	1152	1077	1082	1134	1206
Difference	-68	-78	-68	-42	-8	7	

## Scottish forecast

4.7 The Scottish share of landfill tax has been constant at 8.9 per cent since 2009-10. We have assumed that the share will remain constant throughout the forecast period. A constant share assumption for the devolved Scottish landfill tax implicitly assumes that Scottish landfill rates will be uprated in line with those in the UK (i.e. by RPI inflation) over the rest of the forecast and that the same declining trend in waste sent to landfill will be seen in Scotland and the UK as a whole.

4.8 The reason for the reduction in the Scottish forecast since March is the lower UK-wide forecast. This may help to explain why our 2015-16 forecast is lower than the £118 million included in the Scottish Government's Draft Budget.

Table 4.3: Scottish Landfill tax forecast

	£ million						
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
March 2014	111	117	109	100	98	101	
December 2014	105	109	103	96	97	101	108
Difference	-6	-7	-7	-4	-1	0	

## Welsh forecast

- 4.9 The proportion of Welsh waste sent to landfill has remained fairly constant over the last five years. We have assumed that the Welsh share will remain constant at 4.4 per cent over the forecast period. There are no relevant policy measures to be added to the forecast.

Table 4.4: Welsh Landfill tax forecast

	£ million						
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
December 2014	52	54	51	48	48	50	53

## Aggregates levy

### Scottish and Welsh rates

- 4.10 The Government has committed to keeping the devolution of aggregates levy to Scotland and Wales under review. It intends, subject to the resolution of a legal challenge in the European courts, to devolve this tax in the future. In the interim, the Treasury will assign aggregates levy receipts to Scotland and Wales.

### Methodology

- 4.11 The UK forecast is generated from a projection of the tax base multiplied by the tax rate. An econometric model relates the sales of primary aggregates to construction sector growth. The model also allows for the usage of recycled aggregates to increase over time and for the substitution away from the extraction of primary aggregates. The tax rate is assumed to be uprated in line with inflation in the absence of announced policy.
- 4.12 To produce Scottish and Welsh aggregates levy forecasts, we apply our assumptions of their respective share to the UK forecast. Data on the Scottish and Welsh share of aggregates production is taken from the United Kingdom Mineral Yearbook 2013. Table 4.5 shows the historical path of the Scottish and Welsh share.

Table 4.5: Aggregates levy historic share

	Tonnes millions						
	2006	2007	2008	2009	2010	2011	2012
England	152.8	140.1	136.8	106.2	95.4	104.8	95.9
Scotland	33.3	37.2	32.3	28.4	28.6	27.5	24.8
Wales	21	20.8	18	12.2	12.6	13.6	12.3
Northern Ireland	6.1	6.7	5.3	4.8	3.9	20	18.4
UK	213.3	204.8	192.5	151.6	140.5	165.9	151.3
	Per cent of UK total						
Scotland	15.6	18.2	16.8	18.7	20.3	16.6	16.4
Wales	9.9	10.2	9.4	8.1	9.0	8.2	8.1

4.13 Finally, we add the Scottish and Welsh element of any policy measures to produce the post-measures forecast

## UK forecast

4.14 Since our March 2014 forecast, we have revised up the UK forecast for the aggregates levy. This reflects higher receipts this year, which knocks through to all future years of the forecast. We have not made any other significant changes to the forecast.

Table 4.6: UK aggregates levy forecast

	£ million						
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
March 2014	267	280	283	287	293	298	
December 2014	296	315	311	314	318	323	328
Difference	28	35	28	27	26	25	

## Scottish forecast

4.15 We assume that the latest outturn for the Scottish share of aggregates levy receipts will remain constant at 16.4 per cent over the forecast period. There are no relevant policy measures to be added to the forecast.

4.16 The main reason for the change in the Scotland aggregates levy forecast since March is the higher UK forecast, which is partly offset by a very small reduction in the Scottish share.

Table 4.7: Scotland aggregates levy forecast

	£ million						
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
March 2014	44	45	46	46	47	48	
December 2014	48	52	51	51	52	53	54
Difference	4	6	5	5	5	5	

## Welsh forecast

4.17 The Welsh share of aggregates tonnage has remained fairly constant over the past five years. We assume that the Welsh share will remain constant at 8.1 per cent over the forecast period. There are no relevant policy measures to be added to the forecast.

Table 4.8: Wales aggregates levy forecast

	£ million						
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
December 2014	24	26	25	25	26	26	27



