Office for
Budget
Responsibility

Welsh taxes outlook

December 2024

Contents

Charts and tables data are available on our website.

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. We publish these in our *Economic and fiscal outlook* (*EFO*).

1.2 In December 2016, the Welsh and UK Governments agreed the Welsh Government's fiscal framework. This established a mechanism for adjusting the block grant funding that the Welsh Government receives from the UK Government to reflect the devolution of tax powers.[1] The fiscal framework also established a requirement for independent forecasting. The Welsh Government chose to use the OBR's forecasts to meet this requirement.[2]

1.3 Our work with the Welsh Government is guided by a Memorandum of Understanding, Terms of Reference, and a Financial Framework. In the second half of 2020, we jointly reviewed these arrangements to ensure they reflected any lessons learnt in the first year of forecasting.[3] Under these arrangements we focus exclusively on forecasting the devolved taxes given their role in the Welsh Government's fiscal framework. Areas that are beyond the scope of our role include: producing a full macroeconomic forecast for Wales; producing a forecast for Welsh Government spending; and assessing the impacts of proposed, as opposed to confirmed, policy decisions.

1.4 Our forecasts for the Welsh devolved taxes are presented in the *Welsh taxes outlook* (*WTO*) which is published alongside the Welsh Government's Draft Budget in every year, and we publish an update for the Welsh Government's Final Budget. In this *WTO*, published alongside the Welsh Government's 2025-26 Draft Budget, we describe our latest forecasts for three sources of revenue:

- the **Welsh rates of income tax**;
- **land transaction tax** (LTT); and
- **landfill disposals tax** (LDT).

1.5 These forecasts are consistent with the central forecast for the UK economy and public finances presented in our October 2024 *EFO*. The key features of this forecast are:

[1] More detailed information on the relevant legislation and governance is available on our website.
[2] Written statement by the Cabinet Secretary for Finance, *Provision of Welsh tax forecasts by the Office for Budget Responsibility*.
[3] The joint review is available on our website alongside the December 2020 *WTO*.

- Against a broadly unchanged economic and fiscal backdrop since March, **the Autumn Budget delivered a large, sustained increase in spending, taxation, and borrowing**. The net effect of Budget policies is to increase borrowing by £19.6 billion in 2024-25 and by an average of £32.3 billion over the next five years.

- Policy decisions increase **public spending** in total by an average of almost £70 billion a year from 2025-26, of which two-thirds goes on current and one-third on capital spending. As a result, the size of the state is forecast to settle at 44 per cent of GDP by the end of the decade, almost 5 percentage points higher than before the pandemic.

- Half of the increase in spending is funded through an increase in **taxes**, mainly on employer payrolls, on assets, and through greater tax compliance. These raise £36 billion a year in additional revenue and are forecast to push the tax take to 38 per cent of GDP by 2029-30.

- Having stagnated last year, the **economy** is expected to grow by just over 1 per cent this year, rising to 2 per cent in 2025, before falling to around 1½ per cent over the remainder of the forecast. Budget policies temporarily boost output in the near term, but leave GDP largely unchanged in five years.

- The Budget sets two new **fiscal rules**: to deliver a current balance and for net financial liabilities to be falling, both initially in five years. On the central forecast both rules are on course to be met, by margins of £9.9 billion and £15.7 billion respectively, which are a small fraction of the risks around our central forecast.

- We produce a central forecast around which we judge these **risks** are evenly balanced, but we emphasise the significant uncertainty inherent in all aspects of the forecast. In our *EFO* we illustrate these risks using fan charts, sensitivity analysis and alternative scenarios. In the October 2024 *EFO*, we presented alternative scenarios for interest rates and the impact of higher public investment on potential output.

1.6 The forecasts in this *WTO* also incorporate the impacts of policies announced in the Welsh Government's Draft Budget, which we have scrutinised and certified using the same approach as we apply to the UK Government's policies in *EFO*s. The Welsh Government policies that we have incorporated are as follows:

- **Land transaction tax residential higher rates increase**. From 11 December 2024, the LTT residential higher rates will increase by 1 percentage point across all bands. These are the rates that apply to additional properties such as second homes, bridging properties and buy-to-let purchases. The policy is estimated to increase LTT by an average of £8.1 million a year from 2025-26 to 2029-30. The key uncertainty in this costing relates to the behavioural assumptions around the extent to which transactions and prices will reduce as a result of the higher rates, and any substitution towards purchasing primary residences.

- **Multiple dwellings relief (MDR) adaptation**. From 7 February 2025, taxpayers will no longer be able to claim MDR and subsidiary dwelling exemption in the same transaction. MDR reduces the LTT paid when purchasing properties made up of more than one dwelling, so limiting eligibility for the relief will increase LTT receipts by an estimated £1.3 million per year over the forecast from 2025-26. MDR claims are highly volatile from year to year, so this estimate is highly uncertain.

- **Landfill disposal tax rates**. This policy increases the standard rate of LDT from £103.70 to £126.15 per tonne (an increase of 22 per cent), and the lower rate from £3.30 to £6.30 per tonne (an increase of 91 per cent). It takes effect from April 2025 and yields an average of £2.9 million a year. The key uncertainty in this costing relates to which landfill disposals reduce in response to the rate changes.

- **Land transaction tax additional compliance**. The Welsh Revenue Authority (WRA) is increasing resourcing for staff to undertake compliance activity on LTT, which is estimated to increase LTT receipts by £2.6 million in 2025-26. The data available on compliance activity by WRA is more limited than that for HMRC so there is some uncertainty around the available compliance yield.

1.7 The methodology and the forecasts in this *WTO* represent the collective view of the three independent members of the OBR's Budget Responsibility Committee (BRC). We take full responsibility for the judgements that underpin them.

Forecast timetable

1.8 In order to produce the forecasts presented in this document:

- Analysts from the Welsh Government and HMRC produced draft Welsh tax forecasts, using determinants published in our October 2024 *EFO*.

- These were scrutinised by the BRC in two meetings on 19 and 23 September.

- Updated LTT and LDT forecasts were then prepared by Welsh Government analysts, reflecting the latest receipts and house price data, on 22 November. These were scrutinised by the BRC on 22 November.

- On 27 November, we finalised our Welsh taxes forecast, incorporating the impacts of UK Government policy announcements in the UK Government Budget on 30 October, as well as subsequent policy announcements in the Welsh Government Draft Budget and updated receipts outturn data published since 30 October.

Structure of the document

1.9 The rest of this document is structured as follows:

- **Chapter 2:** income tax on non-savings, non-dividend income from the Welsh rates.

- **Chapter 3:** land transaction tax.
- **Chapter 4:** landfill disposals tax.
- **Annex A:** summary of the forecasts required for the block grant adjustments.

1.10 All the charts and tables presented in this document, plus supplementary forecast material, are available in spreadsheet format on our website.

2 Welsh rates of income tax

Introduction

2.1 This chapter:

- describes the **Welsh rates of income tax** and how they are levied on non-savings, non-dividend income by tax band;
- sets out our **methodology** for forecasting UK income tax liabilities and the Welsh share of this total, before splitting this share by tax band;
- presents our **latest forecasts** for the Welsh rates and for UK income tax liabilities; and
- outlines some of the **risks and uncertainties** around our Welsh rates forecast.

The Welsh rates of income tax

2.2 The Welsh rates of income tax came into effect in April 2019. They are administered and collected by HMRC. There are four important aspects of the design and operation of these rates in Wales that distinguish them from our UK-wide income tax forecasts:

- First, they apply only to Welsh taxpayers, who are defined as **individuals whose main place of residence is in Wales** for the majority of the tax year. Individuals who are classified as Welsh resident are given a 'C' flag on their HMRC tax identifier.
- Second, the Welsh rates represent only the first **10p in the pound for each tax band**. Each year, the Welsh Government is required to set the tax rates for each of the basic, higher and additional tax rates, which replace a 10p reduction in the reserved UK Government element of each tax band. Since the Welsh rates of income tax were devolved these rates have all been set at 10p, such that overall income tax rates paid by Welsh taxpayers remain aligned with those in England and Northern Ireland. The remaining income tax raised from Welsh taxpayers – i.e. 10p in the pound from basic-rate payers, 30p from higher-rate payers and 35p from additional-rate payers – is reserved to the UK Government.
- Third, the Welsh rates are levied on **non-savings, non-dividend (NSND) income**. NSND income accounts for just over 90 per cent of UK-wide income tax liabilities, and around 95 per cent of liabilities in Wales.

- Finally, the Welsh rates are assessed on a **liabilities basis** rather than a National Accounts basis. This means that our forecast of self-assessment (SA) income tax used for the Welsh rates will differ from the cash basis used in the National Accounts and our UK-wide SA income tax forecast, due to the lag between liabilities being incurred and the associated tax being paid.

2.3 Chart 2.1 illustrates how the 2025-26 income tax liability of three theoretical Welsh taxpayers would be split between the UK and Welsh Governments:[1]

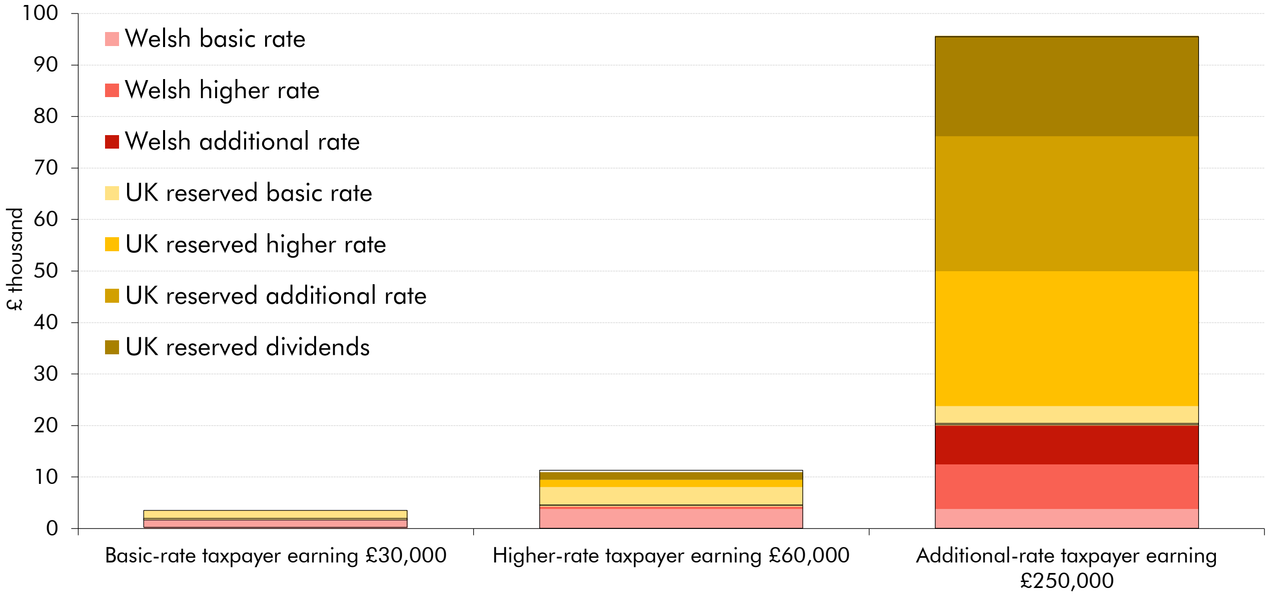
- **For a basic-rate taxpayer earning £30,000** from one source of employment income, their £3,486 liability would be split equally between the two administrations. The effective income tax rate paid by this individual is 11.6 per cent (lower than the 20 per cent basic rate thanks to the £12,570 tax-free personal allowance).
- **For a higher-rate taxpayer earning £60,000**, with £55,000 coming from employment and £5,000 of dividends from company shareholdings, 39 per cent of their £10,951 liability would relate to the Welsh rates and 61 per cent would be reserved to the UK Government, including all the £1,519 due on their dividend income. The effective income tax rate is 18.3 per cent.[2]
- **An additional-rate taxpayer earning £250,000**, with £200,000 from employment income and £50,000 in dividends, would have a total tax liability of £95,681. Of this, only 21 per cent would relate to the Welsh rates, while 79 per cent would go to the UK Government. At this income level a taxpayer would not receive any personal allowance. The higher share for the UK Government reflects two factors: first, all earnings above £37,700 would be taxed at the higher or additional rates where the UK Government share is much larger; and second, the taxpayer has a liability of £19,478 from their dividend income, all of which is retained by the UK Government. The effective income tax rate is 38.3 per cent.

These examples illustrate the relative importance of higher earners for tax receipts, but also that this is much less the case for the Welsh rates. The higher-rate taxpayer earns twice as much as the basic-rate taxpayer and has an overall tax liability that is three times greater, but their Welsh rates liability is around 2½ times as large. The additional-rate taxpayer earns four times as much as the higher-rate taxpayer and has a tax liability that is around 8½ times greater, but their Welsh rates liability is somewhat less than five times greater. The UK Government's tax revenues are therefore more sensitive to changes in high earners' incomes than the Welsh Government's revenues are.

[1] In addition to the income tax parameters reported in Table 2.3, this also reflects the personal allowance taper that withdraws £1 of personal allowance for every £2 of earnings above £100,000; the dividend allowance of £500 in 2025-26; and tax rates on dividend earnings of 8.75 per cent for basic-rate taxpayers, 33.75 per cent for higher-rate taxpayers and 39.35 per cent for additional-rate taxpayers. These examples are illustrative and do not include all aspects of the income tax regime, for example any use of reliefs to lower an individual's tax liability. Similarly, these amounts do not include other aspects of the personal tax regime, primarily National Insurance Contributions (NICs, which is reserved to the UK Government), so do not represent overall tax liability on income.

[2] Any changes to the dividend allowance, which is reserved to the UK Government, will serve to change the Welsh share. For example, the dividend allowance was lowered in April 2024, which increased the amount of dividend income taxed by the UK Government, and therefore resulted in a lower Welsh share.

Chart 2.1: Illustrative splits between Welsh and UK Government income tax liabilities



Source: OBR

Methodology

2.4 Our Welsh income tax forecasts are produced on a 'top-down' basis.[3] The main steps are:

- First, we **establish the whole of the UK NSND income tax liabilities forecast**.
- Next, we **calculate the share of NSND income tax liabilities subject to the Welsh rates**, taking into account the relevant tax base in Wales and how this maps onto the announced tax regime. Much of our analysis first looks at the total share of income tax from Wales – including amounts paid by Welsh taxpayers but reserved to the UK Government – before estimating the proportion that is subject to the Welsh rates.[4]
- We then **calibrate the outturn share for the Welsh rates in 2022-23 to outturn data** for Welsh income tax liabilities, which HMRC published in July. In Box 2.1 we evaluate our forecasts for that year.
- Finally, we **add our estimates of the effect of new policies** announced since our previous forecast on Welsh rates liabilities.

2.5 The December 2016 fiscal framework agreement between the Welsh and UK Governments detailed how the Welsh rates would operate. In doing so it placed a requirement on us to

[3] For more detail on our forecast methodology see Chapter 2 of our December 2019 *Welsh taxes outlook* and the 'Welsh tax forecasts' page of our website.
[4] For an in-depth analysis of the composition of these shares, and their evolution over time, see Murphy Corkhill, J., M. Hanson, and S. Johal, *OBR Working Paper No.21: Developments in devolved income tax*, October 2023.

forecast income tax liabilities in Wales, and in England and Northern Ireland combined, split by tax band.[5]

Pre-measures UK-wide forecast of NSND income tax

2.6 We use HMRC's latest published UK-wide NSND income tax liabilities outturn for the most recent tax year (currently 2022-23) as the starting point for our pre-measures forecast. To project liabilities between that outturn year and the current year, we produce an in-year estimate based on HMRC's most recent monthly tax receipts data at the time of our latest forecast – which covers all of 2023-24 and the first four months of 2024-25.

2.7 From this base we then forecast growth in the UK income tax base in line with our wider economy forecast. The key determinants are employment and average nominal earnings growth, which determine the amount of labour income that can be taxed. In our current forecast, strong nominal earnings growth coupled with personal tax thresholds that are frozen in cash terms until 2027-28 generates strong 'fiscal drag'.[6] This is the main driver of relatively strong forecast growth in income tax receipts in the years to 2027-28.

2.8 We forecast income tax at the UK level according to the different methods by which HMRC collects the tax. PAYE income tax accounts for over 80 per cent of revenue, with nearly all the remainder collected via the SA system. PAYE income mainly represents the earnings of employees plus some pensions income, while SA income includes profits from self-employment and income from dividends, land and property, and savings.

The share of UK-wide income tax liabilities subject to Welsh rates

2.9 In this sub-section we explain how we calculate the share of NSND liabilities that are subject to the Welsh rates. Our approach is split into the following steps:

- we begin by using HMRC's Survey of Personal Incomes (SPI) to **establish the overall Welsh share of UK-wide income tax liabilities**;
- we then **explain the differences in income tax per person in Wales compared to the UK**, looking across income streams, the number of taxpayers and the effective tax rate;
- the next step is to **assess the proportion of the population that pays income tax** by looking at employment rates in Wales and the UK; and
- the three final steps are to **determine the average income per taxpayer**, calculate the **average amounts of tax paid on that income** before finally **estimating the share of UK liabilities that will be subject to the Welsh rates**.

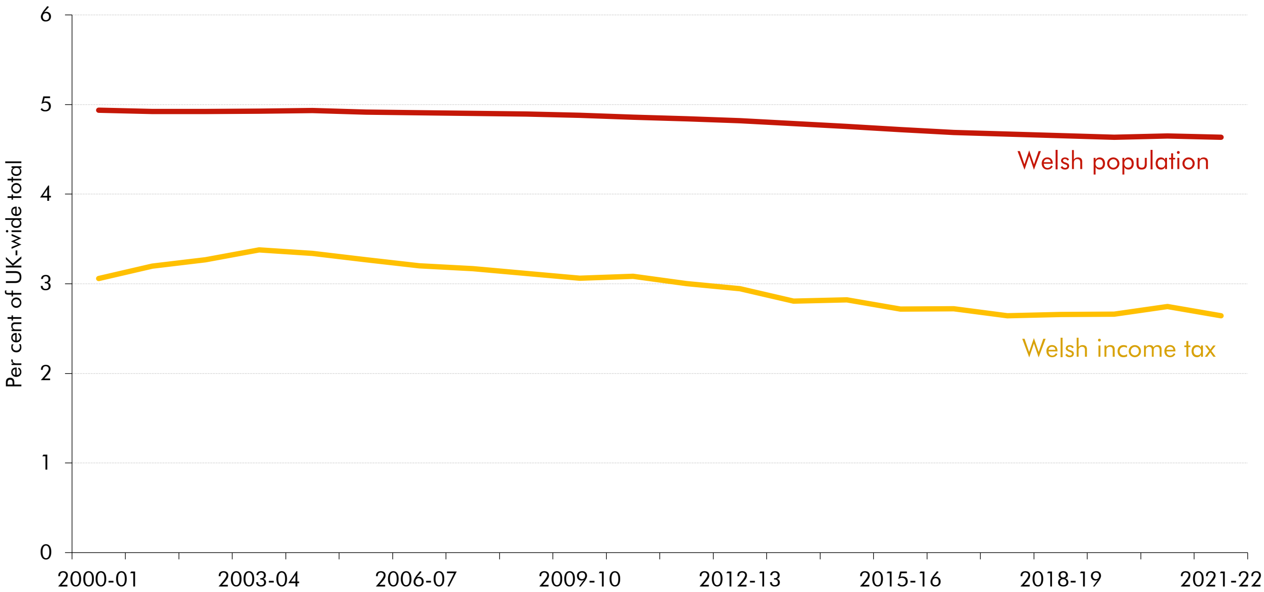
[5] For more on our approach, see Mathews, P., *OBR Working paper No.14: Devolved income tax: forecasting by tax bands*, September 2018.
[6] Fiscal drag is where tax receipts increase as rising earnings push more workers into the tax system or into higher tax bands.

The overall Welsh share of UK-wide income tax liabilities

2.10 In order to calculate the share of our forecast for UK NSND income tax liabilities that will be subject to the Welsh rates, we start with the overall Welsh share of income tax as captured by the SPI. The SPI is an annual survey based on a sample of around 880,000 individuals in contact with HMRC during the year. It is published with a long lag – the 2021-22 SPI is the latest year that is currently available.

2.11 Chart 2.2 compares the Welsh share of UK income tax liabilities with the Welsh share of the UK population. The Welsh share of income tax is lower than the Welsh population share (2.6 versus 4.6 per cent in 2021-22). But the Welsh share of income tax has also been trending downwards more rapidly than the Welsh population share since 2000-01 (a 13.7 per cent fall compared to a 6.1 per cent fall in the population share). Almost all of this decline has occurred over the past decade (down 12 per cent since 2011-12, compared to a fall 4.2 per cent fall in the population share). The Welsh share of income tax did tick up in the pandemic-hit year of 2020-21 (from 2.64 per cent to 2.74 per cent), but it has since continued its downward trend in the latest year.

Chart 2.2: Welsh share of UK income tax liabilities and population



Note: Tax data unavailable for 2008-09 so the proportional shares are based on interpolation from the adjacent years.
Source: HMRC, OBR

The differences in income tax per person in Wales compared to the UK

2.12 We can readily incorporate differences in expected population growth in our forecasts using published ONS projections, but understanding why tax per person in Wales is lower than in the UK, and has been declining in relative terms, is more complex.

2.13 Chart 2.3 presents the difference in income tax liabilities per person between Wales and the UK as a whole. It shows two different ways of decomposing these differences, based on analysis of the SPI data. Both panels show that per-person liabilities in Wales in 2021-22 were £1,450 (43 per cent) lower than in the UK as a whole (£3,371 versus £1,921). Both presentations are methodological constructs that are useful in aiding our understanding of the differences in per-person liabilities and help to facilitate any forecast judgements we may wish to make about how the Welsh share of income tax will evolve. Specifically:

- The left panel disaggregates the difference into three underlying factors: the proportion of the population that are taxpayers; the average incomes of those taxpayers (split into three different sources); and the amount of tax paid per pound of income i.e. the effective tax rate, or ETR. It shows that the main factors are lower average incomes per taxpayer (accounting for £767 of the overall £1,450 difference (53 per cent), though average pension incomes per taxpayer were slightly higher) and a lower ETR (£616, 42 per cent of the difference), with only a marginal impact from fewer taxpayers.

- The right panel instead decomposes into the four income streams in the SPI data: employment income, self-employment income, pension income and 'other' income (mainly property and dividends).[7] This approach implicitly subsumes the number of taxpayers and the ETR into the different income streams. It shows that lower tax from employment income accounts for 72 per cent of the overall difference, with lower contributions from each of the other three income streams (the effect of pension income is reversed).

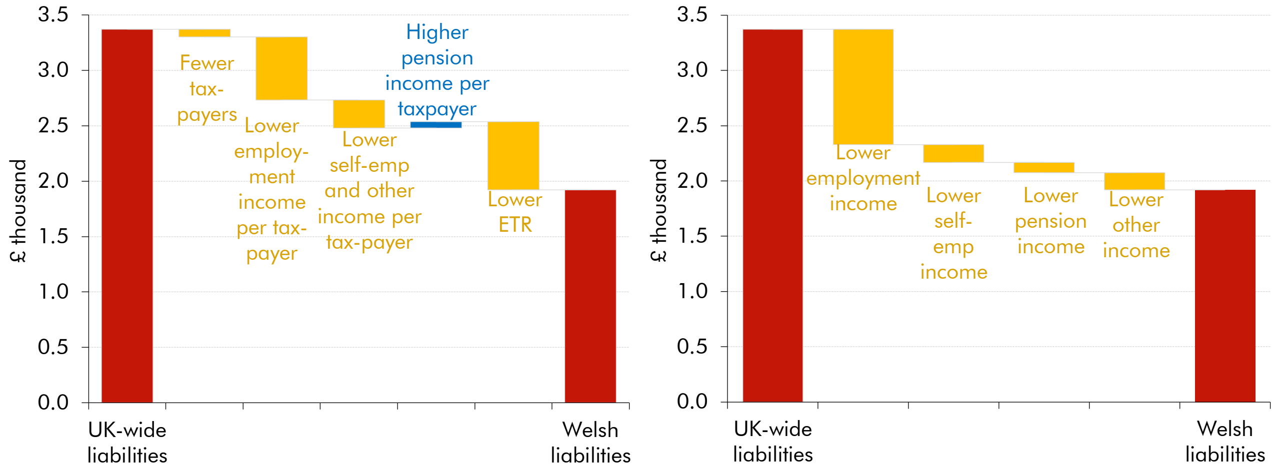
2.14 We published a working paper in 2023 which used these type of breakdowns to explore the factors behind the decline in the Welsh share since 2007-08 and its implications for our forecast.[8] The paper, which is broadly supportive of our existing methodology, showed that the widening gap is largely explained by the divergence in employment income, which is both the largest source of income tax, a large driver of the difference in both methodologies, and also the one with the richest source of available data, which we can utilise to refine our forecasting methodology.[9]

[7] We were unable to remove the savings and dividends elements of 'other income' but this does not materially affect our analysis.

[8] Murphy Corkhill, J., M. Hanson, and S. Johal, *OBR Working Paper No.21: Developments in devolved income tax*, October 2023. We will use the findings from the paper to further refine our forecast and investigate some areas, such as employment income, more fully, given the disproportionate role it plays in generating and sustaining gaps in income tax per person.

[9] For example, we use in-year real time PAYE information (RTI) on employee earnings to bridge the gap from the initial SPI-based shares from the most recent year of outturn to the beginning of the forecast period. This enables us to partially capture some of the observed recent dynamics in earnings.

Chart 2.3: Welsh and UK income tax liabilities per person in 2021-22



Source: HMRC, OBR calculations

The proportion of the population that pays income tax

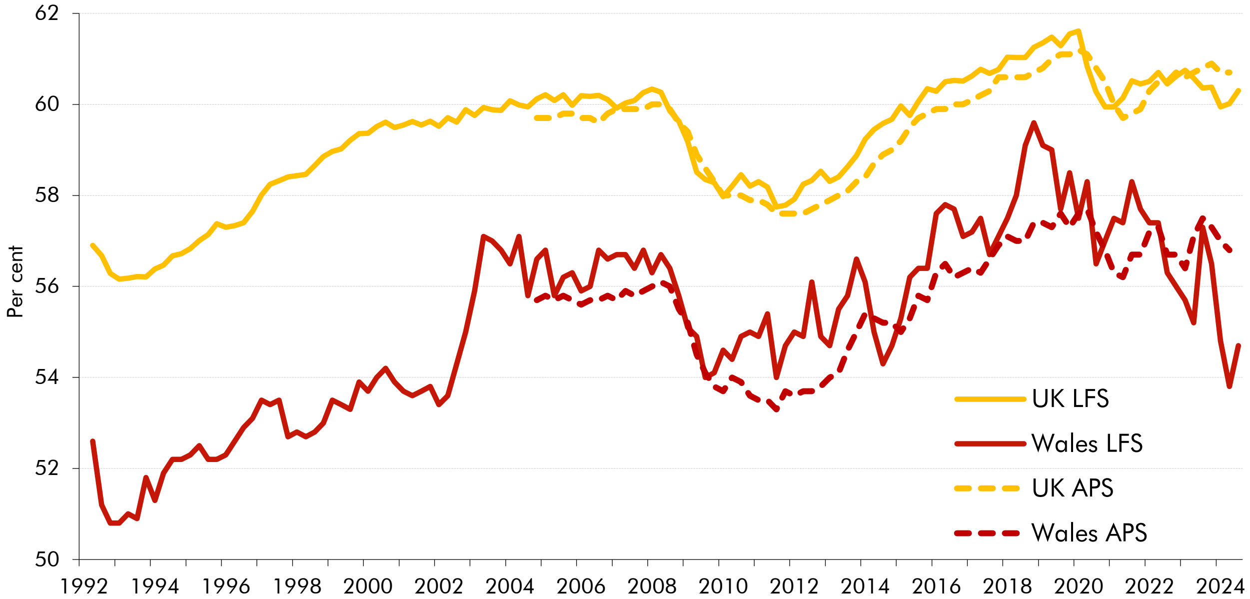
2.15 The likelihood of an individual paying income tax is lower in Wales than it is in the UK as a whole. According to the 2021-22 SPI, 47.6 per cent of the Welsh population paid income tax, compared to 49.3 per cent of the UK's population (as shown in the left panel of Chart 2.3 above, this makes only a small (4.6 per cent) contribution to the overall difference in income tax liabilities per person between Wales and the UK).

2.16 One of the main contributory factors is that the employment rate in Wales is lower than it is in the UK as a whole. Chart 2.4 uses two different data sources to show that the employment rate in Wales has been consistently below that in the UK in recent years. This is driven by the economic inactivity rate being significantly higher in Wales than the UK as a whole, whereas the unemployment rates have broadly tracked each other. According to the Labour Force Survey (LFS), the average employment rate in Wales since 1992 has been 4.1 percentage points lower than that in the UK as a whole, and was 2.7 percentage points lower in 2021-22. The LFS also shows that the employment rate in Wales has been around twice as volatile as in the UK as a whole, likely due to the smaller sample size in the LFS for Wales than the UK as a whole.

2.17 LFS response rates have been falling since the pandemic, and the ONS advises caution in interpreting LFS data while it continues to improve the estimates (this programme of work includes further partial reweighting – on top of that implemented in February this year – by the end of 2024, followed by fuller reweighting and the switchover to the Transformed LFS at a later date). Using the more aggregated Annual Population Survey (APS) measure, the overall pattern is similar (though less volatile), with Welsh employment rates an average 3.8 percentage points lower than the UK since 2004 and 3.2 percentage points lower in 2021-22.

2.18 Relative to the pre-pandemic year of 2019-20, the APS shows that the employment rate fell 0.4 percentage points in Wales by 2021-22, somewhat shallower than the 0.9 percentage point drop in the UK as a whole (although the Welsh employment rate has continued to decline through to 2023-24, whereas the employment rate in the UK as a whole has rebounded). The respective declines in the Welsh and UK rates were broadly similar in the HMRC RTI data. While there was a rebound in 2021-22, the employment rates remain below pre-pandemic levels. This pattern is partly explained by the post-pandemic rise in inactivity. The inactivity rate in Wales rose by 0.4 percentage points between 2019-20 and 2021-22, compared to 0.9 percentage points in the UK as a whole, though the most recent data shows the gap widening for Wales but narrowing for the UK as a whole. We will continue to monitor developments in inactivity rates, as these represent a risk to our estimate of the Welsh share.

Chart 2.4: Employment rate for the UK and Wales



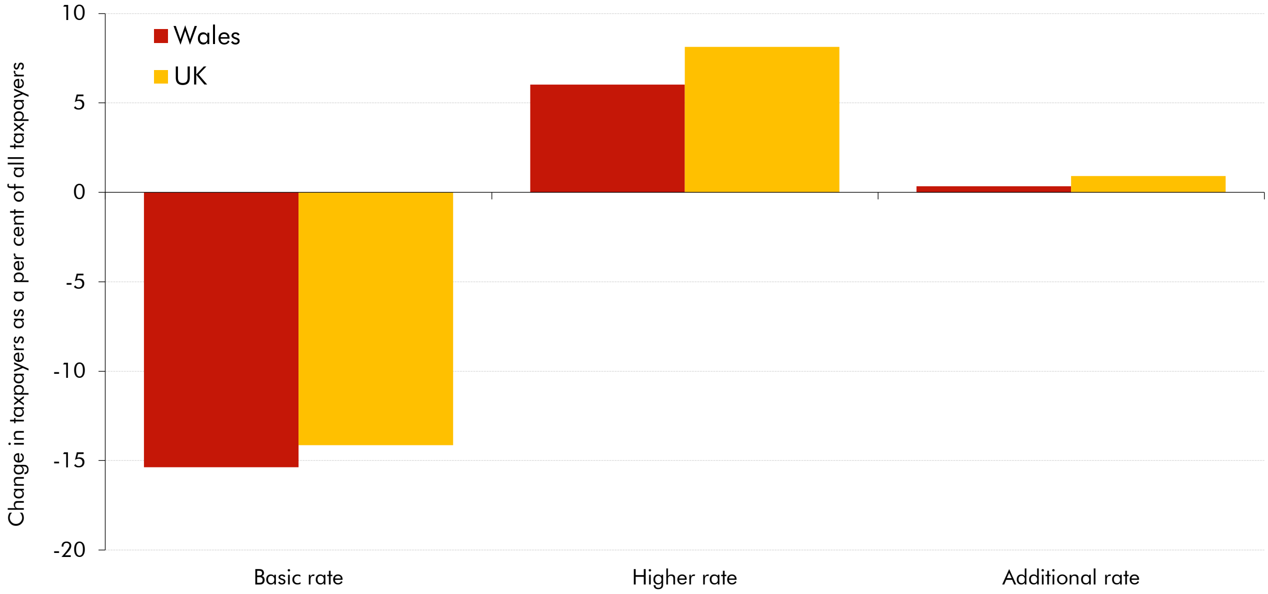
Source: ONS

2.19 Successive rises in the tax-free personal allowance (PA), from £6,475 in 2010-11 to £12,500 in 2019-20, may have taken disproportionately more Welsh residents out of paying income tax, due to differences in the earnings distribution between Wales and the UK as a whole. But changes to the PA since then have been more modest, with it being frozen in cash terms in 2020-21 and increased by just 0.6 per cent (to £12,570) in 2021-22. Chart 2.5 presents the relative change in the number of taxpayers in each tax band between 2010-11 and 2021-22, with Wales having a proportionately larger fall in basic-rate taxpayers as a per cent of all taxpayers than the UK as a whole (15.4 per cent versus 14.1 per cent), and proportionately smaller rises in higher-rate and additional-rate taxpayers. But underlying these overall trends are different patterns in two distinct time periods:

- From 2010-11 to 2019-20, the number of basic-rate taxpayers declined much more sharply in Wales than in the UK as a whole (by almost 30 per cent more), leading to a 5.6 per cent decline in the overall number of taxpayers, compared to a 0.5 per cent rise in the UK as a whole.

- But since 2019-20, this trend has reversed, with the number of basic-rate taxpayers increasing in Wales since then (while continuing to fall in the UK as a whole). This has resulted in the number of taxpayers in Wales now increasing slightly relative to 2010-11 (up 2.4 per cent). It suggests that the continued freeze of the PA in cash terms in recent years could disproportionately impact Wales.

Chart 2.5: Change in taxpayers by tax band between 2010-11 and 2021-22



Source: HMRC, OBR

Average income per taxpayer

2.20 The most important reason for the gap between UK and Welsh tax per person (as recorded in the SPI) is that Welsh taxpayers had lower average incomes. This explains 53 per cent of the shortfall in tax per person in Wales relative to the UK in 2021-22.

2.21 Table 2.1 shows different sources of income averaged across all income taxpayers. It shows that:

- **The SPI implied average income in Wales is lower than in the UK as a whole**, by 20 per cent in 2021-22. Lower average employee incomes account for around three-quarters of the overall £7,791 shortfall. The Wales-UK difference is particularly marked in 'self-employment and other non-pension income' (which includes income from savings and dividends, as well as property income), though this accounts for a smaller proportion of the overall difference in absolute terms.

- **The vast majority of taxpayer income comes from employee jobs**. This is true in both Wales and the UK as a whole, which explains why this represents the largest source of difference in tax liabilities per taxpayer, accounting for around three-quarters of the overall shortfall in Wales relative to the UK as a whole (as shown in both panels of Chart 2.3 above).

- **The average income from pensions is higher in Wales than in the UK as a whole** – by 11 per cent in 2021-22. This is largely due to a higher proportion of the Welsh population being of pension age (20.3 per cent in 2022 versus 17.8 per cent in the UK as a whole), combined with Wales having a relatively higher proportion of public sector workers, who tend to have higher average pension incomes, than the UK overall (22.1 per cent in 2021-22 compared to 17.6 per cent).

Table 2.1: Average taxpayer incomes in 2021-22 by type

	UK	Wales	Difference	
	£ per taxpayer		£	Per cent
Employee income	27,833	22,011	-5,822	-21
Self-employment and other non-pension income	6,356	3,800	-2,556	-40
Pension income	5,170	5,731	561	11
Total income	**39,327**	**31,536**	**-7,791**	**-20**

Source: HMRC, ONS, OBR

2.22 Table 2.2, which focuses just on employee income, shows that this large gap is also reflected in other sources of labour income data that focuses on employee earnings. The coverage of each source differs so they are not fully comparable, which explains why the level of average earnings reported by each is different. But even so, they tell a consistent story of average employee incomes in Wales being considerably lower than those for the UK as a whole (ranging from a 19 per cent difference in the SPI to an 11 per cent difference using the LFS).[10]

Table 2.2: Different measures of average employee earnings in 2022-23

	UK	Wales	Difference	
	£ per employee		£	Per cent
HMRC Survey of Personal Incomes	36,799	29,764	-7,035	-19
HMRC Real-time information	33,153	27,439	-5,714	-17
ONS Annual Survey of Hours and Earnings	31,449	27,256	-4,192	-13
ONS Labour Force Survey	33,228	29,459	-3,769	-11

Source: HMRC, ONS, OBR

Average amounts of tax paid per pound of income

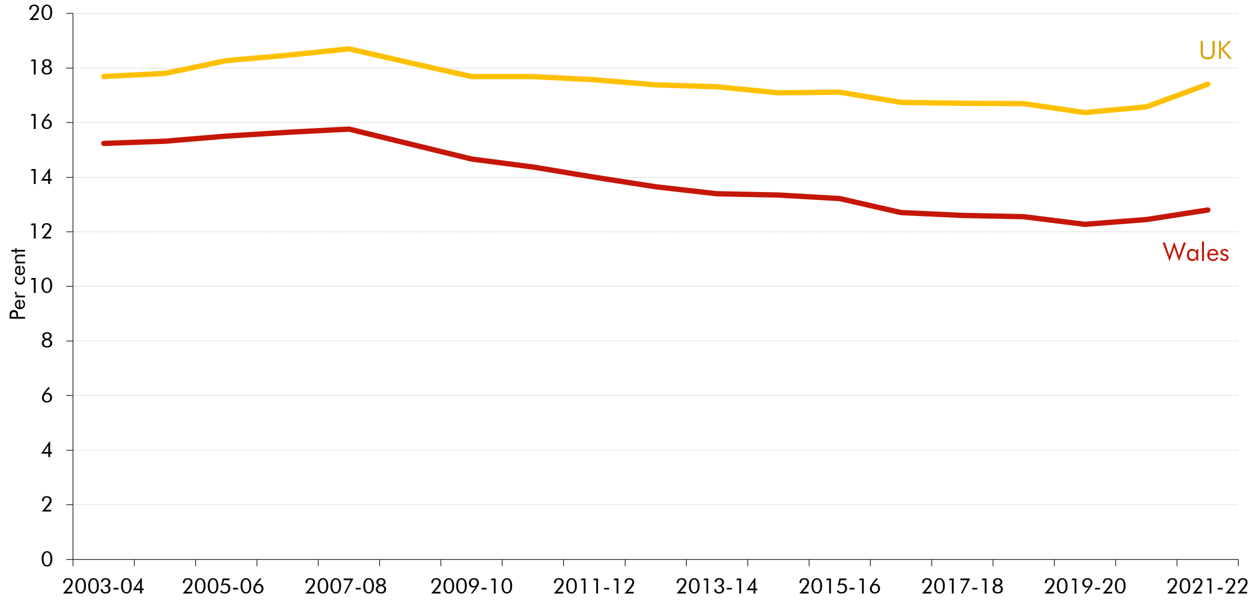
2.23 Even once we have accounted for differences in the number of taxpayers per person and the average income per taxpayer, income tax per person in Wales falls short of that in the UK because less tax is paid per pound of income. This lower effective tax rate explains over 40 per cent of the £1,450 difference in income tax per person between Wales and the UK in 2021-22.

2.24 Chart 2.6 shows that the effective income tax rate in Wales has been considerably lower than that in the UK across the past two decades and that the gap has almost doubled in that time. Since 2007-08, the ETR has fallen by 3.0 percentage points in Wales, compared to a

[10] The difference in the SPI average between Tables 2.1 and 2.2 is because the latter is only averaging across those individuals with employment income, while the former is doing so across all individuals. This explains why the average is lower in Table 2.1, since it includes some individuals, for example pensioners, with no employment income.

1.3 percentage point fall in the UK as a whole. While the ETR rose in both the Wales and the UK as a whole in 2021-22, following the strong bounce-back in receipts following the pandemic-hit 2020-21, it rose more sharply in the UK (by 0.8 percentage points versus 0.3 percentage points in Wales), resulting in a further widening of the ETR differential.

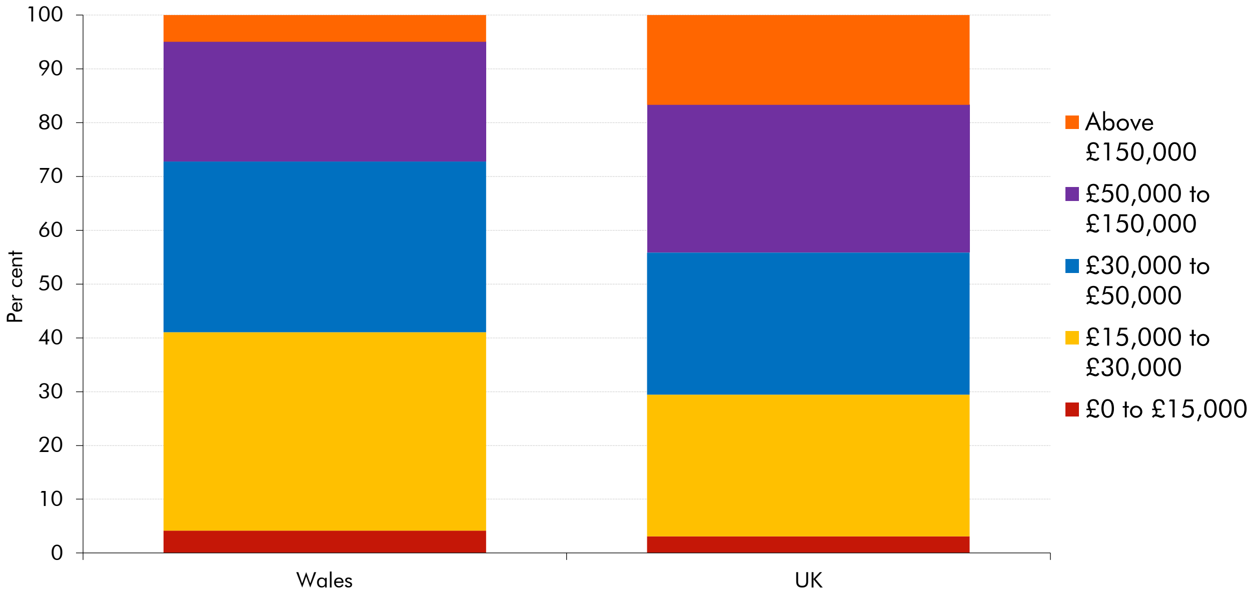
Chart 2.6: Effective income tax rates in Wales and the UK



Note: Data unavailable for 2008-09 so the proportional shares are based on interpolation from the adjacent years.
Source: HMRC, OBR

2.25 In part this reflects the progressive income tax structure interacting with lower average incomes – for example, all else equal there will be a higher share of tax paid at the basic rate in Wales than there is in the UK as a whole. But it also reflects the shape of the income distribution. Chart 2.7 compares total taxpayer income grouped by income bands between Wales and the UK, as recorded in the 2021-22 SPI. It shows that taxpayers earning over £50,000 accounted for 44 per cent of total taxpayer income in the UK, around two-thirds higher than the equivalent share for Wales. This is reflected in the share of total tax paid at each income band, with 70 per cent of total tax paid in the UK coming from those earning over £50,000, compared with 47 per cent in Wales. Fiscal drag has also increased the proportion of taxpayer income from earnings above £50,000, with the share increasing by 3 percentage points in 2021-22 in both Wales and the UK as a whole, with a corresponding fall in the share attributed to lower earnings.

Chart 2.7: Proportion of total taxpayer income in the UK and Wales by income band



Source: HMRC, OBR

The share of Welsh income liabilities subject to the Welsh rates

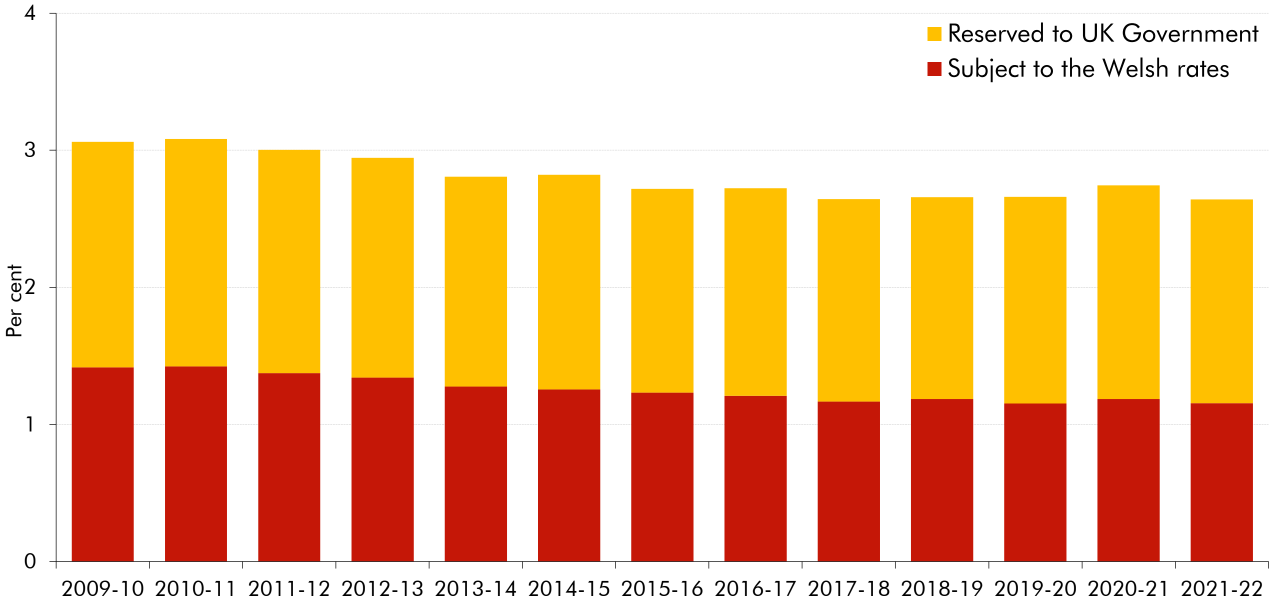
2.26 The final step in estimating the share of UK income tax liabilities that will be subject to the Welsh rates is a mechanical one. We estimate the share of Welsh NSND income that will be taxed in each tax band and then calculate the relevant fraction of it that would be covered by the first 10p – i.e. 50 per cent for income taxed at the basic rate, and so on. Chart 2.8 shows all the income tax collected from Welsh taxpayers as a proportion of total UK income tax (2.6 per cent in 2021-22) and compares it to the amount actually devolved – i.e. the share that would be subject to the Welsh rates (1.2 per cent in 2021-22).[11]

2.27 As described earlier, we use our UK-level macroeconomic forecasts with only a few adjustments to forecast Welsh income tax liabilities. Our central assumption is that the variables that determine tax bases in Wales and the UK move broadly in parallel, with the downside and upside risks around this assumption evenly balanced. This means that we effectively assume that the pre-measures Welsh share remains unchanged over the forecast period, once in-year RTI outturn and any population projections are accounted for. Our working paper last year showed that the factors that lead to differences in tax liabilities in the UK and Wales grew steadily, if only modestly, from 2007-08 until 2015-16. But since then, the Welsh share has remained broadly flat, which supports our approach of assuming that these tax bases broadly move together (and therefore that the Welsh share is unchanged beyond the current forecast year). Further divergence (in line with the pre-2015-16 trend), or a period of convergence, therefore represent downside and upside risks to our forecast, respectively. Our current approach, which focuses on employment income, helps to mitigate much of this risk, since it allows us to calibrate (using timely RTI data – see

[11] Rates were not devolved until 2019-20, so years prior to this are presented for illustrative purposes only.

below) the most significant factor driving both receipts from the Welsh rates and the Wales-UK divergence.[12]

Chart 2.8: Welsh shares of total UK income tax liabilities: all tax from Welsh taxpayers versus the Welsh rates of income tax



Source: HMRC

Forecasting the share of income tax liabilities subject to the Welsh rates

2.28 From these starting points, we adjust our forecast for the overall Welsh share in three ways:

- **RTI earnings**: we extrapolate between 2021-22 and 2024-25 using HMRC's estimate of outturn Welsh income tax liabilities in 2022-23, and RTI data thereafter (which captures PAYE earnings). The latter source provides the Welsh share of total pre-tax employee earnings (i.e. the product of employee numbers and average earnings). In the absence of timely information on other forms of NSND income, such as SA income that falls within NSND, we assume that the RTI earnings data are representative of the total. Applying this approach to date has suggested that it provides a reasonable guide to movements in NSND income shares.

- **Population**: beyond 2024-25, we factor in relative population growth rates to reflect the different projected growth rates based on the most recent ONS population projections, which were released in January 2022. These show the Welsh share of the UK population continuing to decline, which we would expect to reduce the Welsh share of income taxpayers.[13] We adjust for this using an index of the Welsh share of the UK's adult population, with separate indices for the working-age population (those aged 16 to 65) and the pension-age population (those aged 66 and over), weighting both by

[12] The paper does, however, set out several areas for future forecast development work. See Murphy Corkhill, J., M. Hanson, and S. Johal, *OBR Working Paper No.21: Developments in devolved income tax*, October 2023.
[13] See Box A.2 in Annex A of our 2018 *Fiscal sustainability report* for a discussion of the fiscal risks that might be associated with demographic trends in the constituent nations of the UK.

the proportion of NSND income tax paid by each group. This approach captures trends in both the ageing as well as the size of the population. We will consider the case for further refining this in the future.

- We include adjustments for **gift aid and previously announced policies** that have been or will be implemented between the SPI base year (2021-22) and the end of our forecasts, and that are expected to affect the Welsh share, such as the freeze in income tax thresholds to 2027-28.

2.29 Finally, we calculate the share of all Welsh income tax subject to the Welsh rates. For the forecast years this is done via HMRC's 'personal tax model', which is based on outturn SPI data, and follows the same methodology that is used to estimate the share subject to the Welsh rates in outturn.

New policy costings

2.30 Our post-measures forecast is produced by adding the effects of new policies announced since our previous forecast. The introduction of the Welsh rates and the associated terms of the fiscal framework mean that we now need to assess the effect of new policies on each individual band of income tax, rather than simply their overall cost or yield.

2.31 Many of the general sources of uncertainty around policy costings that we routinely highlight are likely to be amplified as we disaggregate costings by geography and tax band. For that reason, we believe a top-down approach is appropriate, making sufficient allowance for asymmetric effects across countries and bands, while not seeking spurious precision.

Latest Forecast

UK income tax forecast

2.32 As set out in Chapter 1, our latest forecast for UK NSND income tax is based on the economy forecast published in our October 2024 *EFO,* while Table 2.3 reports the rates and thresholds that we use. The previous UK Government froze the personal allowance (PA) and higher-rate threshold (HRT) from 2021-22 to 2027-28, meaning that all of the parameters in Table 2.3 are fixed until then. From 2028-29, all thresholds rise in line with CPI inflation, meaning that they increase in the final two years of the forecast.

Table 2.3: UK Government and Welsh Government income tax parameters

	Per cent					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
UK Government tax rates for Welsh taxpayers						
Basic rate	10	10	10	10	10	10
Higher rate	30	30	30	30	30	30
Additional rate	35	35	35	35	35	35
Welsh rates of income tax						
Basic rate	10	10	10	10	10	10
Higher rate	10	10	10	10	10	10
Additional rate	10	10	10	10	10	10
Total income tax rates						
Basic rate	20	20	20	20	20	20
Higher rate	40	40	40	40	40	40
Additional rate	45	45	45	45	45	45
	£					
Tax thresholds (reserved to the UK Government)						
Personal allowance	12,570	12,570	12,570	12,570	12,820	13,080
Higher rate	50,270	50,270	50,270	50,270	51,320	52,380
Additional rate	125,140	125,140	125,140	125,140	125,640	126,160

Note: Shaded cells represent policy baselines assumed for forecasting purposes. We assume that Welsh rates will remain unchanged until the Welsh Government states otherwise.
Source: OBR

2.33 Table 2.4 sets out the forecast for UK NSND income tax liabilities that underpins our Welsh rate of income tax forecast. UK-wide NSND income tax liabilities are forecast to rise by 11.3 per cent from £228 billion in 2022-23 to £253 billion in 2023-24. This is £1.6 billion lower than in our December 2023 *WTO* forecast and £6.7 billion lower than we forecast in our March 2024 *EFO,* largely due to a downwards revision in the pre-measures forecast.

2.34 Receipts are then forecast to grow by £29.2 billion (11.5 per cent) in 2024-25, and by £13.7 billion on average a year (4.5 per cent) thereafter. This is significantly higher than both our December and March forecasts. The increase is driven by stronger near-term growth in PAYE outturn receipts in 2024-25, stronger nominal earnings growth across the forecast, and continued frozen income tax thresholds which generate additional fiscal drag.

2.35 The forecast includes several UK Government policies announced in the Autumn Budget, which together raise £4.8 billion by 2029-30:

- A package that increases **employer National Insurance contributions (NICs)**, mainly via an increase to the rate and a lower secondary threshold; a package of **compliance and tax debt measures**; and a series of changes to the taxation of assets (such as further changes to the non-domicile regime). Together, Budget measures directly raise yield by £2.7 billion in 2025-26, and by amounts rising to £4.5 billion in 2029-30.

- Alongside the direct effects of these tax rises, the significant overall fiscal loosening in this Budget provides a further short-term increase to NSND liabilities via the **indirect**

effects of the overall fiscal package on the economy. The overall impact is partially offset by the indirect effects of the employer NICs changes, which reduce wages and employment. This overall boost to demand raises NSND income tax by £3.7 billion in 2025-26, before declining to £0.4 billion in 2029-30, as the impact of the temporary fiscal stimulus fades.

Table 2.4: Whole UK forecast of tax liabilities on non-savings, non-dividend income

	£ billion							
	Outturn	Forecast						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
December 2023 forecast	226.4	254.8	270.0	281.9	296.0	311.6	325.7	
March 2024 forecast	229.2	259.9	275.8	288.6	302.5	316.5	329.2	
December 2024 forecast	227.6	253.2	282.4	301.9	315.3	327.2	337.9	351.0
Difference from December to December	**1.2**	**-1.6**	**12.4**	**20.0**	**19.2**	**15.6**	**12.2**	
Difference from March to December	**-1.6**	**-6.7**	**6.6**	**13.3**	**12.8**	**10.8**	**8.7**	
of which:								
UK NSND outturn alignment		-1.9	-2.1	-2.3	-2.4	-2.5	-2.5	
Pre-measures forecast		-4.8	6.7	9.1	8.7	7.8	6.4	
UK Government policies			2.1	6.5	6.4	5.4	4.9	4.8
of which:								
Direct effects			0.4	2.7	2.9	3.0	3.5	4.5
Indirect effects			1.7	3.7	3.5	2.4	1.4	0.4

Source: OBR

Share subject to Welsh rates

2.36 Table 2.5 shows our latest forecast for the Welsh share and the change since December and March. 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. On this basis, the Welsh share is down slightly from our December and March forecasts, by 0.02 percentage points each on average. This largely reflects weaker-than-expected Welsh rates outturn data in 2022-23, and then weak in-year RTI outturn first four months of 2024-25 (together with revisions to the ONS-derived population shares).

Table 2.5: Share of pre-measures liabilities subject to the Welsh rates

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
December 2023 forecast	1.16	1.17	1.17	1.18	1.18	1.18	1.18	
March 2024 forecast	1.16	1.17	1.17	1.17	1.17	1.17	1.17	
December 2024 forecast (pre-measures)	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15
Difference from December to December	**0.00**	**-0.01**	**-0.02**	**-0.03**	**-0.03**	**-0.02**	**-0.02**	
Difference from March to December	**-0.01**	**-0.01**	**-0.02**	**-0.02**	**-0.02**	**-0.01**	**-0.01**	
Memo: population index		*100.00*	*99.87*	*99.78*	*99.72*	*99.66*	*99.54*	*99.42*
Change in population index since March		*0.00*	*-0.05*	*-0.05*	*-0.06*	*-0.07*	*-0.07*	
Memo: RTI index (2022-23 = 100)		*100.20*	*99.68*	*99.68*	*99.68*	*99.68*	*99.68*	*99.68*
Change in RTI index since March		*-0.24*	*-0.76*	*-0.76*	*-0.76*	*-0.76*	*-0.76*	
Memo: combined index		*100.2*	*99.6*	*99.5*	*99.4*	*99.3*	*99.2*	*99.1*

Source: OBR

Latest forecast for the Welsh rates of income tax

2.37 Table 2.6 sets out our latest forecast for the Welsh rates of income tax and a breakdown of the changes since December and March, while Table 2.7 shows the forecast by tax band. Relative to December, we have revised down the forecast by £48 million in 2023-24, reflecting the downward revisions to UK NSND liabilities. But we have revised up the forecast in all years from 2024-25 onwards, by an average of £113 million (3.3 per cent), with the difference peaking at £148 million in 2026-27. These upward revisions largely reflect the combined impact of changes to our UK NSND forecast (larger driven by strong earnings growth) and the impact of UK Government Budget measures.

2.38 Relative to March, the forecast is up by an average of £70 million (2.0 per cent). These changes also largely reflect upward revisions to our UK-wide forecast, which increase the forecast by £63 million on average a year and account for 90 per cent of the revisions since March. UK Government Budget policies (described above) also contribute £64 million on average a year. Revisions to the Welsh share partially offset these increases. Differences between our December 2023 and March 2024 forecasts explain the remainder of the difference between our current and December 2023 *WTO* forecasts. Changes in March largely reflected higher-than-expected UK NSND outturn data as a result of the identification of additional PAYE receipts discovered in outturn by HMRC.

Table 2.6: Welsh rates of income tax forecast

	£ million							
	Outturn	Forecast						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
December 2023 forecast	2,616	2,972	3,171	3,322	3,487	3,668	3,827	
March 2024 forecast	2,649	3,032	3,233	3,377	3,534	3,700	3,845	
December 2024 forecast	2,618	2,924	3,257	3,462	3,635	3,782	3,903	4,060
Difference from December to December	**2**	**-48**	**86**	**140**	**148**	**114**	**76**	
Difference from March to December	**-31**	**-109**	**24**	**85**	**101**	**81**	**58**	
of which:								
Welsh share modelling		-31	-52	-54	-48	-46	-46	
UK NSND outturn alignment		-22	-25	-26	-27	-28	-29	
UK NSND forecast changes		-56	78	106	102	91	74	
UK Government policies			23	58	74	64	59	68
of which:								
Asset tax rises			2	8	23	28	34	51
HMRC anti-avoidance and compliance			1	6	7	7	7	8
Other direct effects			0	1	4	2	2	5
Indirect effects			20	43	40	27	16	4

Source: OBR

Table 2.7: Welsh rates forecast of tax liabilities on NSND income by tax band

	£ million							
	Outturn	Forecast						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
December forecast	**2,618**	**2,924**	**3,257**	**3,462**	**3,635**	**3,782**	**3,903**	**4,060**
of which:								
Basic rate	2,225	2,464	2,726	2,881	3,010	3,118	3,219	3,348
Higher rate	333	371	430	471	505	537	550	569
Additional rate	61	89	101	111	120	126	134	143
	Per cent							
Basic rate	85.0	84.3	83.7	83.2	82.8	82.5	82.5	82.5
Higher rate	12.7	12.7	13.2	13.6	13.9	14.2	14.1	14.0
Additional rate	2.3	3.0	3.1	3.2	3.3	3.3	3.4	3.5

Source: OBR

Key Uncertainties

2.39 There are several sources of uncertainty around our forecast for income tax liabilities subject to the Welsh rates, some of which we outline earlier in the chapter. We summarise some of the most important remaining ones here.

Employment and inactivity

2.40 In the immediate aftermath of the pandemic, the number of working-age people classed as inactive in the UK jumped by almost 690,000 at its peak, and has risen since to 840,000 above pre-pandemic levels. This was primarily driven by individuals citing long-term sickness as their principal reason for remaining out of the labour market.[14] We explored the long-term fiscal impacts of the health of the working-age population in our latest *Fiscal risks and sustainability* report, which showed that tax revenues could reduce by 0.6 per cent of GDP under a 'worse health' scenario in the longer term.[15] Inactivity in Wales has historically been relatively high and, as with the UK as a whole, rose sharply in the post-pandemic period. If inactivity deviates from our central forecast, then it poses a downside risk to our forecast and any future impacts could have disproportionate impacts on Wales.

Growth of productivity and average earnings

2.41 Our UK-wide and Welsh income tax forecasts are sensitive to the assumptions we make about growth in labour productivity, which is the key determinant of real earnings growth. In our October 2024 *EFO* we forecast annual average productivity growth of around 1 per cent over the next five years. While this is higher than the ⅔ per cent growth rate in the decade following the financial crisis, it is well below the 2¼ per cent rate seen in the decade preceding the crisis. In our November 2023 *EFO* we estimated that ½ a per cent higher of lower growth in productivity would reduce or raise UK Government borrowing by around £40 billion in 2029-30. This remains our most important and uncertain forecast judgement. Factors that will affect productivity growth include developments in international trade, domestic supply-side reform, and global technological progress.

The Survey of Personal Incomes base data

2.42 The representativeness of the geographical and income distributions reported in the SPI base data is important for our forecasts. The SPI is designed to be representative at the UK level, but the sample is not stratified by geography (i.e. smaller sample sizes in each geographical area mean it is likely to be less representative at those levels than it is at the UK level). In the latest version, the confidence interval around the SPI estimate of tax liabilities at the UK level was just 0.4 per cent, but for Wales it was a more material 3.5 per cent. Sampling variation – in particular due to the small number of observations of high-income taxpayers in Wales – is therefore one key source of risk to the forecast. We have the outturn data for Welsh income tax liabilities and so can calibrate forecasts to the outturn share. However, uncertainties around the input data for our Welsh rates forecast remain a risk.

[14] See Chapter 2 of our 2023 *Fiscal risks and sustainability report*.
[15] See Chapter 3 of our 2024 *Fiscal risks and sustainability report*.

Box 2.1: Evaluating our forecasts for the Welsh rates of income tax for 2022-23

HMRC published 2022-23 outturn data for the Welsh rates in July 2024. Assessing the performance of our forecasts is important for transparency and accountability, while also helping us to understand and identify ways to improve them. We will publish a detailed assessment in our 2024 *WTO* update accompanying the final Budget next year. Ahead of this we present a preliminary discussion in this Box. Table A presents the outturn data alongside our six forecasts of 2022-23, for both the Welsh rates and the pre-measures Welsh share of UK NSND income tax.

Table A: Successive forecasts for Welsh rates of income tax and the share of pre-measures liabilities subject to the Welsh rate (2022-23)

		Forecast					
	Outturn	Dec 2021	Mar 2022	Dec 2022	Mar 2023	Dec 2023	Mar 2024
Welsh rates (£ million)	2,618	2,478	2,645	2,604	2,642	2,616	2,649
Difference from outturn (£ million)		-140	27	-14	24	-2	31
Welsh share (per cent)	1.15	1.16	1.17	1.17	1.17	1.16	1.16
Difference from outturn (per cent)		0.01	0.02	0.02	0.02	0.01	0.01

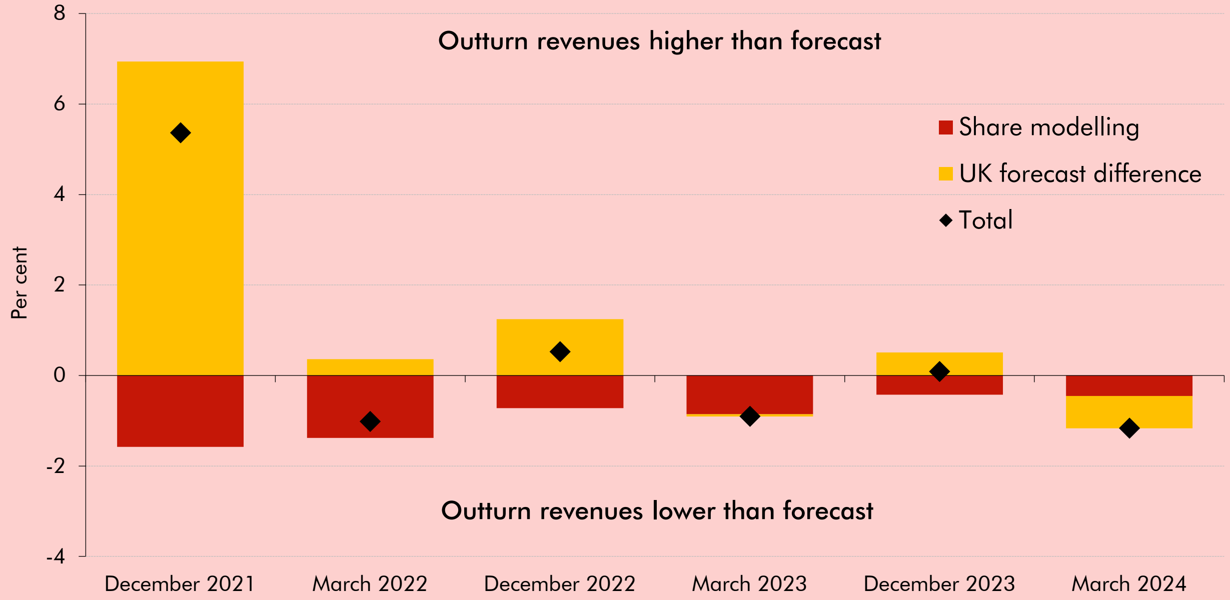
Source: HMRC, OBR

Chart A breaks down the overall differences between the same six forecasts and the outturn for 2022-23 into those relating to the UK NSND forecast and those resulting from our estimate of the share of the total subject to the Welsh rates. At a high level, it shows that we underestimated the Welsh share on every occasion, whereas we overestimated the UK NSND forecast four out of six times. This is in contrast to our 2021-22 forecasts, where the reverse was true. On a forecast-by-forecast basis:

- **In December 2021, we underestimated receipts by 5.4 per cent**. This large difference is driven by the unprecedented uncertainty in the aftermath of the Covid pandemic. The underestimate is more than explained by the UK NSND forecast, with UK-wide receipts recovering more strongly than we anticipated in December 2021, in part due to the strength seen in nominal earnings wage growth amid the high inflation seen from late 2021 onwards, amplified by the outbreak of the war in Ukraine. This is slightly offset by our overestimation of the Welsh share.

- In the **five forecasts thereafter, the average absolute forecast error has been much lower at 0.7 per cent**. The March 2022 forecast error was 1.0 and declined to 0.1 per cent in December 2023. The forecast error in March 2024 was 1.2 per cent, due to an underestimate of UK-wide liabilities and of Welsh liabilities. We underestimated receipts in three of these forecasts, and overestimated receipts in two, resulting in an overall error of 0.5 per cent, excluding our December 2021 forecast, showing that our forecasts are not biased in any one direction.

Chart A: Successive forecast differences for Welsh rates of income tax (2022-23)



Source: HMRC, OBR

The post-December 2021 performance of our forecast does not suggest that there is a bias or persistent source of error in our forecast of Welsh rates of income tax. Nevertheless, we will continue to look for ways to improve the forecast. For example, since we began forecasting the Welsh rates of income tax, we have refined our 'population' index by splitting this into working-age and pension-age populations. We will continue to seek additional gains from the use of RTI data, particularly at a more disaggregated level, further decompose our analysis of employment income by sector, age and qualification, and consider whether the UK Government's successive above-inflation increases in the personal allowance during the 2010s (and the subsequent freezes in all thresholds) disproportionately impacted Wales.

3 Land transaction tax

Introduction

3.1 This chapter:

- describes the **introduction of land transaction tax (LTT)** in Wales and compares it to the stamp duty land tax (SDLT) regime in operation in England and Northern Ireland;
- outlines our **methodology for forecasting LTT** and explores trends in **property prices and transactions** in Wales that drive growth in the LTT tax base;
- presents our **latest forecasts** and explains how they have changed over the last year; and
- discusses some of the key **risks and uncertainties** around these forecasts.

Land transaction tax

3.2 Land transaction tax (LTT) replaced stamp duty land tax (SDLT) in Wales from April 2018.[1] It is an *ad valorem* transaction tax levied on the transfer of a property. LTT has many of the same features as SDLT including different treatment for residential and commercial properties, a tax-free threshold, and a surcharge on the purchase of additional residential property properties. But there are some notable differences: LTT has different rates and thresholds; it does not include a relief for first-time buyers; and it is collected by the Welsh Revenue Authority (WRA) rather than by HMRC.

Forecast methodology

3.3 The methodology for generating our LTT forecasts involves three steps.[2] These are:

- First, we produce an **in-year receipts estimate** that uses monthly receipts outturn data from the WRA as its starting point. Typically, we gross up the year-to-date receipts by assuming the remainder of the year follows a similar path to previous years, augmented as necessary by information about the short-term outlook for the property market and economy.

[1] Both taxes are broadly based on the historical 'stamp duty', one of the oldest forms of taxation having been originally introduced on a range of products in 1694. The original duty required legal documents associated with a transaction to be authenticated by means of a physical 'stamp'. Stamp duty was replaced with SDLT in December 2003.
[2] For more detail on our forecast methodology see Chapter 3 of our December 2019 *Welsh taxes outlook* and the 'Welsh taxes outlook' page of our website.

- Next, we generate our medium-term **pre-measures forecast** using four separate models – one each for residential main rates, the additional properties surcharge, commercial sales, and commercial leases.[3] The models aggregate transactions within relatively small segments of the property market, calculating the tax due on the average price in each segment, and then projecting that forward in line with our forecasts for prices and transactions.[4]

- Finally, we add estimates of the effects of any **new policy measures** to produce our post-measures forecasts.

Property market determinants of the forecast

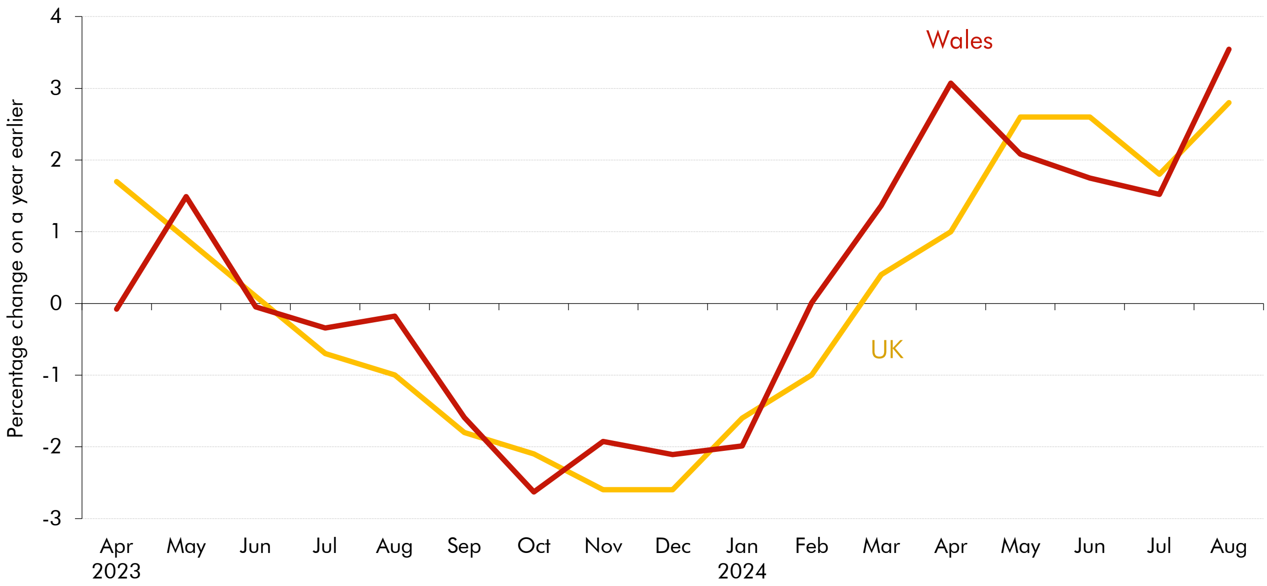
3.4 By far the most important driver of our forecast for LTT receipts over the medium term is our forecast for growth in the value of property transactions, which in turn reflects assumptions about prospects for property prices and the volume of transactions. Activity in both the Welsh and UK-wide property markets has rebounded over the first half of 2024, with both prices and transactions proving more resilient than we previously expected.

Property prices

3.5 Chart 3.1 shows that annual **house price growth** reached a low of -2.6 per cent in October and November 2023 in Wales and the UK respectively, with demand affected by higher interest rates. However, since early 2024 house prices have been steadily increasing in both Wales and the UK, with price growth in both Wales and the UK hovering around 3 per cent in recent months. The housing market has shown more resilience than expected which is consistent with stronger GDP growth than expected in the first half of 2024.

[3] These models are operated on our behalf by analysts in the Welsh Government, but the underlying forecast assumptions and judgements are those of the OBR's Budget Responsibility Committee.
[4] The methodology for forecasting these is set out in the 'In-depth' pages of our website.

Chart 3.1: House price growth: Wales versus the UK as a whole



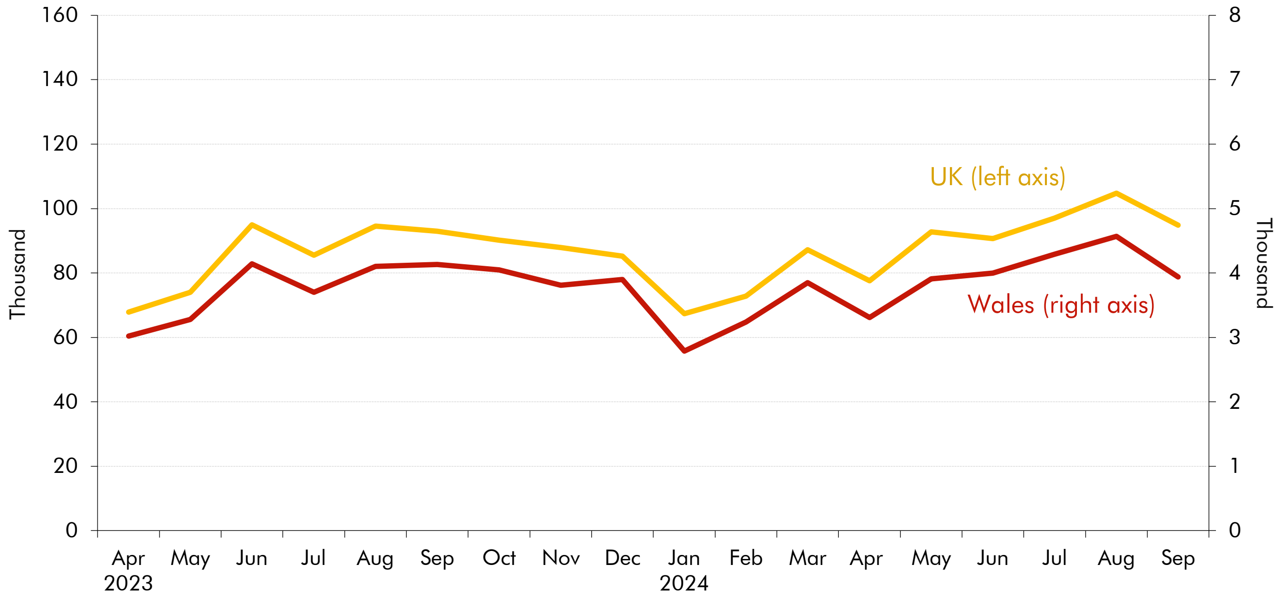
Source: ONS

3.6 **Commercial property prices** (as measured by the average price of transactions recorded by the respective tax authorities) in Wales increased by 45.5 per cent in the first half of 2024-25, relative to 2023-24, following a fall of 22.4 per cent in the corresponding period in 2023-24. In contrast, prices fell by 9.1 in the UK over the equivalent period in 2024-25. Commercial property prices are typically much more volatile than residential prices as they can be affected by individual large transactions. Welsh commercial prices are based on under 2,000 transactions each quarter, so they can be particularly influenced by single large transactions.

Property transactions

3.7 Monthly **residential property transactions** in Wales and the UK as a whole have followed a broadly similar path over the past 18 months (Chart 3.2). In both cases transactions in the first six months of 2024-25 have been higher than the equivalent period in 2023-24. Transactions in Wales in the year to date are 7.4 per cent higher, while the equivalent rise in the UK is 9.4 per cent. This follows falls of 17.8 for the whole of 2023-24 relative to 2022-23, in both Wales and the UK.

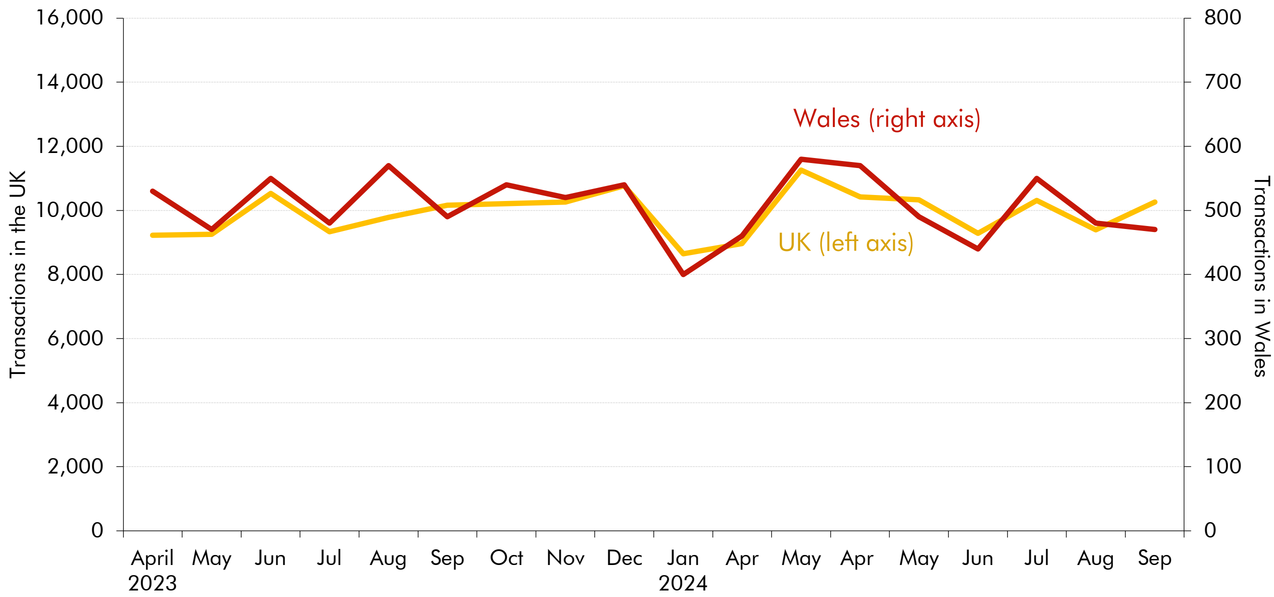
Chart 3.2: Residential property transactions



Source: HMRC, WRA

3.8 **Commercial property transactions** in Wales have largely mirrored those in the UK as a whole for much of 2023-24 and 2024-25 (Chart 3.3). However, there has been a slight divergence recently with year-to-date transactions down 2.9 per cent in Wales but up 3.0 per cent in the UK as a whole, compared to the same period in 2023-24.

Chart 3.3: Commercial property transactions



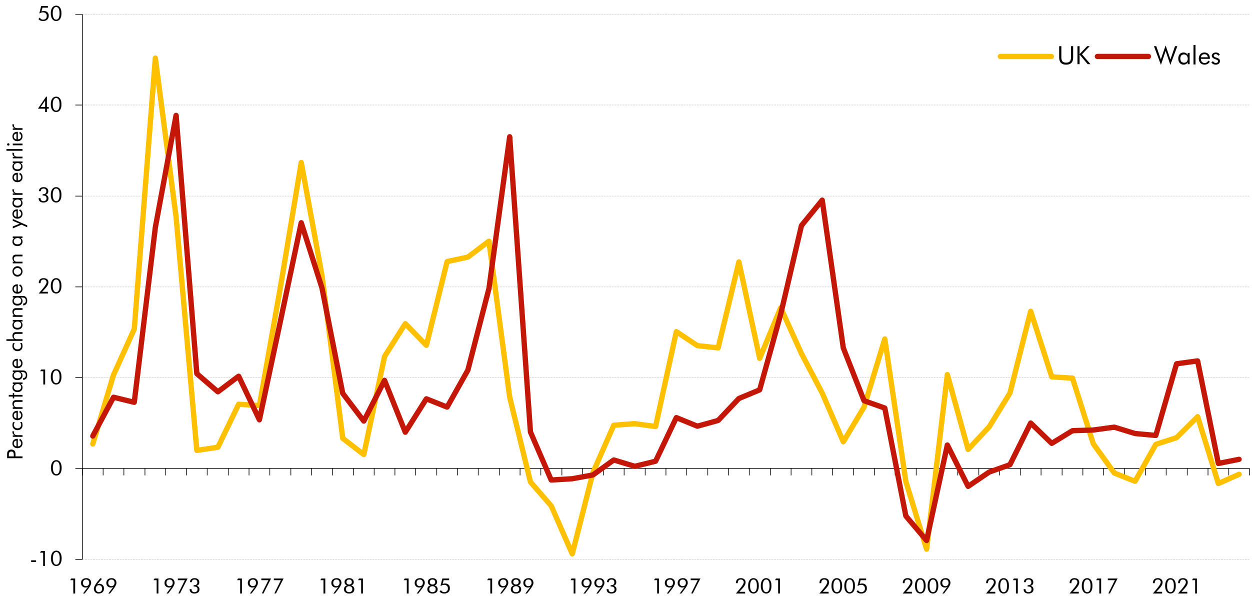
Source: HMRC, WRA

Forecasts for property market determinants

3.9 Our forecasts for property transaction taxes are underpinned by our UK-wide property market forecasts. We assume Welsh prices and transactions move in line with those for the UK as a whole, unless there are clearly reasons to depart from that. In practice, any assumed divergence typically uses different Welsh house price assumptions in the near term before assuming convergence from the second or third year of the forecast. Chart 3.4 shows that, historically, house prices in Wales have followed a similar path to those in the UK as a whole, with relatively few periods of short-term divergence.

3.10 In this forecast we assume house prices and transactions in UK and Wales move together across the forecast period. This is consistent with the historical pattern discussed above and with recent outturn data showing that developments in Wales during the first half of 2024-25 have been similar to those in the UK (Chart 3.1 and Chart 3.2).

Chart 3.4: Historical trends in house prices



Source: Land Registry

3.11 We have revised up our UK and Welsh house price forecasts in 2024-25 since our February forecast, due to the stronger-than-expected outturn data. Rather than fall slightly, as we expected in February, prices are now expected to rise by 2.5 per cent on last year. Thereafter price growth is assumed to be just slightly below the previous forecast. This means average house prices are higher than February throughout the forecast, due to their recent strength. Residential transactions have also been revised up significantly in 2024-25 relative to February, reflecting the same strength in outturn. In the medium term, annual growth is revised down as we expect fewer net additions to the housing stock, which reduces supply.

3.12 We assume that commercial prices fall slightly in 2024-25 and grow modestly thereafter, with small near-term upward revisions relative to our February forecast. Because the strength seen in the year-to-date commercial prices in Wales has been influenced by a single large transaction (explained in paragraph 3.6), we have assumed that this strength does not persist through the forecast period. Annual growth in commercial transactions has been revised down by around 4.0 percentage points in the next two years, leading to a steadier path across the forecast.

Table 3.1: Forecasts for Welsh property prices and transactions

	Percentage change on previous year						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Residental property prices	-0.8	2.5	1.1	2.4	2.9	3.0	3.0
Residental property transactions	-17.1	11.7	5.7	6.2	6.0	4.1	2.7
Commercial property prices	-9.2	-0.5	3.3	1.8	1.8	1.9	2.0
Commercial property transactions	-3.2	1.3	1.5	1.9	1.8	1.7	1.7
	Change since February forecast						
Residental property prices		7.4	0.0	-1.2	-0.8	-0.8	
Residental property transactions		15.1	-2.7	-5.0	-5.3	-5.2	
Commercial property prices		0.8	1.7	0.2	0.0	0.0	
Commercial property transactions		2.6	-4.6	-3.5	-0.1	-0.1	

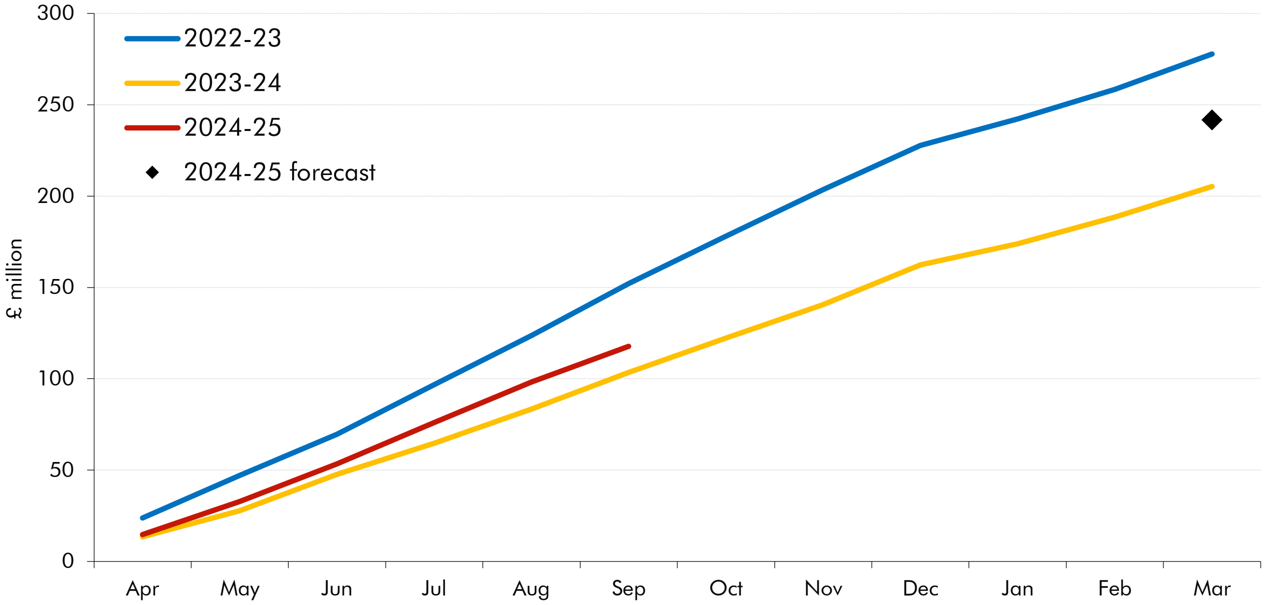
Source: OBR

Trends in LTT receipts

Residential property receipts

3.13 Chart 3.5 shows that residential LTT receipts (net of refunds) in the first six months of 2024-25 are up £14.3 million (13.8 per cent) on 2023-24 but down £34.4 million (22.6 per cent) on 2022-23. We expect this strength to continue in the second half of the year, with total receipts in 2024-25 forecast to be £35.5 million (17.3 per cent) above 2023-24 outturns.

Chart 3.5: Cumulative residential LTT receipts

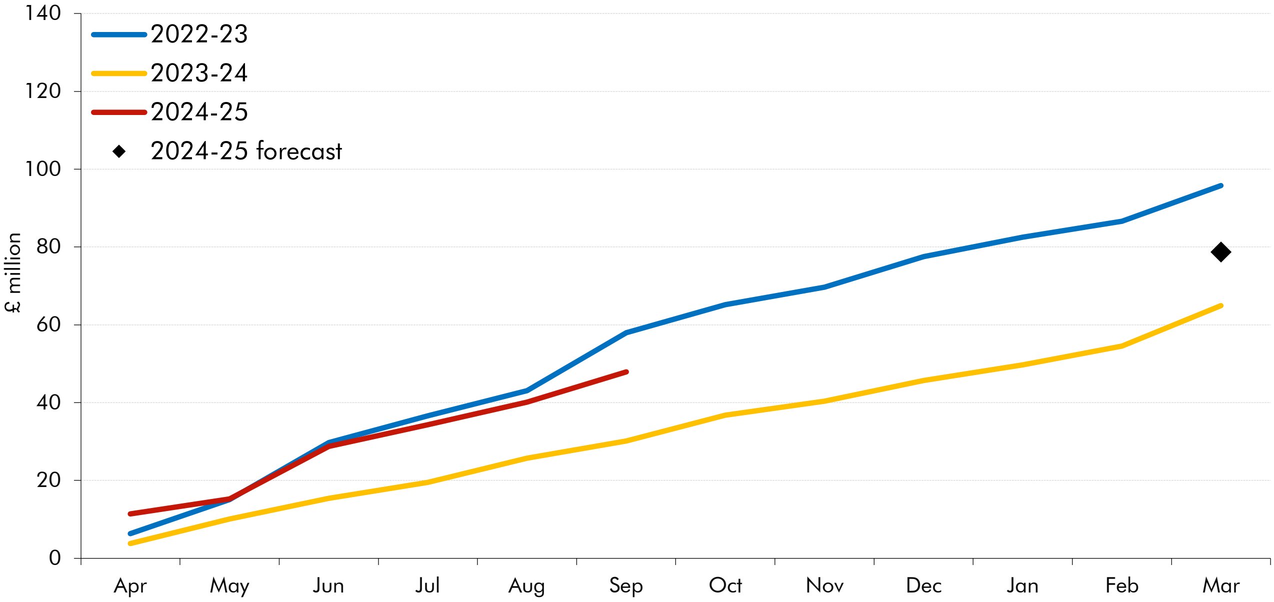


Source: WRA, OBR

Commercial property receipts

3.14 Chart 3.6 shows that year-to-date commercial receipts are down £10.1 million (17.4 per cent) on 2022-23, but are significantly up by £17.8 million (59.1 per cent) on 2023-24. As this strength is in large part driven by the single large transaction outlined in paragraph 3.6, we expect revenues to slow slightly in the remaining months of the year, ending up overall £13.8 million (21.3 per cent) lower than in 2023-24.

Chart 3.6: Cumulative commercial LTT receipts



Source: WRA, OBR

Latest LTT forecasts

3.15 Table 3.2 sets out our latest forecast for LTT and its components. Relative to February, receipts have been revised up in every year of the forecast and by an average of £51 million (16 per cent). We forecast receipts to grow by £211 million across the whole forecast period, largely driven by residential receipts.

Table 3.2: LTT forecast

	£ million						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Total LTT							
February forecast	270	244	271	317	367	429	
December forecast	270	319	338	371	410	446	481
Difference		76	66	55	44	17	
Residential (excluding additional properties)							
February forecast	140	120	134	163	197	234	
December forecast	140	167	179	202	230	256	281
Difference		47	45	40	33	21	
Additional properties							
February forecast	62	58	66	78	90	112	
December forecast	62	74	90	98	106	113	119
Difference		16	24	20	16	0	
Commercial							
February forecast	67	65	71	76	79	83	
December forecast	67	79	68	71	74	77	81
Difference		13	-3	-5	-5	-5	

Source: OBR

Residential LTT forecast

3.16 Table 3.3 sets out the revisions to our residential LTT forecasts since February. Residential main rates have been revised up in every year of the forecast, by an average of £37 million a year (22 per cent). This is mainly driven by improvements to our residential prices and transactions forecasts, reflecting a more positive outlook for the housing market compared to our February forecast.

3.17 Table 3.4 presents the changes to our additional rates forecast, which has also been revised up relative to February until 2027-28, by an average of £19 million a year (26 per cent), before returning to a similar position as in our February forecast in 2028-29. This is initially largely driven by increases to our prices and transactions forecast, before this effect diminishes.

3.18 The Welsh Government has also announced a 1 percentage point increase to the residential higher-rate bands, with effect from 11 December 2024. This increases the additional rates forecast by £11 million on average a year from 2025-26 onwards.[5] The static increase in receipts resulting from this change is partly offset by changes in prices and transactions. Only the flat 5 per cent higher rate, i.e. the 'surcharge' paid on all transactions on additional dwellings, is included in our additional rates forecast, with the portion of LTT on additional dwellings transactions that simply mimics the regime for primary residences reflected in our main rates forecast. This means that the reduction in transactions as a result of the policy change is expected to reduce main rates receipts by an average of £3 million a year.

Table 3.3: Residential main rates LTT forecast

	£ million						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
February forecast	140	120	134	163	197	234	
December forecast	140	167	179	202	230	256	281
Difference		**47**	**45**	**40**	**33**	**21**	
of which:							
Price changes		26	29	29	31	31	
Transaction changes		22	20	14	6	-6	
Outturn data and modelling		0	0	0	-1	-1	
Policy changes		-1	-4	-3	-3	-3	

Source: OBR

Table 3.4: Residential additional rates LTT forecast

	£ million						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
February forecast	62	58	66	78	90	112	
December forecast	62	74	90	98	106	113	119
Difference		**16**	**24**	**20**	**16**	**0**	
of which:							
Price changes		5	5	5	5	5	
Transaction changes		11	9	5	1	-3	
Outturn data and modelling		-4	-4	-5	-6	-17	
Policy changes		4	14	15	16	16	

Source: OBR

Commercial LTT forecast

3.19 Table 3.5 shows changes to our commercial LTT forecast relative to February. Receipts have been revised up by £13 million (20 per cent) in 2024-25 but then revised down thereafter by an average of £4 million a year (6 per cent). Receipts in 2024-25 have been revised up due to stronger than expected outturn in recent months, partly due to one large transaction. We assume this is a one-off and we therefore do not push this strength through the forecast.

[5] Changes to multiple dwellings relief and additional LTT compliance activity explain the remainder of the 'policy changes' line within the additional rates forecast. We describe these in more detail in paragraph 1.6.

Table 3.5: Commercial LTT forecast

	£ million						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
February forecast	67	65	71	76	79	83	
December forecast	67	79	68	71	74	77	81
Difference		**13**	**-3**	**-5**	**-5**	**-5**	
of which:							
Price changes		1	2	3	3	3	
Transaction changes		2	-1	-4	-4	-4	
Outturn data and modelling		11	-4	-4	-4	-4	
Policy changes		0	0	0	0	0	

Source: OBR

Risks and uncertainties

3.20 In this section we summarise some key uncertainties around our central LTT forecast. These are again dominated by the risks to property prices and transactions given the outlook for interest rates and the uncertain path for CPI inflation. The risks are evenly balanced. On the downside, there is the risk that nominal earnings and inflation continue to be more persistent than expected, leading to higher interest rates. But it is also possible that interest rates will fall more quickly than expected, for example if economic growth does not recover as we expect. It is also the case that house prices could continue to show more resilience to higher interest rates than we anticipated in recent forecasts.

3.21 The commercial property market is generally sensitive to the overall economic outlook, but there are also uncertainties from potential changes in the composition of economic activity, such as greater prevalence of working from home or further growth in online retailing.

3.22 In this forecast we have not assumed any divergence in house prices or transactions between Wales and the UK as a whole, and so this remains a source of uncertainty, although the paths of both have been relatively similar in the UK and Wales in recent months.

3.23 Other risks relating to our LTT forecasts include:

- **Mapping property market determinants to the true tax base**. It is challenging to map from the whole property market to only those transactions that will be subject to LTT. Only a very small minority of all potential taxpayers will pay LTT in any given year, which differs from many other taxable activities, where taxpayers incur a liability year after year. There are around 1.4 million dwellings in Wales, but there were only around 44,000 residential transactions in 2023-24, and of these only a portion will be liable for LTT as main rate transactions below £225,000 are exempt from tax. Any changes in the composition of transactions relative to composition in recent outturn data will generate forecast errors.

- **Tax base concentration.** LTT has a progressive tax schedule: a £250,000 residential transaction will pay £1,500 in tax, whereas a transaction for four times this price (£1,000,000) pays over forty times more tax (£61,750). In 2023-24 around half of residential revenue came from the top 10 per cent of transactions. Our LTT forecast is also sensitive to a small number of high-value commercial property transactions. This is true historically and helps to explain past errors, both in the in-year position and the medium-term forecast.

- **Frequent policy changes**. The property transaction tax regime has been subject to repeated policy changes. These changes, especially when they are pre-announced, add uncertainty to our forecasts in respect of how taxpayers will respond to the new tax incentives they face. This applied to the temporary raising of both the LTT and SDLT thresholds at the height of the pandemic.

- **Forestalling**. Where rises in property taxes are pre-announced it allows for purchases to be brought forward in order to be taxed at the existing lower rate – this is known as 'forestalling'. The reverse if also true if tax cuts are pre-announced, with buyers incentivised to defer transactions to benefit from the lower rate. While it is a regularly observed phenomenon, it is difficult to gauge the precise size of the behavioural response and the number of affected transactions, though we do use evidence from past episodes to guide us.[6]

- **Future LTT policy changes**. Our forecasts only include the effects of current stated policies, and not policy intentions or ambitions that are under consideration (reflecting the requirements placed on us by the UK Parliament when establishing the OBR). The Welsh Government has announced a public consultation on extending the refund period for the additional rates in exceptional circumstances, such as when there is unsafe cladding[7] which would be likely to reduce receipts.[8] We will include its effect, and those of other policy ambitions, when the policy is sufficiently firm and costed.[9]

[6] For more detailed information on this see Mathews, P., *OBR Working Paper No.10: Forestalling ahead of property tax changes*, October 2016.
[7] Written Statement by the Minister for Finance and Local Government, *Land Transaction Tax higher residential rates refund period extension where exceptional circumstances apply*, 16 November 2021.
[8] In July 2022, the Welsh Government published a ministerial statement and consultation response document exploring options for local variation in LTT rates on second homes and are continuing consultation preparations for the introduction of this policy (Written Statement by the Minister for Finance and Local Government, *A summary of the responses to the consultation on second homes and land transaction tax,* 15 July 2022).
[9] Another policy ambition is the December 2022 announcement on the intention to extend the Help to Buy Wales scheme until March 2025 (Written Statement by the Minister for Climate Change, *The future of Help to Buy Wales from April 2023*, 14 December 2022).

4 Landfill disposals tax

Introduction

4.1 This chapter:

- describes the **landfill disposals tax** levied in Wales;
- sets out our **methodology** for forecasting receipts; and
- presents our **latest forecast** and some **key uncertainties** around it.

Landfill disposals tax

4.2 Landfill tax was introduced in the UK in 1996. It applies to all waste disposed of by way of landfill at a licensed site unless the waste is specifically exempt. In Wales it was replaced with landfill disposals tax (LDT) from April 2018. The Welsh Government has said that LDT is designed to "*promote positive environmental behaviours through greater prevention of waste to landfill sites and to encourage the reuse, recycling and recovery of waste*".[1]

4.3 LDT is charged per tonne of waste disposed of at a landfill site. It is payable by landfill site operators, who are expected to pass the costs onto those making the disposals. A small number of disposals are exempt from LDT, while some reliefs and discounts are also available. The tax is collected by the Welsh Revenue Authority (WRA). The Welsh Government has kept the rates consistent with those in the rest of the UK since LDT was introduced.

4.4 Our forecast is driven by the amount of waste sent to landfill and the effective tax rate that will be paid. The latter largely depends on policy decisions on rates, but also on the composition of waste sent to landfill as there are three different rates – a 'standard rate', a 'lower rate' and an 'unauthorised disposals rate'. In 2023-24 revenue from standard rate waste accounted for 94 per cent of total revenue from LDT.

Forecast methodology

4.5 The LDT forecast uses a bottom-up model operated on our behalf by analysts in the Welsh Government. The assumptions and judgements that are fed into it are those of the Budget Responsibility Committee. The forecast methodology is straightforward – the main steps are:

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

[1] Welsh Government, *Landfill Disposals Tax (Wales) Bill 2016: Impact Assessments*.

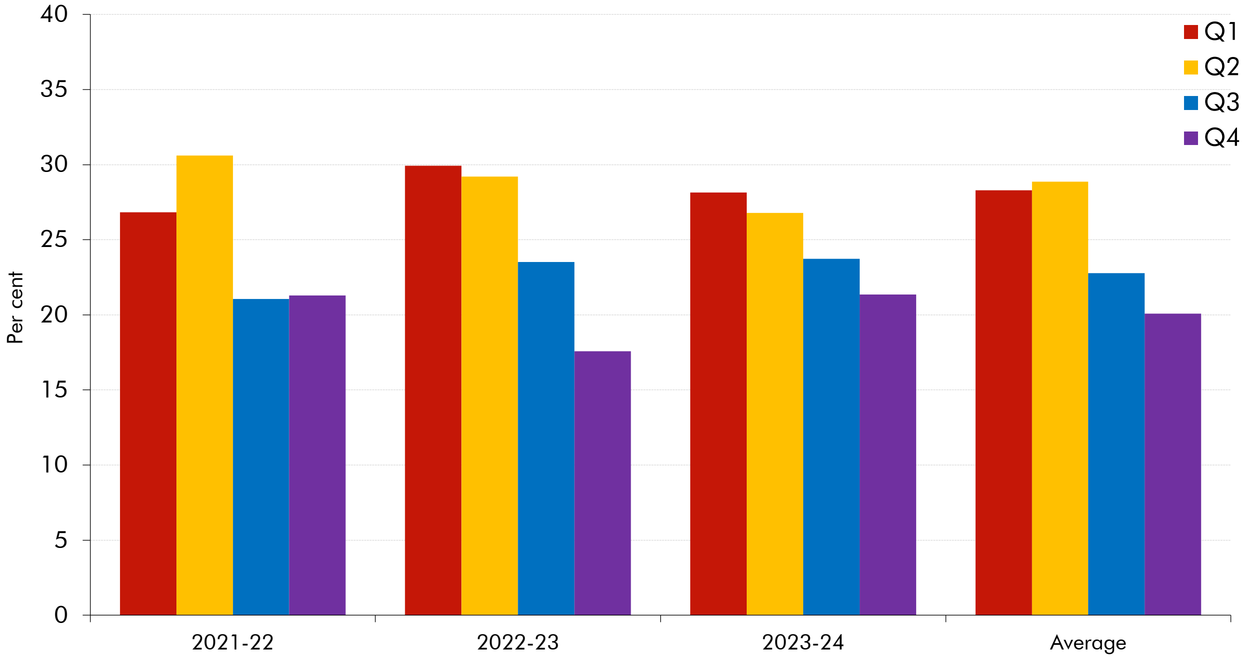
- from the base provided by this current year estimate, produce a medium-term **pre-measures forecast** by using the LDT forecast model to multiply the amount of liable waste forecast to be sent to landfill (the tax base) by the relevant duty rate; and
- generating a **post-measures forecast** by adding the effects of any new policy measures.

Establishing an in-year estimate

4.6 Most LDT returns are received by the WRA at the end of April, July, October and January (returns must be sent by the last working day of the month following the end of the accounting period). The WRA uses this information to publish LDT receipts outturn data on a quarterly basis.[2]

4.7 Our in-year forecast in this *WTO* is based on outturn data from the first half of 2024-25. Chart 4.1 shows the quarterly split of annual LDT receipts from 2020-21 onwards, which shows a degree of seasonality in the amount of waste that is disposed of at landfill sites. Typically, the highest share of receipts come in the first and second quarters of the year. The exception to this in recent years was the lockdown-affected first quarter in 2020-21. Since 2021-22, the average share of full revenues received in the first half of the fiscal year has been 57 per cent.

Chart 4.1: Percentage of annual landfill taxes receipts from each quarter



Source: Welsh Revenue Authority
Correction on 8 January 2024: In the original version of the published Welsh taxes outlook had the incorrect data in the Q1 and Q2 average bars. We have made this correction to the chart above.

[2] Most landfill site operators have a calendar year annual accounting period. A smaller number of site operators use different accounting periods, which means that monthly data releases could be disclosive. We do not draw on the WRA's unpublished monthly administrative data when preparing our in-year estimates.

The pre-measures forecast

Tax base: the volume of waste sent to landfill

4.8 The volume of waste sent to landfill in future years is forecast by calibrating data from Natural Resources Wales (NRW) with the outturn data from the WRA. Our model sorts these data by 'European waste catalogue' code into tonnages liable to the standard and lower rates of LDT. This allows us to remove waste that is exempt from LDT. The LDT-liable tonnages are then projected forward using information on local authority waste management plans, waste infrastructure developments, and an assumption about the future path of other waste.

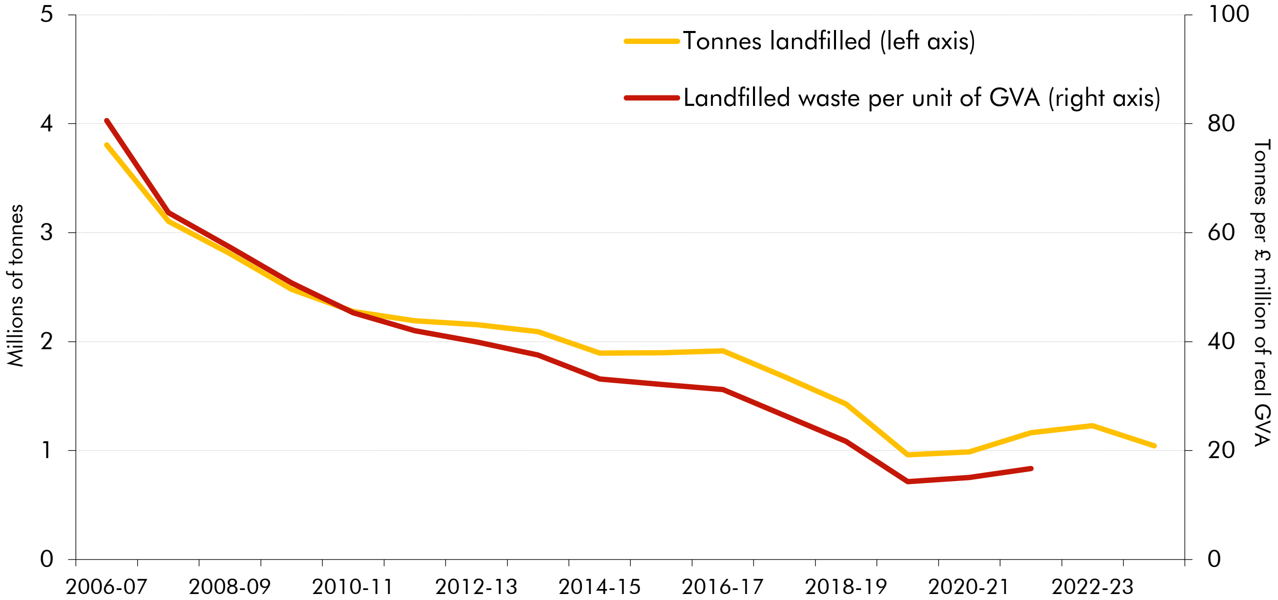
4.9 There are several alternatives to sending waste to landfill sites, including:

- **Recycling and incineration**, the levels of which depend on the capacity of available Welsh infrastructure. Given the relatively small tax base in Wales, changes in alternative waste treatment infrastructure can lead to relatively large effects on LDT receipts.
- **Exporting waste**, which can be cheaper than sending it to landfill. There are currently two external factors that may limit the volume of exports over the medium term – any changes to the UK's trading relationship with the EU and the Chinese Government's ban on the imports of solid waste. Each could increase the amount of waste sent to UK and Welsh landfill (including waste generated in England) and represent an upside risk to LDT receipts. The extent to which these or other factors have already affected LDT receipts would be implicitly captured in our in-year estimate, rather than via an explicit forecast adjustment.

4.10 We do not explicitly model the use of these alternatives. Instead, we assume they provide sufficient headroom to accommodate future growth in waste arising without affecting the volume of landfilled waste. The granular level of information available to us on Welsh infrastructure means that we can factor in expected changes when we need to.

4.11 The volume of waste sent to landfill in the UK as a whole has been trending down. Chart 4.2 shows there was a similar pattern in Wales until recent years. The volume sent to landfill fell by more than 70 per cent between 2006-07 (3.8 million tonnes) and 2023-24 (1.0 million tonnes). However, since 2019-20 this decrease has stalled, with a small increase seen in 2021-22 and 2022-23. Chart 4.2 also shows that up to 2019-20, progressively less waste has been sent to landfill per unit of gross value added (GVA – a measure of economic activity). We assume that the level of waste sent to landfill follows recent trends, with the lower rate remaining constant over the forecast period, and the standard rate following a downward trend, but there is uncertainty around this judgement.

Chart 4.2: Landfill waste tonnage in Wales relative to Welsh economic activity



Source: National Resources Wales, ONS

The effective rate of landfill disposals tax paid

4.12 There are two main rates for LDT – a 'standard' rate and a 'lower' rate. The lower rate applies to waste that is 'inert' – i.e. less hazardous or less polluting materials such as bricks, concrete and sand. The standard rate applies to everything else that is neither exempt (see below) or unauthorised.[3]

4.13 Our pre-measures forecast assumes that the standard rate and lower rate of LDT both increase in line with RPI inflation in each year of the forecast (in line with the UK Government's default indexation assumption).[4]

4.14 As with UK landfill tax, LDT legislation allows for both exemptions and reliefs. Where a disposal is exempt, for example within a pet cemetery, there is no tax liability, and the site operator does not need to record it on a tax return. Where a disposal is eligible for a relief, such as when it contains material removed from water by dredging, it needs to be accounted for by the site operator, but the relief can be claimed via the tax return. The effective rate paid depends not just on statutory rates and exemptions, but also the composition of waste disposals. In 2023-24, the effective rate paid was £28.20 per tonne of waste sent to landfill. In the first two quarters of 2024-25 the effective tax rate paid rose to £36.5 per tonne of waste, as a result of an increase in the share of standard rate waste.

[3] The Welsh Government has also introduced a third 'unauthorised disposals' rate that applies to all disposals that are made outside of authorised landfill sites, regardless of whether they would have qualified for the standard or lower rates. This rate is set at 150 per cent of the standard rate. The 2024-25 rate for such disposals has been set at £155.55 per tonne of waste. It is set to rise to £189.25 in 2025-26.

[4] All rates are subject to approval by the Senedd.

Post-measures forecast

4.15 The final stage in our forecast process is to add the effect of new policy measures that have been announced since our previous forecast was published. For landfill tax and LDT, these effects are typically small, although they can still be subject to some uncertainty. For example, the UK Government's Autumn Statement 2023 policy introducing a new 'extended producer responsibility' scheme that requires packaging producers to incur the cost of managing the packaging once it becomes waste, and a Welsh Government workplace recycling measure which came into effect on 6 April 2024 and required all businesses, charities and public sector organisations to sort their waste for recycling.[5] Both schemes are expected to lower landfill tax receipts by reducing the amount of waste sent to landfill.

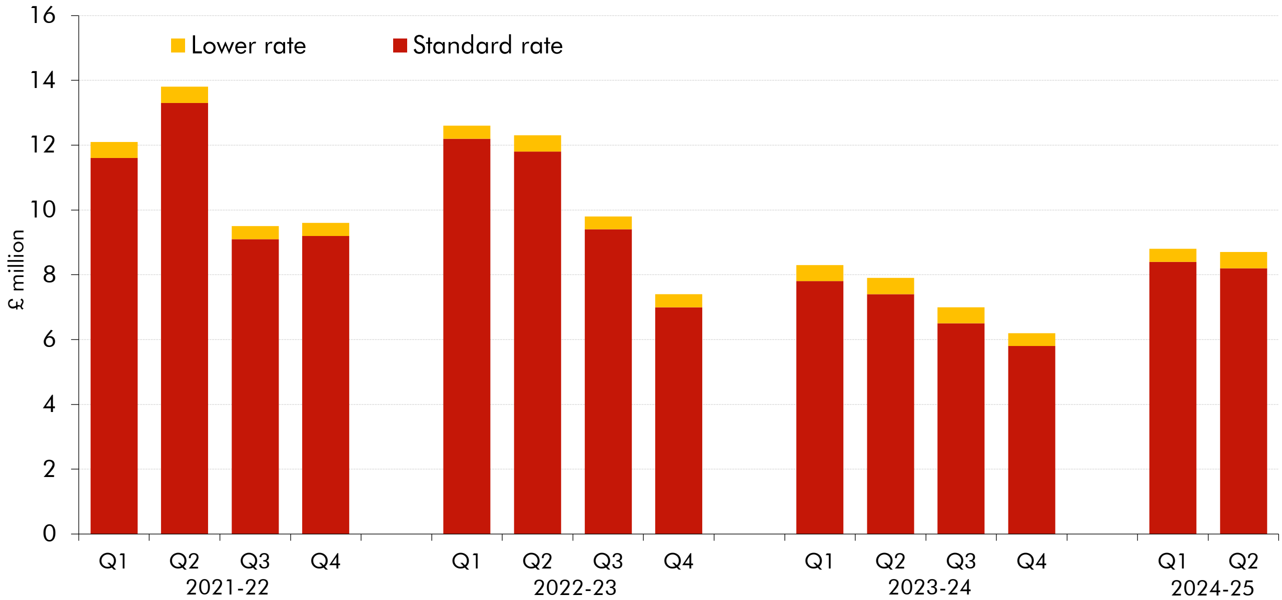
Landfill disposals tax forecast

4.16 Using the methodology described above and based on LDT outturn data for the first two quarters of 2024-25, this section describes our latest forecast and changes since February.

Receipts outturn

4.17 Chart 4.3 shows that receipts in the first half of 2024-25 are up by £1.3 million (8 per cent) on the same period last year, driven by an increase in the amount of standard-rated waste sent to landfill. Relative to last year we expect receipts to remain higher throughout the remainder of 2024-25, with forecast receipts totalling £30.7 million. Relative to the longer-term time series, however, LDT revenue remains historically low.

Chart 4.3: Quarterly LDT receipts



Source: Welsh Revenue Authority

[5] Welsh Government, *Workplace Recycling, let's get it sorted*.

Latest forecast

4.18 Since our February forecast, we have revised receipts up by £3 million in 2024-25 and an average of £6 million each year thereafter, an average annual increase of 24 per cent. This reflects two factors:

- first, **the higher-than-anticipated volume and share of standard-rated waste in the first half of 2024-25** described above, which we assume continues in future years (which accounts for around half of the revision); and

- second, the **policy change to increase the standard and lower rates of LDT** (described in paragraph 1.6) also increases the forecast by an average of £3 million a year from 2025-26 onwards. The standard rate in Wales now aligns with the standard rate for landfill tax in England and Northern Ireland which was raised in the UK Government's March 2024 Budget. This is in contrast to the forecast underpinning our October 2024 *EFO*, prior to the Welsh Government Budget announcement on 10 December that equalised the standard rate with English landfill, which included some English waste crossing the border to Wales to avail of a lower standard rate.

Table 4.1: LDT forecast

	£ million						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
February forecast	30	28	26	25	25	24	
December forecast	30	31	32	31	31	30	29
Difference		**3**	**6**	**6**	**6**	**6**	
of which:							
Outturn data		2	2	2	2	2	
Modelling and other		0	1	1	1	1	
LDT rates increase policy		0	3	3	3	3	

Source: OBR

Risks and uncertainties

4.19 This section summarises some of the main uncertainties around our central LDT forecast. We would not expect the risk posed by any of these to be particularly large. They include:

- The **net volume of waste arising** is assumed to remain constant over the forecast period. Changes in Welsh infrastructure, such as increases in incineration, mean that the forecast for tonnes of waste sent to landfill has previously trended down. As Chart 4.2 showed, waste sent to landfill has decreased over time, but in recent years this trend has levelled off. This illustrates the scope of the tax base to surprise us on either side of our central forecast.

- All taxes are subject to a degree of **non-compliance**, ranging from simple errors to deliberate criminal activity. At the UK level, HMRC uses statistical techniques to measure the difference between the theoretical tax liability and what is actually paid, the 'tax gap'. Its latest estimate of the tax gap for the UK landfill tax is 14.5 per cent or £100 million.[6] There is no estimate for the LDT tax gap, but if the gap were the same in percentage terms, then this would imply that around £5 million of potential receipts in 2023-24 were not collected. We do not yet have sufficient information on the WRA's LDT compliance activities to take a firm view so, for now, our forecast implicitly assumes no change in the (currently unknown) rate of non-compliance in future years. Any changes in that rate would pose a risk to receipts.

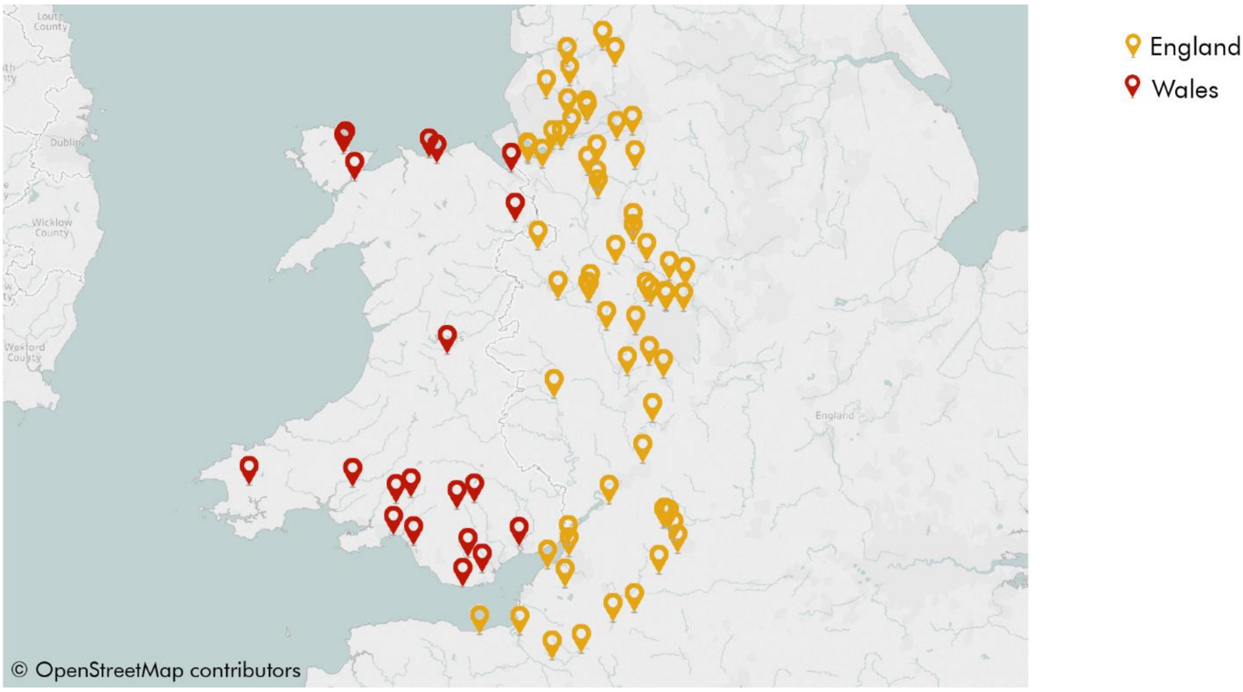
- LDT on **unauthorised disposals** is not a self-assessed tax, with the tax liability instead arising from the WRA identifying suitable cases and issuing charging notices. The WRA began issuing notices to potential taxpayers in 2021-22, and in 2022-23 they successfully charged their first two cases to the LDT unauthorised disposals rate of tax.[7] The WRA plans to increase its operational activities over the coming years, which could lead to additional revenue. The amount collected would depend on resources, planning and the risks of litigation.

- Our forecast implicitly assumes that there is sufficient **incineration and recycling capacity** in Wales to absorb any increase in waste arising. These assumptions would need to be revisited if there were problems with infrastructure capacity, for example if a large incinerator were to be offline for a significant period or new capacity were delayed. Such events would imply a higher share of total waste being sent to landfill than implicitly assumed in our forecast and therefore higher LDT receipts.

- **Behavioural responses to policy changes**. The Welsh Government had previously aligned LDT rates with those for UK landfill tax. The Welsh Government has in its Draft Budget chosen to keep the standard rate aligned with that in landfill tax in the UK, but has increased the lower rate relative to the UK lower rate. Therefore, we now expect some waste to be diverted across the border. A significant share of waste being sent to landfill in Wales originates in England.[8] Moreover, as Figure 4.1 shows, there are numerous landfill sites relatively close to the Welsh-English border, so there is clearly scope for such behavioural responses to take place following this policy divergence (although waste in scope of the lower rate is only a small proportion of the overall tax base).[9] The degree to which this may occur would depend on how the potential tax saving will compare to the transport and other costs associated with sending waste to a landfill site subject to the lower tax rates. This represents a risk to our forecast. Similarly, the behavioural response to the new business recycling regulations remains uncertain.

[6] This relates to 2021-22. For more detail see HMRC's *Measuring tax gaps 2023 edition*.
[7] Welsh Revenue Authority, *Annual Report and Accounts 2022 to 2023*, September 2023.
[8] Data from Natural Resources Wales show that in each year from 2018-19 to 2023-24, waste from England accounted for 16 per cent of overall waste sent to landfill in Wales.
[9] The 60-mile corridor from the border is purely illustrative.

Figure 4.1: Landfill sites in Wales and within 60 miles of the border with England



A Forecasts required for the block grant adjustments

A.1 The block grant is a mechanism for transferring funds from the UK Government to the devolved governments and is allocated from within the departmental spending limits set by the Treasury. The block grants for the Welsh and Scottish Governments are adjusted in accordance with their respective fiscal frameworks.[1] The OBR has no direct involvement in these spending decisions or block grant negotiations, but the spending settlements do draw on our tax forecasts.

A.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. This annex presents the forecasts that are required for this block grant adjustment mechanism. These largely relate to the UK Government's revenue from the taxes that are equivalent to those that have been devolved. For the three taxes covered in this report, the corresponding UK Government tax (relating to England and Northern Ireland in each case) is 'non-savings, non-dividends' income tax, stamp duty land tax and landfill tax.

A.3 The forecast methodologies for the Scottish and UK Government taxes are largely the same as those described for Wales in Chapters 2 to 4 and on the relevant pages of our website. We first establish an in-year estimate using the latest administrative data to estimate the level of receipts in 2024-25. We then project that over the five-year horizon using the respective forecast models and our own judgements. The economic determinants used are from our October 2024 *Economic and fiscal outlook*.

A.4 Tables A.1 to A.4 compare our current forecasts for the devolved Welsh (and Scottish) taxes to their UK Government equivalents (which relate to England and Northern Ireland). Our income tax forecasts reflect the package of policy measures announced by the UK Government in the October 2024 Budget.[2] In the longer term, differences in our income tax forecasts will mainly reflect assumptions about relative population growth. Differences in our forecasts for property transaction taxes derive from the more progressive structure of the Welsh and Scottish tax schedules, which delivers greater revenue gains from fiscal drag as house prices rise.

[1] *The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework*, December 2016, and *The agreement between the Scottish Government and the United Kingdom Government on the Scottish Government's fiscal framework*, August 2023.
[2] The full list of measures and their associated costing breakdowns are provided in supplementary Table 3.11, available on our website.

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

	£ billion							
	Outturn	Forecast						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Whole UK NSND income tax	**227.6**	**253.2**	**282.4**	**301.9**	**315.3**	**327.2**	**337.9**	**351.0**
of which:								
Welsh Government income tax (WRIT basis)	2.6	2.9	3.3	3.5	3.6	3.8	3.9	4.1
UK Government NSND income tax from Wales	3.4	3.9	4.4	4.7	4.9	5.2	5.3	5.6
Scottish income tax	15.2	17.2	19.2	20.3	21.1	21.8	22.4	23.1
England and Northern Ireland NSND income tax	206.3	229.2	255.5	273.5	285.6	296.5	306.3	318.3
UK Government NSND income tax[1]	209.8	233.1	259.9	278.1	290.5	301.7	311.6	323.9
	Percentage change on a year earlier							
Whole UK NSND income tax		**11.3**	**11.5**	**6.9**	**4.4**	**3.8**	**3.3**	**3.9**
of which:								
Welsh Government income tax (WRIT basis)		11.7	11.4	6.3	5.0	4.0	3.2	4.0
UK Government NSND income tax from Wales		13.2	12.4	7.1	5.6	4.6	3.2	4.1
Scottish income tax		13.2	12.1	5.6	3.9	3.3	2.6	3.3
England and Northern Ireland NSND income tax		11.1	11.5	7.0	4.4	3.8	3.3	3.9
UK Government NSND income tax[1]		11.1	11.5	7.0	4.5	3.8	3.3	3.9

[1]Whole UK NSND income tax excluding Scottish income tax and Welsh Government income tax (WRIT basis).
Source: OBR

Table A.2: Welsh rates and England and Northen Ireland equivalent income tax by band forecast

	£ billion							
	Outturn	Forecast						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
England and Northern Ireland NSND income tax (WRIT basis)	**75.1**	**83.0**	**92.3**	**98.3**	**102.6**	**106.2**	**109.6**	**113.9**
of which:								
Basic rate	49.6	54.6	60.3	63.7	66.3	68.3	70.5	73.2
Higher rate	15.3	15.7	17.8	19.3	20.2	21.1	21.5	22.1
Additional rate	10.2	12.7	14.1	15.3	16.0	16.7	17.6	18.6
Welsh rates	**2.6**	**2.9**	**3.3**	**3.5**	**3.6**	**3.8**	**3.9**	**4.1**
of which:								
Basic rate	2.2	2.5	2.7	2.9	3.0	3.1	3.2	3.3
Higher rate	0.3	0.4	0.4	0.5	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
	Percentage change on a year earlier							
England and Northern Ireland NSND income tax (WRIT basis)		**10.5**	**11.2**	**6.5**	**4.3**	**3.5**	**3.2**	**3.9**
of which:								
Basic rate		10.1	10.6	5.6	4.1	3.0	3.2	3.8
Higher rate		2.9	13.3	8.1	5.0	4.4	1.9	2.6
Additional rate		24.0	11.2	8.4	4.4	4.7	5.1	5.6
Welsh rates		**11.6**	**11.4**	**6.3**	**5.0**	**4.0**	**3.2**	**4.0**
of which:								
Basic rate		10.7	10.6	5.7	4.5	3.6	3.3	4.0
Higher rate		11.4	16.0	9.4	7.3	6.4	2.3	3.5
Additional rate		45.6	13.7	9.4	8.2	5.5	6.2	7.1

Source: OBR

Table A.3: Property transaction taxes

	£ million						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Whole UK property transaction taxes	**12,664**	**14,008**	**16,028**	**18,400**	**20,844**	**23,221**	**25,307**
of which:							
LTT (Wales)	270	319	338	371	410	446	481
LBTT (Scotland)	784	975	1,038	1,120	1,221	1,319	1,411
SDLT (England and Northern Ireland)	11,610	12,713	14,652	16,909	19,213	21,456	23,415
	Percentage change on a year earlier						
Whole UK property transaction taxes		**10.6**	**14.4**	**14.8**	**13.3**	**11.4**	**9.0**
of which:							
LTT (Wales)		18.4	5.8	9.9	10.4	8.8	7.7
LBTT (Scotland)		24.3	6.5	7.8	9.0	8.1	7.0
SDLT (England and Northern Ireland)		9.5	15.2	15.4	13.6	11.7	9.1

Source: OBR

Table A.4: Landfill taxes

	£ million						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Whole UK landfill taxes	**569**	**588**	**444**	**408**	**295**	**311**	**320**
of which:							
Landfill disposals tax (Wales)	30	31	32	31	31	30	29
Scottish landfill tax	68	63	37	16	17	17	18
Landfill tax (England and Northern Ireland)	471	494	374	361	248	264	273
	Percentage change on a year earlier						
Whole UK landfill taxes		**3.4**	**-24.6**	**-7.9**	**-27.7**	**5.4**	**2.7**
of which:							
Landfill disposals tax (Wales)		3.4	5.6	-3.1	-2.3	-2.4	-2.4
Scottish landfill tax		-7.5	-41.6	-56.4	3.4	3.1	2.5
Landfill tax (England and Northern Ireland)		5.0	-24.3	-3.6	-31.3	6.5	3.3

Source: OBR

Index of charts and tables