

2 April 2026

Supplementary forecast information release

Costing of changes to non-labour components of income tax

- 1.1 The OBR is releasing this information following a request for further detail in respect of the costing of the increases to tax rates on property, savings and dividend income, in our November 2025 *Economic and fiscal outlook*. We will, as far as possible, meet any requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.
- 1.2 This release briefly describes the measures, sets out the data sources and modelling used to estimate the costing, and discusses the main sources of uncertainty around this central estimate, following the OBR's policy costings process.¹ As set out in the *Charter for Budget Responsibility*, the Government is responsible for producing all policy costings. In the case of tax policies the costings are typically produced by HMRC. The OBR's role is to provide independent scrutiny and certification of whether the Government's policy costings are reasonable and central. This means that the full datasets underpinning tax policy costings are generally held by HMRC. Therefore, requests for access to any datasets not available at the sources referenced in this note should be directed to HMRC.

Policy description

- 1.3 From April 2026, there will be a 2 percentage point increase to the ordinary and upper rates of tax on **dividends income**, raising them to 10.75 and 35.75 per cent respectively. From April 2027, the basic, higher and additional rates of **savings and property** income tax, will increase by 2 percentage points to 22, 42 and 47 per cent respectively.

Data

- 1.4 The main data source for the costing of the **increase to dividends and savings rates** is the 2022-23 Survey of Personal Incomes (SPI). The SPI is based on information held by HMRC about individuals who could be liable for UK Income Tax and covers income that can be assessed for tax for each tax year. Data for the SPI is sampled from HMRC administrative systems. The SPI covers 2022-23 and is then projected across the forecast period using economic determinants consistent with the November 2025 forecast.
- 1.5 The costing of the **increase to property rates** used 2023-24 Income Tax Self-Assessment (ITSA) data to identify those individuals who have declared property profits. This is then projected across the forecast period using economic determinants consistent with the November 2025 forecast.

¹ See our *Briefing paper No.6: Policy costings and our forecast*, March 2014.

Modelling

Static costing

1.6 The static costing for the **increase to dividend rates** was derived in the following way:

- The tax base consists of the total dividend income that will be taxed at the new, higher rates. The additional rate of dividend tax remains unchanged, but around one-third of additional-rate taxpayers have dividends taxable at the basic or higher rates of tax in 2026-27 (dependent on the total composition of their income), so will be affected by the rate changes.
- The tax base is grown over the forecast period using HMRC's Personal Tax Model (PTM), a method that uses microsimulation techniques to forecast growth incomes including in dividend earnings.
- The static yield is calculated as the forecast tax base – where the tax base is split by the amount that is forecast to be taxable at the basic and higher rates – multiplied by the 2 percentage point increase to the ordinary and upper rates.

1.7 The static costing for the **increase to savings rates** was derived in the following way:

- The tax base consists of total taxable savings income for individuals reporting savings income through self assessment (SA) and those who have tax on savings income deducted through the PAYE system.
- The costing uses the PTM and the latest SPI, consistent with the baseline forecast for savings income. The static yield is then calculated as the impact of the 2 percentage point increase to rates on the baseline forecast. The PTM estimates that 90 per cent of the tax base is within SA income tax and 10 per cent within PAYE income tax, and this split is assumed to remain flat through the forecast period.

1.8 The static costing for the **increase to property rates** was derived in the following way:

- The tax base is profitable unincorporated property businesses, identified using 2023-24 ITSA data. The majority of businesses are identified through self-assessment UK property returns (SA105), with a small addition from those that have declared property profits via a short tax return (SA200) or partners self-assessment (SA104) returns.²
- The increased property income taxation is based on where a landlord's taxable profits sit within the tax bands, which depends on a landlord's total taxable income across all revenue streams. Various income components (Table 1.2) are projected in line with

² The effects of the abolition of furnished holiday lettings (FHLs) are also considered. While the FHL regime was abolished in April 2025, the effects of this are not present in 2023/24 ITSA data. The property income and residential finance cost for FHL landlords has therefore been adjusted to take account of the FHL reforms.

economic assumptions consistent with the November 2025 *Economic and fiscal outlook*.

- The static yield is estimated within the microsimulation model. This calculates, for each individual landlord, the property profit in each rate, and the increased income tax from the increase in rates. It takes into account both property and non-property income and adjusts for the additional finance cost relief available.

Table 1.1: Tax base and static costings

	Forecast				
	£ billion				
	2026-27	2027-28	2028-29	2029-30	2030-31
Tax base					
Dividends	58.2	61.1	63.7	66.4	69.2
Savings	26.4	27.8	29.8	32.1	34.7
Property ¹	38.0	39.2	40.3	41.6	43.0
Static yield					
Dividends	0.0	-1.5	-1.2	-1.3	-1.4
Savings	0.0	-0.1	-0.6	-0.6	-0.6
Property	0.0	0.0	-0.6	-0.4	-0.5

¹ The property tax base is in accruals, including property taxable profits at Personal Allowance (PA) for UK wide.

Note: The static yield values in this table use the convention that a negative figure means a reduction in PSNB.

Source: HMRC, OBR

Behavioural response

1.9 The behavioural response to the **increase to dividend rates** was deemed to be of high uncertainty. The following behavioural responses are included in the costing:

- **Forestalling effects:** Taxpayers are incentivised to bring income forward into 2025-26 to avoid the higher tax rates from 2026-27. This raises liabilities in 2025-26 but impacts the yield in 2026-2027 due to the lag between liabilities and receipts. This is then unwound over the following three years at different paces for different taxpayers. Analysis of previous changes to dividend taxation has shown greater responsiveness for additional-rate taxpayers, therefore the forestalling effect was more muted as the measure only increases the ordinary and upper rates. This behaviour increases the estimated yield by £0.3 billion in 2026-27, offset by a reduction in yield of £0.3 billion in 2027-28, with smaller impacts in the following two years.
- **Reduction in taxable income:** The costing includes a behavioural adjustment for individuals reducing their dividend income in response to the increased tax burden. This response is split into a marginal tax rate (the change in the tax paid on the next pound of income earned) and average tax rate (the change in total tax paid) response. Dividends have been observed to be a particularly responsive income stream to changes in tax rates, so the elasticity to rate changes is greater than for other income such as from labour. Similar to the forestalling effect, the responsiveness is assumed to

be greater for those paying the unchanged additional rate. This behaviour reduces the estimated yield by £0.2 billion in 2030-31.

- **Tax-motivated incorporation:** The higher tax rates reduce the incentive to incorporate as a limited company and the overall forecast for the number of tax-motivated incorporations (TMIs). On average, an individual TMI results in reduced revenue as the effective tax rate of corporate profit is lower than in the income tax framework. The reduction in the TMI forecast lowers corporation tax receipts, but this is more than offset by an increase in income tax and National Insurance contributions. This behaviour is estimated to increase the yield by £0.3 billion in 2030-31.

1.10 The behavioural response to the **increase to savings rates** was deemed to be of medium uncertainty. The following behavioural response was considered in the costing:

- **Increased tax planning and non-compliance:** In response to a higher tax rate on savings, individuals with taxable savings income may look to take greater advantage of tax advantaged assets. This includes ISAs (including utilising family members' allowances if the principal saver has already reached their allowance) and higher pension contributions. It was also assumed there would be increased non-compliance and leakage of tax revenue as individuals may under-declare income to attempt to avoid paying the tax. These responses reduce the static yield by 20 per cent. This behaviour reduces the estimated yield by £0.1 billion in 2030-31.

1.11 The behavioural response to the **increase to property rates** was deemed to be of medium uncertainty. The following behavioural responses were considered within the costing:

- **Rental and property prices:** The costing assumes 28 per cent pass-through of the increased tax to rental prices but that the impact on transactions is negligible.³ This results in a forecast increase in the level of rental prices of 0.2 percentage points from 2028-29. The costing also incorporates pass-through to lower property prices as the incentive to remain as, or become, a private landlord decreases. This is expected to have a downward impact on house prices as there is a fall in demand and market price due to the fall in potential property income. This decreases forecast house prices by around 0.1 percentage points in each year from 2028-29. The net estimated effect of the changes to rental and property prices has a negligible impact on the yield in 2030-31. Higher property income (within SA income tax) is offset by lower capital gains tax, inheritance tax and stamp duty land tax (SDLT) receipts from the lower forecast property prices.
- **Evasion and non-compliance:** The costing assumes increased evasion and non-compliance reduces the static yield by 5 per cent. This is due to the higher tax rates

³ A 28 per cent pass-through assumption was based on the average across a range of estimated impacts from academic and think tank papers. However, the range was wide, running from 14 per cent (Schwegman and Tinger (2020), *Property Tax Pass-Through to Renters: A Quasi-Experimental Approach*) to 45 per cent (MacDonald (1993), *Incidence of the property tax on commercial real estate*), increasing the level of uncertainty for this assumption.

increasing the incentive to avoid paying, or under-declare taxable property income. This behaviour is estimated to have a negligible impact on the yield.

- **Tax-motivated incorporations:** The costing assumes an increased number of TMI as new landlords choose to incorporate to become a limited company, where higher property taxation is not charged on corporate landlords. The costing assumes that existing landlords do not incorporate due to the 5 per cent SDLT surcharge tax to transfer a property to a corporate entity. The only groups where increased TMIs are assumed to be non-negligible are new landlords who are higher-rate or additional-rate payers with high or medium interest costs. This behaviour is estimated to have a negligible impact on the yield.

Interactions with other measures

- 1.12 **Changes to cash ISA limit:** At the November 2025 Budget a measure was introduced that reduced the cash limit on ISAs from £20,000 to £12,000 from April 2027. The impact of this measure was considered in the negative 20 per cent behavioural response assumption to the savings rate costing that accounted for tax planning and non-compliance (paragraph 1.10).

Table 1.2: OBR determinants used in costing

	Forecast				
	2026-27	2027-28	2028-29	2029-30	2030-31
Increase to savings tax rates					
Household deposits minus ISA growth (per cent)	1.8	2.2	2.7	3.0	3.2
Weighted average interest rate growth (per cent) ¹	-2.4	1.5	2.7	2.8	2.8
Increase to property tax rates					
Property income (per cent)	3.6	3.1	2.8	3.1	3.4
Non-property income/ wages and salaries (per cent)	3.5	2.8	2.7	2.9	2.9
Finance costs (per cent)	15.1	9.0	4.7	5.3	6.4
Dividend income (per cent)	3.9	4.1	3.6	3.6	3.6
Savings income (per cent)	-11.5	0.7	2.5	3.6	4.3
Landlord population (per cent)	0.0	0.0	0.0	0.0	0.0
Increase to dividend tax rates					
Non-North Sea profits growth (per cent)	4.1	4.6	3.9	3.8	3.7

¹ Weighted average interest rate growth uses a weighted average of sight and time deposits across the current and previous year.
Source: HMRC, OBR

Final costing

- 1.13 The central estimate for the **increase to dividend rates** income is an increase in revenue of £0.3 billion in 2026-27, driven by forestalling, rising to £1.0 billion in 2027-28 and more steadily to £1.4 billion in 2030-31. The forestalling impact in 2026-27 is more than offset in 2027-28, with some smaller offsets in the following two years. Other behavioural effects reduce the overall yield by £0.1 billion in 2026-27 and £0.2 billion in 2027-28, with smaller impacts thereafter.

Table 1.3: Costing of increase to tax rates on dividend income

	Forecast				
	£ billion				
	2026-27	2027-28	2028-29	2029-30	2030-31
Static costing	0.0	-1.5	-1.2	-1.3	-1.4
Behavioural effect	-0.3	0.5	0.1	0.0	0.0
of which:					
Forestalling	-0.3	0.3	0.1	0.0	0.0
Reduction in taxable income	0.0	0.3	0.2	0.2	0.2
Tax-motivated incorporations	0.1	-0.1	-0.2	-0.2	-0.3
Other behavioural effects	0.0	0.0	0.0	0.0	0.0
Post-behavioural costing	-0.3	-1.0	-1.2	-1.3	-1.4

Note: This table uses the convention that a negative figure means a reduction in PSNB.
Source: HMRC, OBR

1.14 This policy costing was assigned a ‘high’ uncertainty rating.⁴ The behavioural response was assessed as high uncertainty due to the responsiveness of taxable income and the amount that would be brought forward, or forestalled, to avoid higher tax rates. Modelling and data uncertainty were both rated as ‘medium’, largely explained by challenges in forecasting dividend income in the baseline forecast (as highlighted in the ‘Fiscal model assessment database’ published alongside the July 2025 *Forecast evaluation report*).

1.15 The central estimate for the **increase to savings rates** is an increase in revenue by an average of £0.5 billion from 2028-29, with the behavioural impact reducing the static yield by around 20 per cent in each year.

Table 1.4: Costing of increase to tax rates on savings income

	Forecast				
	£ billion				
	2026-27	2027-28	2028-29	2029-30	2030-31
Static costing	0.0	-0.1	-0.6	-0.6	-0.6
Behavioural effect	0.0	0.0	0.1	0.1	0.1
Post-behavioural costing	0.0	0.0	-0.5	-0.4	-0.5

Note: This table uses the convention that a negative figure means a reduction in PSNB.
Source: HMRC, OBR

1.16 This policy costing was assigned a ‘medium’ uncertainty rating overall.⁴ There is a moderate level of uncertainty around the behavioural response due to the various ways that taxpayers could respond to higher rates through tax planning and the degree of non-compliance. Modelling uncertainty was rated as ‘low’ and data uncertainty as ‘medium-low’ as the costing uses established methods consistent with the baseline forecast.

1.17 The central estimate for the **increase to property rates** is an increase in revenue of £0.6 billion in 2028-29 and £0.4 billion in the final two years of the forecast, with the

⁴ See the ‘Policy costings uncertainty ratings database – March 2026’ spreadsheet at OBR, *Policy costings*, March 2026.

behavioural impact and block grant adjustment reducing the static yield by an average of 3.0 per cent from 2028-29.

Table 1.5: Costing of increase to tax rates on property income

	Forecast				
	£ billion				
	2026-27	2027-28	2028-29	2029-30	2030-31
Static costing	0.0	0.0	-0.6	-0.4	-0.5
Behavioural effect	0.0	0.0	0.1	0.0	0.0
of which:					
Rental and property prices	0.0	0.0	0.0	0.0	0.0
Evasion and non-compliance	0.0	0.0	0.0	0.0	0.0
Tax-motivated incorporations	0.0	0.0	0.0	0.0	0.0
Block grant adjustment	0.0	0.0	0.0	0.0	0.0
Post-behavioural costing	0.0	0.0	-0.6	-0.4	-0.4

Note: This table uses the convention that a negative figure means a reduction in PSNB. Totals may not sum due to rounding. The behavioural effect in this table differs to what was published in the November 2025 EFO due to separating out the block grant adjustment which impacts the rounding.

Source: HMRC, OBR

1.18 This policy costing was assigned a ‘high’ uncertainty rating.⁴ There was a ‘medium’ level of uncertainty around the behavioural response due to the estimation of the pass-through to rental and property prices. Modelling uncertainty was rated as ‘high’ due to the development of a new microsimulation model used to grow the tax base from the 2023-24 ITSA data. Data uncertainty was assigned a ‘medium-high’ due to the new modelling and the limited ability to test alternative determinants in the model.