Office for
**Budget
Responsibility**

Devolved tax and spending forecasts

March 2024

1 Introduction

Background

1.1 The Office for Budget Responsibility (OBR) was established in 2010 to provide independent and authoritative analysis of the UK's public finances. Alongside the UK Government's Budgets and other fiscal statements, we produce forecasts for the economy and the public finances, which are published in our *Economic and fiscal outlook* (*EFO*).

1.2 In this document we present our forecasts for the fully devolved taxes and for the devolved elements of income tax. We also present illustrative projections for some taxes that are not yet devolved. And we provide forecasts that the UK, Scottish and Welsh Governments use as part of their agreed block grant funding mechanisms, which largely flow from those devolved taxes that we forecast.

1.3 Further information on fiscal devolution in the UK and our role is available in the *Scotland, Wales, and Northern Ireland* section of our website.

Methodology

1.4 It is not possible to replicate in full the methodologies we use to produce our UK-wide forecasts when producing these devolved tax forecasts. This is largely because we lack sufficiently detailed or timely data that is necessary to produce forecasts for the Scottish or Welsh economies on the same basis as our UK-wide forecasts. As a result, we generally use approaches based on estimating and projecting representative shares of relevant UK-wide tax streams for Scotland and Wales. We adjust these shares if the evidence suggests that there are factors contributing to either divergence or convergence over the forecast horizon. For the fully devolved taxes our forecasts do, however, benefit from timely outturn data.

1.5 The methodologies and the forecasts represent the collective view of the three independent members of the OBR's Budget Responsibility Committee (BRC). The BRC takes full responsibility for the judgements that underpin them. We have also drawn heavily on the work and expertise of numerous officials in preparing these forecasts, including in the Welsh Government, Scottish Fiscal Commission, Scottish Government, HM Revenue and Customs, HM Treasury and the Department for Work and Pensions. We are grateful for their expertise, hard work, and patience.

Forecast timetable

1.6 Our March 2024 *EFO* describes the timetable that was followed in producing our UK-wide forecasts. The pre-measures economy forecast was closed on 5 February and the pre-measures fiscal forecast on 14 February. We then incorporated the effects of new policy announcements and finalised our forecasts on 1 March.

1.7 Our devolved tax and spending forecasts are consistent with the central forecast for the UK economy and public finances presented in our March 2024 *EFO*.

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

- officials in HMRC, the Scottish Fiscal Commission and the Welsh Government produced **draft Scottish and Welsh tax forecasts** using our preliminary UK economy and fiscal forecasts;
- these were **scrutinised by the BRC** in two challenge meetings attended by those officials on 9 February; and
- a **final set of forecasts** was produced on 27 February, using our final economy forecast and including the impact of UK Government policies.

Structure of this report

1.9 The rest of this document is structured as follows:

- Chapter 2 presents forecasts that the respective Governments use as **inputs to the block grant calculations,** as set out in fiscal framework agreements;
- Chapter 3 covers non-savings non-dividend **income tax** in Scotland and Wales;
- Chapter 4 covers **land and buildings transaction tax** and **land transaction tax**;
- Chapter 5 covers **Scottish landfill tax** and **landfill disposals tax**; and
- Annex A provides illustrative forecasts for **taxes not yet devolved** – aggregates levy, air passenger duty, and VAT assignment.

2 Forecasts required for the block grant adjustments

Introduction

2.1 **The block grant** is the mechanism through which the UK Government provides the majority of funding to the devolved governments and is allocated from within the departmental spending limits set by the Treasury.[1, 2] Changes to block grants are determined by the Barnett formula, which is driven by changes in planned spending by the UK Government on programmes which are devolved in Scotland, Wales or Northern Ireland. The block grant is the single largest component of funding for the devolved governments.[3]

2.2 When a tax is devolved, the block grant is reduced by an amount equivalent to the revenue that would have been raised by the UK Government had those taxes not been devolved. An upward adjustment applies when an element of social security spending is devolved. **Block grant adjustments (BGAs)** are calculated separately for each tax and benefit, initially set at the relevant amount of UK Government revenue or spending in the respective devolved government in the year prior to devolution. Changes over time are then linked to the amounts collected or spent by the UK Government in its equivalent taxes and benefits.[4]

2.3 The Scottish and Welsh Budgets are based on forecasts of tax receipts and spending. At the end of each year there is a **reconciliation process** where those forecasts are compared to the outturn data, with a reconciled amount applied to the subsequent Budget. For income tax this process takes longer due to the lag in receiving outturn data, so that reconciliation is two budgets ahead (rather than one).

2.4 This chapter:

- 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;[5] and
- sets out our England and Wales forecasts for elements of social security spending that are devolved to Scotland.

[1] Annually Managed Expenditure (AME) funding is also provided to the devolved administrations separately to the block grant
[2] In October 2018, Scottish Government expenditure was moved from central government DEL to AME, justified on the basis that an increasing proportion of expenditure is self-financed from taxation and thus falls outside Treasury control. In practice, the UK Government's subsequent spending decisions demonstrate that Scottish Government AME is effectively indiscernible from DEL.
[3] The OBR has no direct involvement in block grant negotiations, but our forecasts are used for the spending settlements for these negotiations for both Scotland and Wales. And for Wales, the OBR also forecasts Welsh revenues from partially devolved and fully devolved taxes.
[4] See the respective fiscal framework agreements.
[5] For the devolved taxes covered in this report, the corresponding UK Government taxes are income tax liabilities excluding those on savings and dividend income, stamp duty land tax and landfill tax, all from England and Northern Ireland.

Scottish taxes

2.5 Table 2.1 compares our latest forecasts for the taxes devolved to Scotland and their UK Government equivalents (we explore these in more detail in later chapters). The table shows that growth rates for total receipts are similar, with the cumulative growth in Scotland slightly higher. Taking each component in turn:

- The relative growth in Scottish **income tax** is stronger in the near-term but then relatively weaker from 2025-26 onwards. Cumulatively, growth is 3 percentage points higher than in the rest of the UK.
- As regards **property transaction taxes**, Scottish receipts in 2023-24 fall by less than they do in the rest of the UK, due to stronger outturn data. Growth in the rest of the UK is somewhat stronger thereafter, but Scottish receipts remain 15 percentage points higher on a cumulative basis than the rest of the UK by 2028-29, driven by the initial strength, some of which persists across the forecast.
- Scottish **landfill tax** receipts follow a much sharper downward trend than the UK Government's equivalent, with receipts being just 14 per cent of their 2022-23 level in 2028-29, compared to 90 per cent in the rest of the UK. This is the result of the biodegradable municipal waste ban in Scotland from 2025-26 onwards (explained in more detail in Chapter 5).

Table 2.1: Devolved Scottish taxes relative to rest of UK block grant equivalent

	£ billion							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total Scottish devolved taxes	**13,724**	**16,139**	**18,426**	**19,668**	**20,472**	**21,367**	**22,391**	**23,400**
of which:								
Scottish income tax[1]	13,724	15,181	17,513	18,785	19,563	20,404	21,313	22,194
LBTT (Scotland)		848	840	824	866	948	1062	1190
Scottish landfill tax		110	73	59	42	15	15	16
Total rest of UK-equivalent	**194,386**	**213,989**	**242,358**	**256,991**	**269,028**	**282,085**	**295,166**	**306,987**
of which:								
NSND income tax	194,386	213,989	242,358	256,991	269,028	282,085	295,166	306,987
Property taxes		16,269	11,767	13,036	14,100	16,135	18,467	20,849
Landfill tax		637	545	568	559	540	570	571
	Percentage change on a year earlier							
Total Scottish devolved taxes			**14.2**	**6.7**	**4.1**	**4.4**	**4.8**	**4.5**
of which:								
Scottish income tax[1]		10.6	15.4	7.3	4.1	4.3	4.5	4.1
LBTT (Scotland)			-0.9	-1.9	5.1	9.5	12.0	12.0
Scottish landfill tax			-33.4	-19.8	-28.0	-64.6	2.8	2.7
Total rest of UK-equivalent			**13.3**	**6.0**	**4.7**	**4.9**	**4.6**	**4.0**
of which:								
NSND income tax		10.1	13.3	6.0	4.7	4.9	4.6	4.0
Property taxes			-27.7	10.8	8.2	14.4	14.5	12.9
Landfill tax			-14.5	4.2	-1.5	-3.4	5.6	0.2

[1] Currently outturn data is only available for 2021-22, and 2022-23 remains a forecast for income tax. For other forecasts, the latest outturn is 2022-23.

Welsh taxes

2.6 Table 2.2 compares our latest forecasts for the taxes devolved to Wales and their UK Government equivalents (we explore these in more detail in later chapters). The differences are generally modest, with broadly similar cumulative growth. Taking each tax in turn:

- The growth in the Welsh rates of **income tax** is stronger in the near-term but similar from 2025-26 onwards, with cumulative growth marginally higher overall.
- Welsh receipts from **property transaction taxes**, are generally weaker, leaving cumulative receipts 10 percentage points lower in Wales. The impact of policy measures for England and Northern Ireland mean that transactions hold up more strongly due to forestalling ahead of the increase in nil-rate thresholds.
- For **landfill taxes**, Welsh receipts are much weaker in the near term due to lower outturn, and cumulatively 25 percentage points below the rest of the UK by 2028-29.

Table 2.2: Devolved Welsh taxes relative to England and Northern Ireland block grant equivalent

	£ billion							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total Welsh devolved taxes	**2,384**	**3,063**	**3,335**	**3,529**	**3,687**	**3,878**	**4,093**	**4,298**
of which:								
Welsh Government income tax (WRIT basis)[1]	2,384	2,649	3,032	3,233	3,377	3,534	3,700	3,845
Land transaction tax		372	272	267	282	319	368	428
Landfill disposals tax		42	30	28	27	26	25	25
Total England and Northern Ireland equivalent	**188,878**	**224,339**	**247,270**	**262,690**	**275,401**	**290,034**	**304,994**	**318,779**
of which:								
NSND income tax	188,878	207,847	235,261	249,382	261,051	273,704	286,350	297,813
SDLT		15,897	11,495	12,769	13,817	15,816	18,099	20,420
Landfill tax		595	514	539	532	514	545	546
	Percentage change on a year earlier							
Total Welsh devolved taxes			**8.9**	**5.8**	**4.5**	**5.2**	**5.5**	**5.0**
of which:								
Welsh Government income tax (WRIT basis)[1]		11.1	14.5	6.6	4.5	4.6	4.7	3.9
Land transaction tax			-26.9	-1.7	5.6	12.8	15.3	16.5
Landfill disposals tax			-28.0	-6.4	-5.9	-4.3	-1.8	-1.8
Total England and Northern Ireland equivalent			**10.2**	**6.2**	**4.8**	**5.3**	**5.2**	**4.5**
of which:								
NSND income tax		10.0	13.2	6.0	4.7	4.8	4.6	4.0
SDLT			-27.7	11.1	8.2	14.5	14.4	12.8
Landfill tax			-13.6	4.8	-1.3	-3.4	5.9	0.3

[1] Currently outturn data is only available for 2021-22, and 2022-23 remains a forecast for income tax. For other forecasts, the latest outturn is 2022-23.

2.7 The growth rate in the Welsh rates 'by band' is higher than the rest of the UK in almost every year. Year-on-year growth in the Welsh basic rate is 0.2 percentage points higher, for the higher rate it is an average of 2.8 percentage points higher, while it is 6.5 percentage points higher for the additional rate.

Table 2.3: Welsh rates and England and Northern Ireland equivalent by band

		£ billion							
		Outturn	Forecast						
		2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Welsh rates		**2.4**	**2.6**	**3.0**	**3.2**	**3.4**	**3.5**	**3.7**	**3.8**
of which:	Basic rate	2.0	2.2	2.5	2.7	2.8	2.9	3.0	3.1
	Higher rate	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.6
	Additional rate	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
England and Northern Ireland NSND income tax (WRIT basis)		**68.9**	**76.8**	**86.3**	**91.1**	**95.0**	**99.1**	**103.3**	**107.1**
of which:	Basic rate	45.7	52.1	57.9	60.7	62.8	65.0	67.2	69.5
	Higher rate	13.5	15.2	16.2	17.5	18.5	19.6	20.7	21.3
	Additional rate	9.7	9.5	12.1	12.9	13.6	14.5	15.4	16.4
		Percentage change on a year earlier							
Welsh rates			**11.1**	**14.5**	**6.6**	**4.5**	**4.6**	**4.7**	**3.9**
of which:	Basic rate		10.5	13.4	5.8	4.0	4.0	4.1	3.7
	Higher rate		16.5	13.5	11.5	6.8	7.4	7.8	3.9
	Additional rate		4.5	58.5	8.6	7.1	7.7	7.7	8.3
England and Northern Ireland NSND income tax (WRIT basis)			**11.6**	**12.3**	**5.6**	**4.3**	**4.4**	**4.2**	**3.7**
of which:	Basic rate		14.0	11.2	4.7	3.6	3.5	3.4	3.3
	Higher rate		13.3	6.2	8.3	5.5	5.8	5.6	3.1
	Additional rate		-2.2	28.0	6.0	6.0	6.5	5.9	6.4

Scottish social security

2.8 Table 2.4 reports our England and Wales social security forecasts, which are used to calculate block grant adjustments for Scottish Government funding.

Table 2.4: Social security spending in England and Wales

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Carer's allowance	3,248	3,739	4,175	4,440	4,699	4,956	5,086
Personal independence payment[1]	17,626	21,650	25,384	27,829	30,287	32,905	35,428
Disability living allowance[1]	5,963	6,764	7,310	7,544	7,803	8,077	8,167
Attendance allowance[1]	5,650	6,701	7,661	8,019	8,195	8,395	8,752
Industrial injuries disablement benefit	681	736	754	734	715	699	679
Severe disablement allowance	58	56	53	47	40	34	27
Cold weather payment	140	38	34	34	34	34	34
Winter fuel payment[1]	1,793	1,852	1,888	1,928	1,946	1,941	1,956

Note: These forecasts are for spending in England and Wales on benefits which have now been devolved to Scotland. Winter fuel payments will be devolved from April 2024, cold weather payments were devolved in April 2022, carer's allowance was devolved in September 2018, and all other benefits in this table were devolved in April 2020.

[1] This does not include the two disability cost of living payments in 2022-23 and 2023-24.

3 Income tax

Introduction

3.1 Scottish income tax (SIT) and the Welsh rates of income tax (WRIT) are levied on non-savings, non-dividend (NSND) income, assessed on a liabilities basis. This includes earnings from employment, self-employment, pensions and property. Income tax on savings and dividends is reserved to the UK Government and accounts for around 10 per cent of total income tax revenue at the UK level, and somewhat less than that in Scotland and Wales.

3.2 Income tax has been partially devolved to Scotland since April 2016. Since April 2017 the Scottish Government has received full NSND income tax liabilities from taxpayers in Scotland. The Scottish Parliament has the power to vary all rates and thresholds separately (other than the personal allowance) and to create new bands paying different rates.[1]

3.3 The Welsh rates of income tax have been devolved since April 2019. The existing basic, higher and additional rates of income tax levied by the UK Government are reduced by 10p in the pound for those individuals defined as Welsh taxpayers. The Welsh rates levied on top of these reduced UK rates are set by the Welsh Senedd. The Welsh rates have so far been kept at 10p for each band of income tax, thereby keeping income tax rates in Wales at the same levels as those that are paid by taxpayers in England and Northern Ireland.

3.4 This chapter presents our approach to forecasting SIT and WRIT revenues and our latest forecasts for each of them.[2] Throughout the chapter we compare our March 2024 forecasts to our November 2023 forecasts published alongside the Autumn Statement.

Methodology

3.5 The three main stages in generating our forecasts for Scottish and Welsh income tax are:[3]

- first, we generate a **UK-wide forecast for NSND income tax liabilities** from the full UK income tax forecast published in our *Economic and fiscal outlook* (*EFO*);
- second, we calculate the **Welsh and Scottish shares** of UK-wide NSND liabilities and apply these to the UK forecast; and
- third, we add the effects of **policy measures** announced since our previous forecast.

[1] An 'effective personal allowance' however, can be achieved by using a zero-rate band.

[2] For more detailed explanation of the structure of both Scottish income tax and the Welsh rates, and of how we produce our forecasts for each, see our March 2019 *Devolved tax and spending forecasts*. Further discussion of the Welsh rates can also be found in our *Welsh taxes outlook* and in Mathews, P., *OBR Working Paper No.14: Devolved income tax: forecasting by tax bands,* September 2018.

[3] Murphy Corkhill, J., M. Hanson and S. Johal, OBR Working Paper No.21: Developments in devolved income tax, October 2023, provides a deep dive into our devolved income tax forecasts.

3.6 Unlike the fully devolved taxes, comprehensive and timely information on income tax is only available for UK-wide receipts. Outturn data on liabilities, for Scotland, Wales and the UK as a whole, are published with a long lag reflecting the time it takes for self-assessment income tax to be paid (largely in the January of the tax year that follows the year in which liabilities were incurred). This means that our estimates for past years can change as a result of new data becoming available, as well as the forecasts themselves changing. The latest outturn year for which Scottish and Welsh income tax liabilities are available is 2021-22. While full liabilities data for the UK in 2022-23 are not yet available, there is provisional information about self-assessment income tax payments in respect of that year.

3.7 The Welsh Government's fiscal framework agreement requires us to forecast income tax liabilities associated with each band of income tax for Wales, which we publish alongside the full WRIT forecast.

UK forecast

3.8 We forecast that UK-wide NSND income tax liabilities in 2022-23 will be £21.1 billion (10.1 per cent) higher than in 2021-22, a figure that has been revised up by £2.8 billion relative to our November forecast. This in large part reflects HMRC's upward revision to PAYE receipts driven by the identification of additional receipts outturn.

3.9 Receipts have also been revised up by £5.1 billion in 2023-24 as a result of higher-than-expected outturn data. This upward revision persists across the forecast, which is higher by an average of £5.4 billion (1.9 per cent) compared to November, but the increase diminishes over time due to the impact of lower nominal earnings growth than assumed in November.

3.10 The forecast also contains the effect of a number of policies announced in the Spring Budget, with the largest ones being:

- **A 2 percentage point cut in the main rate of Class 1 NICs**, from 10 per cent to 8 per cent from April 2024, and **a 2 percentage point cut in the main rate of Class 4 NICs**, from 8 to 6 per cent from April 2024. Together these are estimated to raise NSND liabilities by £1.8 billion a year. We estimate that the behavioural responses to these cuts will generate extra NSND revenues as some individuals will be incentivised to move into work; some already in work will choose to work more hours; and some may choose not to incorporate.

- The **reform of the current non-domicile regime** with a new regime. This increases revenues by £1.0 billion a year from 2025-26.

Table 3.1: UK NSND income tax forecast

	£ billion							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
November forecast	208.1	226.4	254.8	270.0	281.9	296.0	311.6	325.7
March forecast	208.1	229.2	259.9	275.8	288.6	302.5	316.5	329.2
Difference		**2.8**	**5.1**	**5.8**	**6.7**	**6.4**	**4.9**	**3.5**
of which:								
UK NSND outturn alignment		0.1	0.1	0.1	0.1	0.1	0.1	0.1
Pre-measures forecast		2.7	5.0	4.5	3.6	1.9	0.3	-1.4
UK Government policies		0.0	0.0	1.3	3.0	4.5	4.5	4.7

Scottish and Welsh shares

3.11 We forecast the shares to apply to the UK NSND forecast by using HMRC's 2019-20 Survey of Personal Incomes (SPI).[4] This is an annual sample of around 822,000 individuals in contact with HMRC during the year through the PAYE, self-assessment or repayment claim systems. Table 3.2 shows that the SPI-based Scottish and Welsh shares of all UK income tax liabilities declined steadily up to 2017-18, but that they then rose in 2018-19 and were stable in 2019-20.

3.12 In the pandemic-hit year of 2020-21 the Welsh share remained broadly stable, but the Scottish share fell slightly (by 0.1 percentage points). Our November 2020 *Devolved tax and spending forecasts* suggested that there was little effect from the impact of lockdowns on relative income tax liabilities in each economy, as the worst-hit sectors were of similar importance to each economy.

Table 3.2: Scottish and Welsh shares of all income tax liabilities

	Per cent						
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Scotland	7.13	6.91	6.75	6.53	6.73	6.72	6.58
Wales	2.82	2.72	2.72	2.64	2.66	2.66	2.74

3.13 We use the 2019-20 SPI data to calculate an initial share of UK NSND income tax liabilities for both Scotland and Wales. We then project these SPI-based shares over the forecast period, making adjustments for:[5]

- **Population.** We use an index based on ONS population projections to reflect the different projected growth rates of the adult population in Scotland and Wales. This 'population index' combines two separate indices – one each for adults aged below and above the State Pension age of 66 – that are weighted by the proportion of NSND income tax paid by each group. This aims to capture the effects of different trends in

[4] The 2019-20 SPI is used due to the 2020-21 SPI being impacted by the pandemic. 2021-22 data should be available in March, which we will incorporate into our shares forecast once available.

[5] Murphy Corkhill, J., M. Hanson and S. Johal, OBR Working Paper No.21: Developments in devolved income tax, October 2023, explores the shares in depth, including how and why they have changed over time.

population ageing on top of different trends in the overall size of the population on the Scottish and Welsh shares of income tax.

- **Earnings.** We adjust the shares in line with the share of total employee earnings as reported in HMRC's real-time information (RTI) from the PAYE system, enabling us to draw on more up-to-date information for the majority of income taxpayers. This includes judgements based on data for the first nine months of 2023-24 that reflect both historical patterns of RTI shares through the fiscal year and year-end bonus outturn (where particularly strong growth often skews receipts towards England).

- **Previously announced policies.** Changes in the costings of existing UK Government policies, for example the multi-year freezes in income tax thresholds, can affect the Scottish and Welsh shares.

- **Outturn.** We align our forecasts to the 2021-22 outturn published in July 2023.

3.14 Table 3.3 reports our latest forecast for the Scottish share and revisions since November. It is presented on a pre-measures basis because the impact of new policy measures is captured in cash terms rather than via the share. The Scottish share is revised up by 0.05 percentage points a year from 2023-24 onwards, peaking at an upward revision of 0.07 percentage points in 2024-25. This upward revision across the forecast period reflects particularly strong Scottish RTI outturn in 2023-24. In 2024-25, this is complemented by the Scottish Budget revenue raising measures, which further increase the share. In later years, lower CPI inflation partly offsets this, and helps to temper the effect of Scottish tax threshold freezes. This means that the Scottish share is expected to reach 6.74 in 2028-29, revised up from 6.69 in November (and rising from 6.59 in 2021-22).

Table 3.3: Scottish share of NSND income tax

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
November forecast	6.59	6.62	6.70	6.73	6.73	6.71	6.69	6.69
March forecast[1]	6.59	6.62	6.74	6.80	6.78	6.75	6.74	6.74
Difference	**0.00**	**0.00**	**0.04**	**0.07**	**0.05**	**0.05**	**0.05**	**0.05**
RTI index (2021-22=100)		*100.0*	*100.1*	*100.1*	*100.1*	*100.1*	*100.1*	*100.1*
Change since November		*0.00*	*0.62*	*0.62*	*0.62*	*0.62*	*0.62*	*0.62*
Index of relative population growth (2022-23=100)		*100.0*	*99.7*	*99.3*	*99.0*	*98.7*	*98.4*	*98.1*
Change since November		*0.00*	*0.00*	*0.00*	*0.00*	*-0.01*	*-0.01*	*-0.01*

[1] March 2024 is shown on a pre-measures basis because the effect of measures is captured in cash terms rather than via the share.

3.15 Table 3.4 shows that the Welsh share is largely unchanged from November (again on a pre-measures basis). This largely reflects broadly similar RTI outturn in 2023-24 compared to previous years.

Table 3.4: Welsh share of NSND income tax

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
November forecast	1.15	1.16	1.17	1.17	1.18	1.18	1.18	1.18
March forecast[1]	1.15	1.16	1.17	1.17	1.18	1.18	1.18	1.17
Difference	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
RTI index (2021-22=100)		*99.4*	*99.9*	*99.9*	*99.9*	*99.9*	*99.9*	*99.9*
Change since November		*0.00*	*0.02*	*0.02*	*0.02*	*0.02*	*0.02*	*0.02*
Index of relative population growth (2022-23=100)		*100.0*	*99.9*	*99.9*	*99.8*	*99.7*	*99.7*	*99.6*
Change since November		*0.00*	*0.00*	*0.00*	*0.00*	*0.01*	*0.01*	*0.01*

[1] March 2024 is shown on a pre-measures basis because the effect of measures is captured in cash terms rather than via the share.

Scottish forecast

3.16 Table 3.5 presents our latest Scottish income tax forecast and the changes since November. The forecast is up by £450 million in 2023-24, and an average of £469 million over the forecast period (2.5 per cent). This is due to:

- The large upward revision to our pre-measures **UK NSND forecast** resulting from increases to PAYE and SA forecasts across the period, mainly driven by the unexpected upward revision in outturn receipts in earlier years. This increases the forecast by £335 million in 2023-24, diminishing to a fall of £91 million in 2028-29, averaging £158 million over the forecast period (0.9 per cent).

- **Scottish Government policies** also contribute to the upward revision, yielding £93 million on average from 2024-25. The main contributor is the introduction of the new 'advanced' rate band which increases the tax rate from 42p to 45p on earnings from £75,000 and £125,140. This yields £82 million on average over the scorecard period. An increase in the top rate from 47p to 48p also raises £10 million on average. We explore these more in Box 2.1.

- **Other Scottish share** changes are primarily driven by strong earnings growth in Scottish RTI data in recent months, which helps add £110 million to the forecast in 2023-24. In later years this is offset by lower fiscal drag from weaker earnings growth than expected in November. This disproportionately impacts Scottish income tax due to the frozen higher-rate threshold.

- The effect of **UK Government policies** increase Scottish liabilities by £245 million from 2024-25. This is largely due to the reduction in the NICs rates which increases Scottish liabilities by £161 million. The reform of the non-domicile regime and the resourcing of additional tax debt collection also contribute to the overall effect of UK Government policies.

Table 3.5: Changes in Scottish NSND income tax since November

	£ million							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
November forecast	13,724	14,997	17,063	18,171	18,966	19,851	20,840	21,781
March forecast	13,724	15,181	17,513	18,785	19,563	20,404	21,313	22,194
Difference		**185**	**450**	**614**	**598**	**553**	**473**	**413**
of which:								
Scottish share modelling		1	110	94	51	55	63	80
Scottish Government policies		0	0	96	91	90	91	96
UK NSND outturn alignment		4	5	5	6	6	6	6
UK NSND forecast changes		179	335	300	241	124	18	-91
UK Government policies		0.0	0.5	120	209	278	295	321
of which:								
NICs cut, inc. indirect effects			0	102	136	163	187	214
Abolition of the non-domicile regime			0	0	11	22	17	16
TTG: Debt collection agencies			0	10	33	38	39	40
Other, inc other IEs			0	8	28	55	53	51

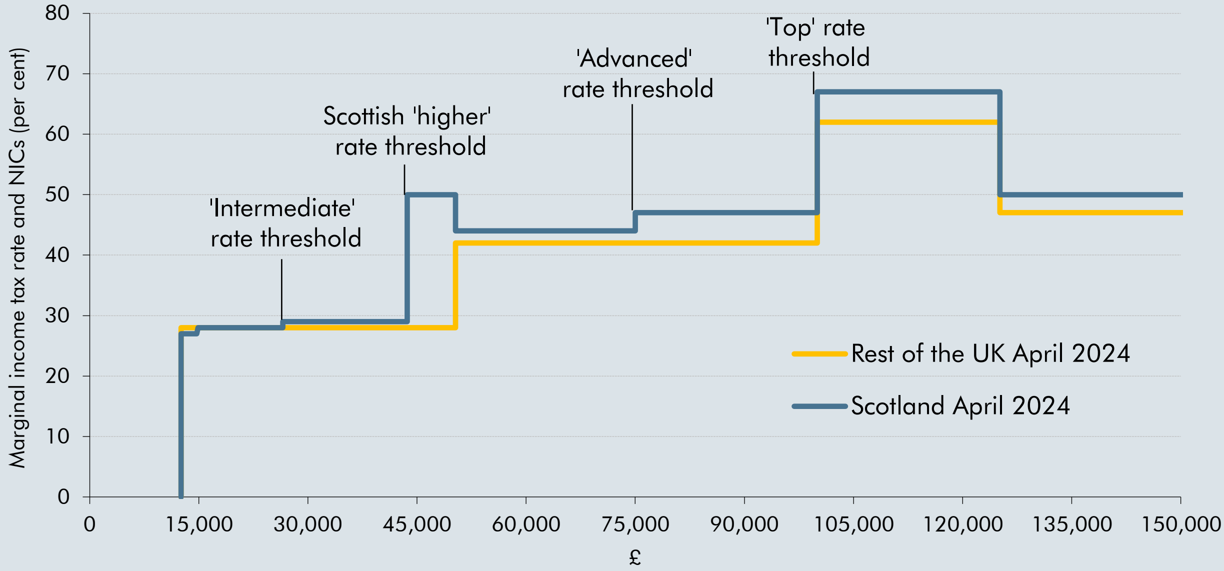
Box 3.1: Income tax policy in the Scottish Budget 2024

Scottish income tax was devolved in April 2016 and the policy changes made by the Scottish Government since then have led to the structure of the Scottish income tax system diverging materially from the rest of the UK. Rates and thresholds remained aligned for 2016-17. Since then, the Scottish Government has:

- Frozen the higher rate threshold (HRT) at £43,000 in 2017-18. Following further policy decisions since, the HRT in Scotland for 2024-25 will be £43,662 compared to £50,270 in the rest of the UK.
- Introduced two new bands in April 2018 – a ‘starter’ rate set at 19p and an ‘intermediate’ rate set at 21p. The higher rate was increased to 41p and the ‘top’ rate (previously the ‘additional’ rate) to 46p.
- Further increased the higher rate to 42p and the top rate to 47p, from April 2023 and reduced the top rate threshold to £125,140 in line with the UK Government.
- **Announced, in its 2024-25 Budget, a new 45p 'advanced' rate, to apply to those with earnings between £75,000 and £125,140** (previously taxed at 42 per cent) and **further increased the top rate to 48 per cent** (previously taxed at 47p).

Chart 2.A shows the divergence in marginal income tax and NICs rates between the Scottish and UK tax systems for 2024-25, mainly explained by Scotland’s higher rates for the income tax intermediate, higher and top rates, and the lower HRT.[a] NICs rates and thresholds in Scotland and the rest of the UK are aligned.

Chart 3.A: Scottish and UK marginal income tax and NICs rates in 2024-25



Note: This includes the January 2024 and April 2024 cuts in NICs. It is based on employee income tax and employee NICs, and excludes allowances.
Source: OBR

We estimate that the two measures announced in Scottish Budget 2024 raise a combined £93 million a year over the forecast period. Table 2.A shows that the static yield from the introduction of the 42p advanced rate and the increase in the top rate to 48p raises amounts that rise to £183 million and £60 million respectively by 2028-29. Around 60 per cent of the yield in 2028-29 is offset by behavioural effects, which can feed through several different channels:

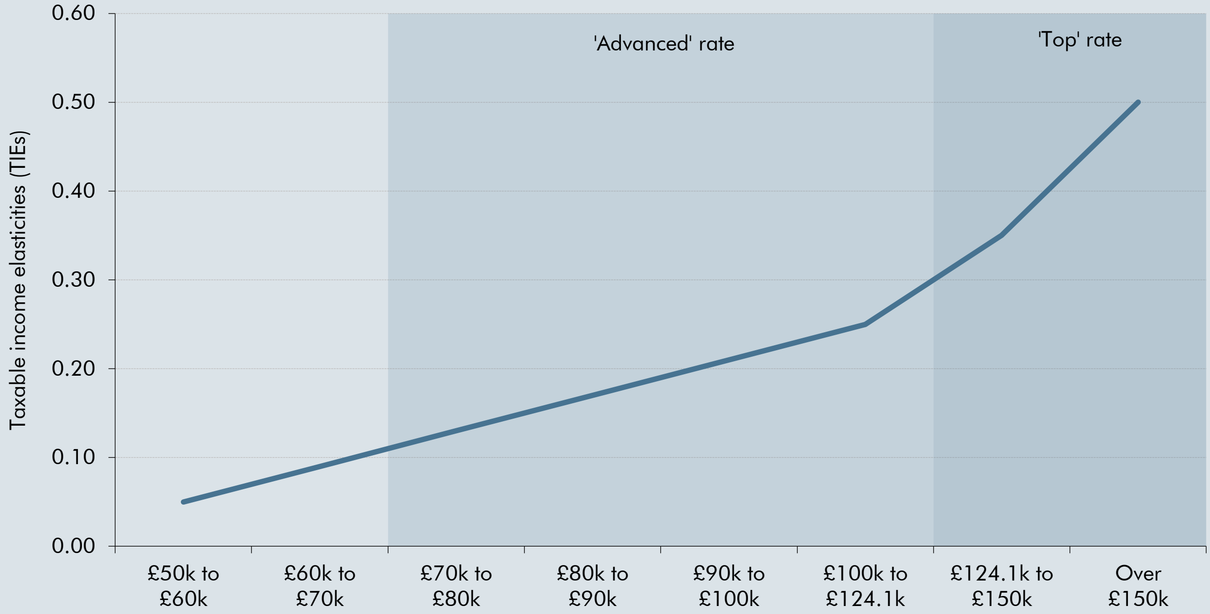
- Individuals may decide to change the way they are remunerated to lower their tax liability, for example by increasing (or asking their employer to increase) pension contributions and/ or asking for additional salary. This might include those that would otherwise fall within the personal allowance taper range (those with earnings above £100,000, see Chart 2.A) where the close to 70 per cent marginal rate is a major disincentive. People may choose to reduce their working hours for similar reasons (and some may opt to not work anymore).[b] Individuals may choose to lower tax liability in other ways too, including incorporating, other tax-planning and tax avoidance. Some of these changes can take time, which helps to explain why the yield falls from 2025-26. The costing captures these behaviours via the taxable income elasticities that are discussed below.[c]
- It is also possible that there could be an intra-UK migration response with people choosing to move from Scotland to other parts of the UK. However, no separate migration effect is included in our estimate, as generally evidence suggests that the impact of tax changes on migration is very small.
- The expected scale of the behavioural response is more pronounced for higher earners, who have both more opportunity and incentive to adjust their taxable income. This explains the proportionately larger adjustment for the top rate measure.[d]

Table 3.A: Static cost and post-behavioural costings

	£ million					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Advanced rate	**0**	**84**	**81**	**80**	**81**	**86**
of which:						
Static cost	0	143	150	159	170	183
Behavioural effect	0	-59	-70	-80	-89	-97
Top rate increase	**0**	**12**	**11**	**10**	**10**	**10**
of which:						
Static cost	0	47	50	53	56	60
Behavioural effect	0	-35	-39	-43	-47	-51

Taxable income elasticities (TIEs) measure the responsiveness of taxable income to changes in the marginal tax rate. A higher TIE implies that the behavioural responses set out above will be larger. Numerous studies suggest that TIEs increase with income, i.e. higher-earners are more responsive to changes in tax rates than lower-earners.[e] Chart 2B shows the TIEs applicable to this costing. These TIEs were informed by a review of the literature, including HMRC's estimate of Scottish taxpayers' response to the 2018-19 policy changes described above.[f] The 0.5 elasticity for those earning over £150,000 was based on the taxpayers' response to the UK Government's 2012 decision to lower the additional rate (which applied at the time to those earning above £150,000) from 50p to 45p in 2013-14.[g] The chart also shows that those on lower incomes have relatively low TIEs due to several factors.[h]

Chart 3.B: Taxable income elasticities applied to this costing



Source: HMRC, OBR

The Scottish Fiscal Commission's (SFC's) costing of the increase in the top rate is close to ours, while for the introduction of the advanced rate band rises it is around a fifth higher by 2028-29. (Table 2.B). The differences can largely be attributed to the static element of the costing, meaning it is therefore driven by our respective economic outlooks, including the path of earnings and the composition of the income distribution. The proportionate change in our respective costings that is due to behaviour is of a similar magnitude. The differences demonstrate the uncertainty inherent in all forecasts and policy costings.

Table 3.B: Comparing our costings to those of the SFC

	£ million				
	2024-25	2025-26	2026-27	2027-28	2028-29
Advanced rate					
OBR	84	81	80	81	86
SFC	74	80	87	95	105
Difference	**10**	**1**	**-8**	**-14**	**-18**
Top rate increase					
OBR	12	11	10	10	10
SFC	8	8	8	9	9
Difference	**4**	**3**	**2**	**1**	**1**

[a] The personal allowance is reserved but the Scottish Government could use a zero-rate band to create an 'effective personal allowance'.
[b] We have not modelled labour supply decisions separately for this costing, but the impact is captured (along with the wider set of behaviours discussed above) by the TIEs. In Box 3.2 of our March 2024 *Economic and fiscal outlook*, we explain that the scale of the response to the UK's government's recent personal tax policy changes is significant enough for us to incorporate the resulting hours and earnings responses directly in our economy forecast, using our labour supply model. The smaller fiscal cost of Scotland-only policies will have less material effects at the UK-wide level at which our economy forecast is produced.
[c] The one exception is tax-motivated incorporations, which are modelled separately.
[d] See Box 4.3 of our March 2017 *Economic and fiscal outlook*, which discusses the extent to which high earners can tax plan.
[e] For example, see: Berger, M.C., and J. S. Leguizamon, *Taxable Income Elasticity and the Revenue-Maximizing Tax Rate: Evidence from the Introduction of the 'Millionaire's Tax' in Maryland*, National Tax Journal; (2016); Saez, E., Slemrod, J., and Giertz, S. H., The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review. Journal of Economic Literature, 2012; Alm, J., I. Martinez, and M. Overesch, Do Lower Tax Rates Benefit the Economy?, Journal of Economic Surveys (2019).
[f] HMRC, *Estimating Scottish taxpayer behaviour in response to Scottish Income Tax changes introduced in 2018 to 2019*, December 2021.
[g] HMRC, *The Exchequer effect of the 50 per cent additional rate of income tax*, March 2012.
[h] For example, most of those on lower earnings are salaried employees with limited scope for tax-planning. Other potential factors might include a high 'income effect' (the desire to maintain the same post-tax level of income, which outweighs the desire to substitute work for leisure), work constraints and a typically smaller post-measures change in their marginal tax rate.

Comparison with Scottish Fiscal Commission forecasts

3.17 Our forecasts for NSND income tax in England and Northern Ireland are used in calculating the Scottish Government's block grant adjustments (BGAs). The income tax BGA reduces the funding received by the Scottish Government to reflect the devolution of income tax revenues themselves. The Scottish Government bases its spending decisions on both the BGAs, which reflect our forecasts, and the Scottish Fiscal Commission's (SFC's) forecasts for tax revenues in Scotland. As a result, differences between our respective forecasts for growth in revenues can affect the overall budget in any given year – although ultimately resources are aligned to revenue outturns via a reconciliation process over subsequent years.

3.18 Differences in modelling approaches, data used, and judgements applied can all contribute to differences between our forecasts. This is overlaid by the fact that we produce our forecasts at different times, so the latest data will have moved on in between each forecast – an important factor in rapidly evolving economic conditions. To facilitate comparisons, we have agreed with the SFC to publish a standard set of income tax comparison tables that will be updated each time either of us publish a new forecast. Tables 3.6 and 3.7 compare our current forecast to the SFC's latest forecast, which was published in December.

3.19 Table 3.6 compares the determinants used in our respective forecasts. Ours relate to the UK as a whole, whereas the SFC's are specific to Scotland. It shows that:

- **We expect weaker average nominal earnings growth** over the forecast, reflecting the slowdown in earnings growth following the recent falls in inflation. We expect this to persist in the medium-term, leaving cumulative growth in nominal earnings 4.4 percentage points below the SFC's forecast by 2028-29.
- **Conversely, we forecast stronger employment growth** from 2024-25, which we expect will continue throughout the forecast period. This leaves our cumulative employment growth forecast 3.0 percentage points above the SFC's in 2028-29.
- **Our forecast for the growth in wages and salaries is lower** compared to the SFC's throughout the forecast period.

Table 3.6: SFC Scottish determinants compared to OBR UK-wide determinants

	Percentage change on a year earlier						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Employment							
SFC (December)	2.1	0.5	-0.1	0.1	0.2	0.3	0.3
OBR	1.6	0.3	0.5	0.9	0.9	0.8	0.7
Difference	-0.5	-0.2	0.6	0.8	0.7	0.5	0.4
Average nominal earnings							
SFC (December)	4.5	6.6	3.6	3.0	2.9	3.0	3.1
OBR	5.7	6.5	3.1	1.9	2.1	2.3	2.6
Difference	1.2	-0.1	-0.6	-1.1	-0.8	-0.7	-0.5
Wages and salaries							
SFC[1] (December)	7.0	7.3	3.5	3.0	3.1	3.3	3.3
OBR	7.1	6.7	3.6	2.6	2.8	2.9	3.1
Difference	0.1	-0.6	0.1	-0.4	-0.3	-0.4	-0.3
	Index: 2022-23 = 100						
Employment							
SFC (December)		100.5	100.4	100.4	100.6	100.9	101.1
OBR		100.3	100.8	101.7	102.6	103.4	104.1
Difference		-0.2	0.5	1.3	2.0	2.5	3.0
Average nominal earnings							
SFC (December)		106.6	110.5	113.8	117.0	120.6	124.3
OBR		106.5	109.7	111.8	114.2	116.8	119.9
Difference		-0.1	-0.8	-1.9	-2.9	-3.7	-4.4
Wages and salaries							
SFC[1] (December)		107.3	111.1	114.5	118.0	121.9	125.9
OBR		106.7	110.5	113.4	116.6	120.0	123.7
Difference		-0.6	-0.6	-1.0	-1.4	-1.9	-2.3

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

3.20 Table 3.7 breaks down our forecast for UK NSND income tax and compares our and the SFC's respective forecasts for Scottish income tax. We forecast weaker growth from 2024-25, leaving our forecast £787 million (3.4 per cent) lower than the SFC's most recent forecast by 2028-29. This is largely due to our weaker forecast for growth in wages and salaries relative to the SFC's. In cumulative terms, our forecast grows by 62 per cent between 2021-22 and 2028-29 compared to a 67 per cent growth rate for the SFC's forecast.

Table 3.7: SFC Scottish income tax forecast compared to OBR UK NSND forecast

	£ million							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
SFC (December)								
SIT (a)[1]	13,724	15,309	17,357	18,844	19,873	20,856	22,056	22,981
OBR								
UK NSND	208,110	229,170	259,871	275,776	288,591	302,488	316,479	329,182
of which:								
UK ex. SIT and WRIT	192,002	211,340	239,325	253,758	265,650	278,551	291,465	303,142
WRIT	2,384	2,649	3,032	3,233	3,377	3,534	3,700	3,845
SIT (b)	13,724	15,181	17,513	18,785	19,563	20,404	21,313	22,194
OBR vs. SFC (b-a)	0	-128	156	-59	-310	-452	-743	-787
	Percentage change on a year earlier							
SFC (December)								
SIT (a)		11.5	13.4	8.6	5.5	4.9	5.8	4.2
OBR								
UK ex. SIT and WRIT		10.1	13.2	6.0	4.7	4.9	4.6	4.0
SIT (b)		10.6	15.4	7.3	4.1	4.3	4.5	4.1
OBR vs. SFC (b-a)		-0.9	2.0	-1.3	-1.3	-0.6	-1.3	-0.1
	Index (2021-22=100)							
SFC (December)								
SIT (a)		111.5	126.5	137.3	144.8	152.0	160.7	167.4
OBR								
UK ex. SIT and WRIT		110.1	124.6	132.2	138.4	145.1	151.8	157.9
SIT (b)		110.6	127.6	136.9	142.5	148.7	155.3	161.7
OBR vs. SFC (b-a)		-0.9	1.1	-0.4	-2.3	-3.3	-5.4	-5.7

[1] The SFC Scottish income tax figure for 2021-22 is pre-outturn.

Welsh forecast

3.21 Table 3.8 sets out our latest forecast for the Welsh rates of income tax and a breakdown of the changes since November, while Table 3.9 shows the forecast by tax band. We have revised up our Welsh forecast in the near term, with the revision peaking at £62 million (2.0 per cent) in 2024-25, but then by diminishing amounts through to 2028-29. This reflects:

- The upward revisions to the near-term **UK NSND forecast** increase the forecast by an average of £28 million);

- The **effect of UK Government policies** yields £26 million from 2024-25, primarily driven by the reduction in NICs rates.

- **Welsh share changes** are minimal, with liabilities down by £5.1 million on average from 2024-25.

Table 3.8: Changes in the Welsh rates of income tax forecast since November

	£ million							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
November forecast	2,384	2,616	2,972	3,171	3,322	3,487	3,668	3,827
March forecast	2,384	2,649	3,032	3,233	3,377	3,534	3,700	3,845
Difference	**0**	**33**	**60**	**62**	**55**	**46**	**32**	**18**
of which:								
Welsh share modelling		0.7	1.2	-0.3	-9.5	-7.4	-5.1	-3.2
UK NSND outturn alignment		0.8	0.9	0.9	1.0	1.0	1.1	1.1
UK NSND forecast changes		31	58	52	42	22	3	-16
UK Government policies		0.0	0.1	9.2	22	31	33	36
of which:								
NICs cut, inc. indirect effects			0.0	6.6	11	15	18	20
Abolition of the non-domicile regime			0.0	0.0	0.4	0.9	0.7	0.6
TTG: Debt collection agencies			0.0	1.2	5.2	6.0	6.1	6.2
Other, inc other IEs			0.1	1.4	4.9	9.5	9.0	8.6

Table 3.9: Forecast of Welsh rates of income tax by tax band

	£ million							
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
March forecast	2,384	2,649	3,032	3,233	3,377	3,534	3,700	3,845
of which:								
Basic rate	2,030	2,242	2,542	2,690	2,796	2,909	3,027	3,140
Higher rate	293	341	388	432	462	496	534	555
Additional rate	62	65	103	111	119	129	138	150
	Per cent							
Basic rate	85.1	84.7	83.8	83.2	82.8	82.3	81.8	81.7
Higher rate	12.3	12.9	12.8	13.4	13.7	14.0	14.4	14.4
Additional rate	2.6	2.4	3.4	3.4	3.5	3.6	3.7	3.9

Box 3.2: Evaluating our forecasts for devolved income tax

Through our evaluations of successive forecast for the devolved income taxes, we have concluded that they have generally improved with time as we incorporate more income tax outturn data from across the UK's three income tax systems, as well as the improved our use of RTI data. Because of the lag in publishing income tax outturn data for Scotland and Wales, we can only analyse our devolved income tax forecasts well after the end of the year to which they relate.

Outturn data for 2021-22 was published in July 2023, so we can now evaluate our forecasts for Scottish income tax and the Welsh rates in that year. Doing so is important for transparency and helps us to understand and identify ways to improve our methodology and modelling. This was a particularly difficult period to forecast given the economy was recovering from the unprecedented impact of the pandemic. Table A compares our March 2021 forecasts for Scottish income tax and the Welsh rates in 2021-22 to the eventual outturn. It shows that:

- **Scottish income tax liabilities** were £1,736 million (14.5 per cent) higher than forecast, the largest absolute year-ahead error since we began forecasting Scottish income tax. This error is broadly evenly split between economic determinants and fiscal modelling. Economic determinants generated a surplus of £841 million. This reflected the 4.0 percentage point surplus in UK-wide wages and salaries in 2021-22 relative to our March 2021 forecast, driven by a much stronger than expected post-pandemic recovery in earnings and employment. Fiscal modelling contributed a further £896 million to the surplus, reflecting stronger-than-expected pay growth driving more fiscal drag (as earnings growth moves taxpayers into higher tax bands) than anticipated. This was slightly offset by assumptions about the Scottish share, which was materially lower than expected, at 6.59 per cent versus the 6.70 per cent forecast.

- **Liabilities for the Welsh rates** were £271 million (12.8 per cent) higher than forecast. Economic determinants accounted for £145 million (6.9 per cent) of the difference, again reflecting the stronger-than-anticipated post-pandemic labour market recovery. Fiscal modelling further contributed to the upside surprise, generating a surplus of £126 million, once again reflecting stronger aggregate pay growth. This was slightly offset by the Welsh share of UK outturn being slightly lower than expected, at 1.15 per cent versus the 1.17 per cent forecast.

Policies announced after our March 2021 forecast had almost no impact on the forecast differences in either Scotland or Wales.

Table 3.C: Scottish income tax and Welsh rates of income tax in 2021-22: March 2021 forecast versus outturn

	£ million					
	Forecast	Outturn	Difference	*of which:*		
				Economic determinants	Fiscal modelling	Policy changes
Scottish income tax	11,988	13,724	1,736	841	896	0
Welsh rates of income tax	2,113	2,384	271	145	126	0

4 Taxes on property transactions

Introduction

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

Methodology

4.2 Our forecasts for property transaction taxes start with our UK-wide property market forecasts. We typically assume that Scottish and Welsh prices and transactions will move in line with those for the UK as a whole, as they have historically tended to. But if there are clear reasons to depart from that, as there have been during and since the pandemic, then we use different country-specific assumptions. In this forecast we use our standard approach of assuming similar price movements in each UK property market.

4.3 Our LBTT and LTT forecasts involve three steps:

- first, we produce an **in-year estimate**, using the latest outturn data and our forecasts for property market determinants in 2023-24;
- next, we produce our **pre-measures forecast**, drawing on different models to project each property market over the five-year horizon and calculating the resulting revenue; and
- finally, we add estimates of the effects of any **new policy measures** to produce our post-measures forecast.

Latest property market forecasts

4.4 Our LBTT and LTT forecasts are based on the property market forecasts shown in Table 4.1, which are the same as those used for our UK-wide forecasts and published in our *Economic and fiscal outlook*.

4.5 We forecast that UK house prices will fall slightly in 2023-24 then more sharply in 2024-25, before recovering thereafter. The downturn is driven by the recent squeeze on real incomes

[1] For more detailed explanations of the structure of these taxes and how we produce our forecasts for LBTT and LTT, see our March 2019 *Devolved tax and spending forecasts* or our December 2019 *Welsh taxes outlook*. Also see the 'forecast in-depth' section of our website.
[2] This excludes the temporary impact of the time-limited increase in the nil-rate threshold for stamp duty land tax in England and Northern Ireland on transactions, as this measure does not apply in Scotland or Wales.

and sharp rise in interest rates. This path is similar to our November forecast, though with a shallower near-term decline and slower subsequent rebound. The peak-to-trough annualised fall in house prices between 2023-24 and 2024-25 is 3.1 per cent. This is 5.8 per cent lower than we assumed in November, reflecting that market expectations of interest rates are lower than at the time of our November forecast.

4.6 Reflecting the lower interest rates, the outlook for housing transactions is also slightly better, with a shallower drop in 2023-24 than we forecast in November and a return to growth in 2024-25, a year earlier than in our previous forecast. We expect transactions to recover in the medium term as mortgage rates fall. However, the 27.7 per cent peak-to-trough fall between 2022-23 and 2023-24 is still significant.

4.7 The commercial market follows a broadly similar path, with prices and transactions recovering midway through the forecast period. Commercial prices fall by 6.2 per cent in 2023-24, lower than in our November forecast, but return to positive growth from 2024-25 onwards and are unchanged in the medium term. Commercial transactions drop 4.5 per cent in 2023-24 before increasing by an annual average of 1.6 per cent.

Table 4.1: Forecasts for property prices and transactions: changes since November

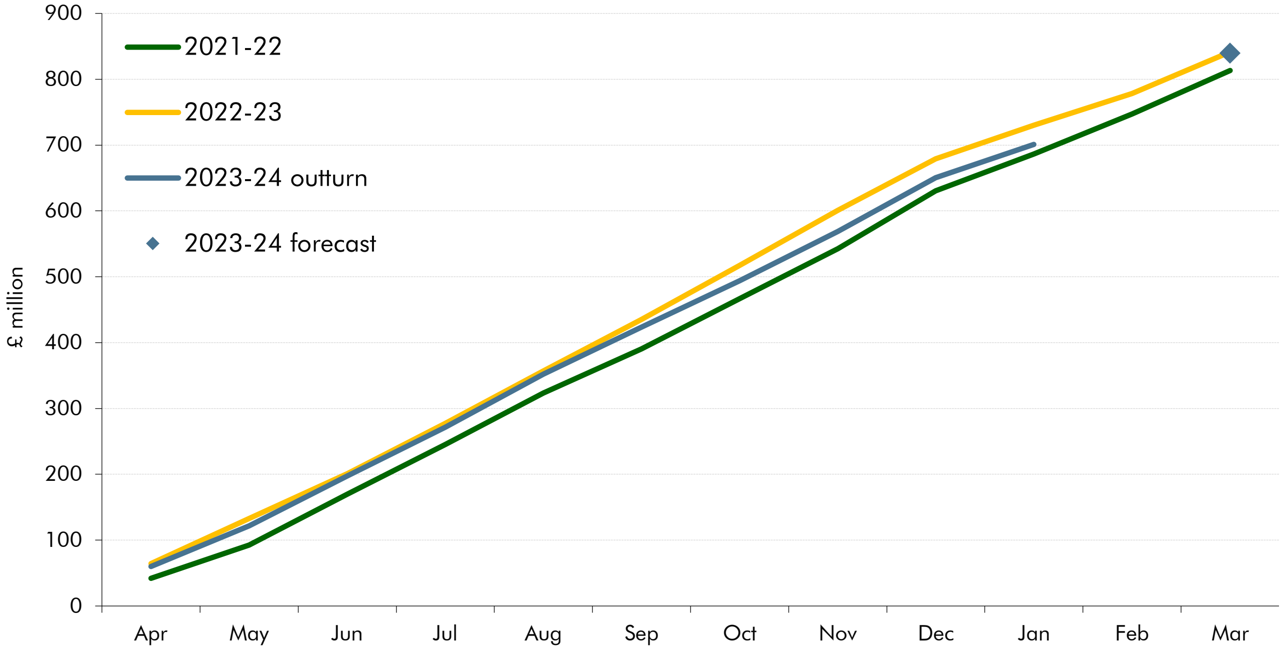
	Percentage change on a year earlier						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
House prices							
November forecast	8.6	-0.9	-4.9	1.2	3.6	3.7	3.7
March forecast	8.4	-0.7	-2.4	0.5	2.6	3.5	3.7
Difference	**-0.2**	**0.2**	**2.5**	**-0.7**	**-1.0**	**-0.2**	**0.0**
Housing transactions							
November forecast	-12.3	-20.0	-3.4	8.4	11.2	11.2	9.3
March forecast	-12.3	-17.6	0.9	5.2	9.8	10.8	8.4
Difference	**0.0**	**2.4**	**4.2**	**-3.2**	**-1.4**	**-0.4**	**-0.9**
Commercial property prices							
November forecast	-4.0	-1.2	-1.2	1.6	1.6	1.8	1.9
March forecast	-4.0	-6.2	2.0	1.0	1.6	1.8	1.9
Difference	**0.0**	**-5.0**	**3.2**	**-0.7**	**0.0**	**0.0**	**0.0**
Commercial transactions							
November forecast	-1.7	-8.1	-1.3	6.1	5.4	1.9	1.7
March forecast	-1.7	-4.5	1.1	1.3	1.7	1.9	1.9
Difference	**0.0**	**3.6**	**2.4**	**-4.8**	**-3.6**	**0.0**	**0.2**

Scottish land and buildings transaction tax

Latest LBTT outturn data

4.8 Total LBTT receipts in the first ten months of 2023-24 are down £29 million (4 per cent relative to the 2022-23 level, though £14 million (2 per cent) higher than in 2021-22. Growth has slowed in recent months, as the economic downturn impacts housing transactions and lowers LBTT receipts. We forecast £840 million in LBTT receipts for the full year, very slightly lower than last year.

Chart 4.1: Cumulative monthly LBTT receipts: 2021-22 to 2023-24



Source: Revenue Scotland, OBR

LBTT forecast

4.9 Table 4.2 sets out our latest LBTT forecast. The medium-term outlook is not dissimilar to our November forecast, though there is now a shallower two-year decline between 2022-23 and 2024-25. Receipts to 2027-28 are an average of £39 million a year higher than in our previous forecast, primarily driven by the slightly stronger forecast for the UK housing market.

Table 4.2: Land and buildings transaction tax forecast: changes since November

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total LBTT							
November forecast	848	823	733	808	922	1,056	1,197
March forecast	848	840	824	866	948	1,062	1,190
Difference		**17**	**91**	**58**	**26**	**6**	**-7**
Residential LBTT (excluding ADS)							
November forecast	465	408	345	383	456	546	642
March forecast	465	438	425	447	507	590	677
Difference		**30**	**80**	**65**	**51**	**44**	**35**
Additional dwelling supplement (ADS)							
November forecast	163	214	191	214	239	274	309
March forecast	163	210	200	215	230	253	284
Difference		**-4**	**8**	**1**	**-9**	**-21**	**-25**
Commercial LBTT							
November forecast	220	201	196	212	227	237	246
March forecast	220	192	199	204	211	220	229
Difference		**-9**	**3**	**-8**	**-16**	**-17**	**-17**

Residential LBTT forecast (including the additional dwellings supplement)

4.10 Table 4.3 shows that residential LBTT receipts have been revised up by an annual average of £42 million (7 per cent) relative to November. The difference peaks at £88 million in 2024-25 before diminishing to £10 million in 2028-29. It is driven by stronger house price and transactions growth, as well as stronger in-year outturn data, though partially offset in later years by modelling changes.

Table 4.3: Residential LBTT forecast (including ADS): changes since November

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
November forecast	628	622	537	597	695	820	951
March forecast	628	648	625	662	737	842	961
Difference		**26**	**88**	**65**	**42**	**23**	**10**
of which:							
Price changes		3	27	22	15	15	16
Transaction changes		15	49	34	30	31	27
Outturn data and modelling		8	12	9	-3	-23	-33

Commercial LBTT forecast

4.11 We have lowered our 2023-24 commercial LBTT forecast by £9 million (5 per cent), due to weak in-year outturn (Table 4.4). This weakness feeds through to later years and its effect is compounded by weaker transactions. Receipts are £17 million lower by the final year of the forecast.

Table 4.4: Commercial LBTT forecast: changes since November

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
November forecast	220	201	196	212	227	237	246
March forecast	220	192	199	204	211	220	229
Difference		**-9**	**3**	**-8**	**-16**	**-17**	**-17**
of which:							
Price changes		-1	5	4	3	3	3
Transaction changes		1	8	-1	-9	-10	-9
Outturn data and modelling		-10	-10	-10	-10	-10	-10

Comparison with the Scottish Fiscal Commission's latest forecast

4.12 Our LBTT forecast is generated from the same model that is used by the Scottish Fiscal Commission (SFC) so any differences between our forecasts largely relate to the timing of the forecast, different assumptions about the future direction of property markets and how we interpret the latest outturn data. Our LBTT forecast is higher than the SFC's December forecast, by an annual average of £69 million (8 per cent), driven by higher residential LBTT and the ADS (Table 4.5).

Table 4.5: Comparison between Scottish Fiscal Commission and OBR forecasts

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total LBTT							
SFC (December)	848	813	730	795	907	998	1,072
OBR	848	840	824	866	948	1,062	1,190
Difference		**27**	**93**	**71**	**41**	**64**	**119**
Residential LBTT (excluding ADS)							
SFC (December)	465	427	361	393	472	539	589
OBR	465	438	425	447	507	590	677
Difference		**11**	**64**	**55**	**35**	**51**	**88**
Additional dwellings supplement (ADS)							
SFC (December)	163	183	160	182	203	215	224
OBR	163	210	200	215	230	253	284
Difference		**27**	**39**	**33**	**27**	**38**	**60**
Commercial LBTT							
SFC (December)	220	203	209	220	232	245	259
OBR	220	192	199	204	211	220	229
Difference		**-11**	**-10**	**-16**	**-21**	**-25**	**-29**

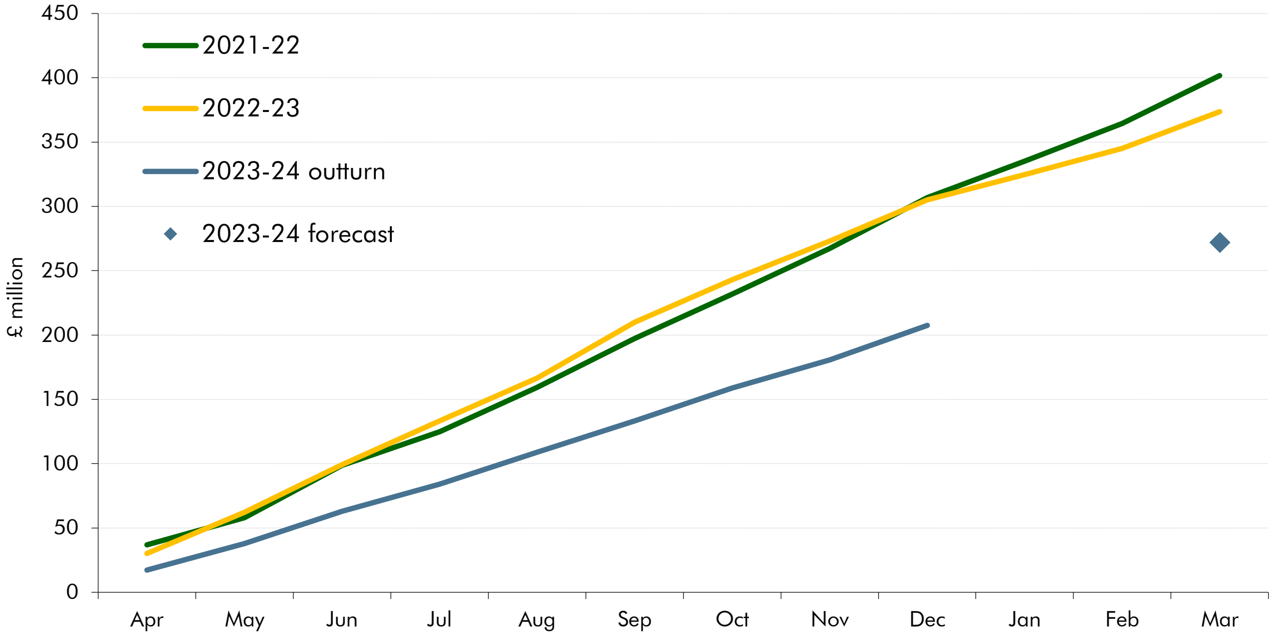
Welsh land transaction tax forecast

Latest LTT outturn data

4.13 Chart 4.2 shows that LTT receipts are significantly lower in the first nine months of this year than the corresponding points of the past two years, down by £98 million (32 per cent) on

2022-23. We expect receipts to reach £272 million by the end of 2023-24, £102 million (27 per cent) lower than last year.

Chart 4.2: Cumulative monthly LTT receipts: 2021-22 to 2023-24



Source: WRA, OBR

LTT forecast

4.14 LTT receipts are forecast to decline in both 2023-24 and 2024-25, with a peak-to-trough fall of around a third (Table 4.6). The recovery then begins from 2025-26 but it is not until 2028-29 that receipts are forecast to surpass their 2022-23 level. Relative to our November forecast, LTT receipts are up in 2024-25 and 2025-26, but down thereafter. Overall, they have been revised down by an annual average of £2 million (0.2 per cent), reflecting the downward trend in recent outturn data which is only partly offset by the slightly stronger housing market forecast.

Table 4.6: Land transaction tax forecast: changes since November

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total LTT							
November forecast	372	280	251	279	325	375	437
March forecast	372	272	267	282	319	368	428
Difference		**-8**	**17**	**4**	**-6**	**-7**	**-9**
Residential (excluding additional properties)							
November forecast	196	146	122	136	165	200	238
March forecast	196	144	135	144	168	202	238
Difference		**-2**	**13**	**8**	**3**	**2**	**0**
Additional properties							
November forecast	82	58	54	62	73	85	106
March forecast	82	62	63	68	78	90	111
Difference		**4**	**8**	**6**	**5**	**5**	**5**
Commercial							
November forecast	94	76	74	80	86	90	94
March forecast	94	66	70	71	73	76	79
Difference		**-10**	**-5**	**-10**	**-14**	**-14**	**-15**

Residential LTT forecast

4.15 Residential LTT has been revised up by an average of £9 million (4.5 per cent) a year relative to our November forecast. Table 4.7 shows that this is driven by stronger house prices and transactions, due to the expected improvement in the property market since November. This is partially offset by persistent weakness in outturn data in recent months.

Table 4.7: Residential LTT: changes since November

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
November forecast	278	204	177	199	238	285	344
March forecast	278	206	198	212	246	292	349
Difference		**2**	**21**	**13**	**8**	**7**	**5**
of which:							
Price changes		1	12	10	7	8	9
Transaction changes		7	15	9	7	8	6
Outturn data and modelling		-6	-5	-6	-7	-8	-9

Commercial LTT forecast

4.16 We have revised down our commercial LTT forecast by an average of £11 million (13.1 per cent) a year, due to a combination of weak recent outturn data, half of which we expect to persist over the forecast period, together with price that are weaker than we expected in November. Transactions partially offset this in the near term but contribute to the weakness from 2026-27 onwards (Table 4.8).

Table 4.8: Commercial LTT: changes since November

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
November forecast	94	76	74	80	86	90	94
March forecast	94	66	70	71	73	76	79
Difference		**-10**	**-5**	**-10**	**-14**	**-14**	**-15**
of which:							
Price changes		-6	-2	-3	-3	-3	-4
Transaction changes		3	5	1	-2	-2	-2
Outturn data and modelling		-8	-8	-8	-8	-9	-9

Box 4.1: Evaluating our March 2022 forecast of 2022-23 devolved property taxes

Table A compares our March 2022 forecast for 2022-23 Scottish and Welsh property transaction taxes to the latest outturn data. The overall differences were relatively small in percentage terms – outturn exceeded our LBTT forecasts by £11 million (1.4 per cent), while our LTT forecast fell short by £40 million (9.6 per cent).

Scottish LBTT

The £11 million surplus is entirely due to the additional dwelling supplement (ADS) as receipts for both residential main rates and commercial fell short of expectations. Taking each in turn:

- **The additional dwelling supplement outperformed our forecast by £25 million (18 per cent).** This was driven by the composition of transactions with relatively more ADS transactions than we expected and relatively fewer residential main rate transactions. This accounts for £30 million of the surplus. The 2 percentage point increase in the ADS rate that was announced in December 2022 contributes a further £14 million. Weaker-than-expected growth in the volume of residential transactions offset this by £18 million.
- **Commercial receipts were £9 million (4 per cent) lower than we forecast,** which is explained by the lower-than-expected growth in the value of transactions and partially offset by transactions proving more tax-rich than anticipated.
- **Residential main rates fell slightly short of our forecast, by £5 million (1 per cent), with some large but offsetting compositional differences within this**. The lower-than-expected growth in the volume of transactions, offset somewhat by higher-than-expected average price growth, lowered receipts by £41 million. But this was further offset by the composition of residential property transactions proving more tax-rich than anticipated and losses to reliefs being smaller than expected, which offset £38 million of that downside surprise.

Welsh LTT

A £40 million shortfall versus forecast reflects different factors across the three markets:

- **Residential main rates receipts were £18 million (8.3 per cent) lower.** This is due to overestimating the size of the in-year estimate that we made using the 2021-22 data and also due to the October 2022 measure that increased the LTT threshold from £180,000 to £225,000, as well as correcting a modelling error.[a]
- **Commercial receipts were £15 million 13.5 per cent lower than we forecast.** This is also due to overestimating the size of the in-year estimate that we made using the 2021-22 data, offset by a rebound in prices and transactions.[a]
- **Higher rates on additional properties were £7 million (7.9 per cent) lower than forecast,** which was the net impact of two factors. The value of transactions outperformed expectations, there were compositional differences in the distribution of transactions relative to our forecast.

Table A: Devolved property taxes in 2022-23: March 2022 forecast versus outturn

	£ million					
	Forecast	Outturn	Difference	*of which:*		
				Economic determinants	Fiscal modelling	Policy changes
Total LBTT forecast	**836**	**848**	**11**	**-76**	**75**	**13**
of which:						
Higher rates	138	163	25	-18	30	14
Commercial	229	220	-9	-17	8	0
Residential main rates	470	465	-5	-41	38	-1
Total LTT forecast	**412**	**372**	**-40**	**17**	**-51**	**-5**
of which:						
Residential main rates	214	196	-18	-1	-11	-6
Commercial	109	94	-15	19	-34	0
Higher rates	89	82	-7	-1	-7	1

[a] *Welsh taxes outlook*, February 2024.

5 Landfill taxes

Introduction

5.1 Landfill tax is levied on all waste disposed of at a landfill site unless it is specifically exempt. Scottish landfill tax replaced the UK equivalent with effect from April 2015 while landfill disposals tax (LDT) came into effect in Wales from April 2018. The Scottish and Welsh Governments have so far matched the main rates set by the UK Government.[1]

Methodology

5.2 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 up to three different rates).[2] The volume of waste sent to landfill has been on a downward trend, both in absolute terms and relative to the size of the economy. Our forecast methodology involves three main steps:

- establishing an **in-year estimate by** drawing on the latest administrative data (and other relevant sources) to estimate the level of receipts in the current fiscal year;
- 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**.

5.3 Both the Scottish and Welsh forecast models take account of alternatives to landfill, either explicitly (as with future additions to incineration capacity) or implicitly (through assumptions about trends in waste sent to landfill). We assume that the tax rates for Scottish landfill tax and Welsh LDT rise in line with RPI inflation in each year of the forecast, consistent with each Government's default indexation assumptions (as well as the UK Government's).

Scottish landfill tax forecast

5.4 Table 5.1 sets out our forecast for Scottish landfill tax receipts. The overall downward trend reflects increases in recycling and growth in alternative infrastructure such as incineration capacity. The Scottish Government has legislated to ban biodegradable municipal waste

[1] Other than the treatment of payments to respective communities funds in lieu of tax, the fiscal effects of which are small, landfill taxation is very similar across the UK.
[2] More information on our landfill taxes forecasts is available in the 'forecasts in-depth' pages on our website.

(BMW) going to landfill from 31 December 2025, which largely explains the sharp fall in Scottish receipts from 2025-26 onwards, both in absolute terms and relative to the UK.

5.5 We have revised receipts down by £9 million in 2023-24 (11 per cent) relative to November. This is explained by weaker-than-expected outturn receipts for the first half of 2023-24 (which reduce revenues by £11 million). Incineration sites have also come online later than previously expected reduces incineration capacity, leading to slightly higher receipts.

5.6 Relative to November, the effect of less waste going to landfill, increased incineration capacity and modelling changes reduce our forecasts in the first half of the forecast. The sharp drop in 2026-27 relates to the introduction of the BMW ban and the timing of the expected increases in incineration capacity. Assumptions around the BMW ban and increases in incineration capacity are all uncertain.

Table 5.1: Scottish landfill tax forecast: changes since November

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
November forecast	110	82	66	54	15	16	16
March forecast	110	73	59	42	15	15	16
Difference		**-9**	**-8**	**-12**	**0**	**0**	**0**
of which:							
Outturn data		-11	-11	-8	0	0	0
Determinants		0	-1	-1	-1	-1	-1
Incineration capacity and modelling		2	4	-3	0	0	0

Welsh landfill disposals tax forecast

5.7 Table 5.2 presents our latest Welsh LDT forecast. Relative to November, receipts have been revised down by average of £4 million (14 per cent) a year from 2023-24 onwards. This is explained by weaker-than-expected outturn data in the first three quarters of 2023-24, the effect of which we expect to be permanent and therefore persist across the forecast period.

Table 5.2: Welsh LDT forecast: changes since November

	£ million						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
November forecast	42	35	33	31	30	29	29
March forecast	42	30	28	27	26	25	25
Difference		**-5**	**-5**	**-4**	**-4**	**-4**	**-4**
of which:							
Outturn data		-5	-5	-4	-4	-4	-4
Determinants		0	0	0	0	0	0
Modelling and other		0	0	0	0	0	0

A Illustrative forecasts for taxes not yet devolved

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

Aggregates levy

A.2 The aggregates levy is a tax on the commercial exploitation of rock, sand and gravel. It is due from businesses that quarry, dredge or import these items. The UK Government has legislated to devolve the levy to Scotland and has committed to keeping devolution to Wales under review. Scottish devolution was initially held up by litigation which concluded in February 2019, and a UK Government review of the UK-wide levy, which reported in July 2020.[1] The Scottish Government set a provisional 1 April 2026 introduction date.[2]

A.3 We use the average of the most recently estimated Scottish and Welsh shares of UK-wide aggregates levy receipts produced by the ONS and the Scottish Government, relating to 2021-22 and 2022-23 respectively.[3] As Table A.1 shows, there has been no change in revenue in either, as a result of limited change to our UK-wide receipts forecast.

Table A.1: Aggregates levy illustrative forecasts

	£ million					
	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
UK forecast						
November 2023	348	384	398	416	436	459
March 2024	352	383	399	417	437	461
Difference	**3**	**-1**	**2**	**1**	**1**	**1**
Scottish forecast						
November 2023	53	58	60	63	66	70
March 2024	53	58	61	63	66	70
Difference	**0**	**0**	**0**	**0**	**0**	**0**
Welsh forecast						
November 2023	30	33	34	36	38	40
March 2024	30	33	34	36	38	40
Difference	**0**	**0**	**0**	**0**	**0**	**0**

[1] Scottish Government, *Breaking New Ground? Developing a Scottish tax to replace the UK Aggregates Levy: consultation*, Sept 2022
[2] Scottish Government, *Aggregates Tax and Devolved Taxes Administration (Scotland) Bill,* November 2023
[3] For the Scottish share we use the average of both estimates: from the ONS' *Country and Regional Public Sector Finances* (14.3 per cent) and the Scottish Government's *Government Expenditure and Revenues Scotland* (16.0 per cent). For the Welsh share we use the ONS estimate of 8.6 per cent. HMRC's *Disaggregation of HMRC tax receipts* statistics are no longer produced.

Air passenger duty

A.4 Air passenger duty (APD) is an excise duty that applies to passengers on flights leaving UK airports. Many passengers, including children or those connecting between flights, are exempt. The tax paid is determined by the final destination and class of travel.[4] The Scotland Act 2016 includes provisions for the devolution of APD to Scotland, but no firm date has yet been set, so our forecast is purely illustrative.

A.5 Our forecast is based on the average of the most recently estimated Scottish shares of total UK-wide APD receipts produced by the ONS and the Scottish Government, which relate to 2021-22 and 2022-23 respectively.[5] We have revised up our UK forecast in all years, which helps boost Scottish receipts relative to our November forecast.

Table A.2: Air passenger duty illustrative forecast

	£ million					
	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
UK forecast						
November 2023	3,819	4,497	4,779	5,155	5,741	6,182
March 2024	3,829	4,451	4,943	5,187	5,519	5,857
Difference	**10**	**-46**	**164**	**32**	**-222**	**-325**
Scottish forecast						
November 2023	334	393	417	450	501	540
March 2024	334	389	432	453	482	512
Difference	**1**	**-4**	**14**	**3**	**-19**	**-28**

VAT assignment

A.1 The Scotland Act 2016 made provision for the first 10p of standard rated VAT in Scotland (and the first 2.5p of the reduced rate of VAT) to be assigned to the Scottish Government. VAT will continue to be collected by HMRC and the Scottish Government will not have the power to change the collection or administration of the VAT regime in Scotland, or to change VAT rates or the VAT base.

A.2 The UK and Scottish Governments initially agreed to commence VAT assignment from 2019-20 but this was delayed, and we are not aware of a subsequently agreed date. Therefore, our forecast is, once again, simply for illustrative purposes.

A.3 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 projection (Table A.3) we take the latest estimated share, which

[4] Destinations fall into three bands based on distance from London. Band A applies to flights with a terminus less than 2,000 miles from London; Band B to flights with a terminus more than 2,000 miles but less than 5,500 miles from London; and Band C to flights with a terminus over 5,500 miles from London.

[5] 9.8 per cent from the ONS' *Country and Regional Public Sector Finances* and 7.7 per cent from the Scottish Government's *Government Expenditure and Revenues Scotland*.

relates to 2021, as our starting point and index this in line with population growth in Scotland relative to the UK as a whole.[6]

Table A.3: VAT assignment illustrative projection

	£ billion						
	Estimated outturn	Projection					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
UK	159.7	169.6	173.9	180.3	188.0	195.9	204.1
of which:							
Assigned to Scottish Government	6.9	7.3	7.5	7.8	8.1	8.4	8.7
VAT from Scotland retained by UK Government	6.9	7.3	7.5	7.8	8.1	8.4	8.7
VAT from the rest of the UK	145.9	155.0	158.9	164.8	171.9	179.2	186.7
	Per cent						
Assigned to Scottish Government	4.34	4.33	4.31	4.30	4.29	4.28	4.27
Scottish population share	*8.1*	*8.1*	*8.0*	*8.0*	*8.0*	*8.0*	*7.9*
Memo: index Scottish popu lation share (2020-21 = 100)	*99.0*	*98.6*	*98.3*	*98.0*	*97.7*	*97.5*	*97.3*

[6] HM Revenue & Customs, HM Treasury, Scottish Government, *Scottish VAT assignment 2021 – experimental statistics*, September 2023.