

# Welsh taxes outlook, February 2020 update

- 1.1 In our inaugural *Welsh taxes outlook (WTO)* we presented 5-year tax forecasts alongside the Welsh Government's draft Budget. Published on 16 December, it covered the Welsh rates of income tax, land transaction tax (LTT) and landfill disposals tax (LDT), as well as the equivalent UK Government taxes that are required to calculate block grant adjustments.<sup>1</sup>
- 1.2 Those forecasts were based on our March 2019 UK economy and fiscal forecasts, plus new liabilities and receipts data published since March.<sup>2</sup> Ahead of its final Budget on 25 February, the Welsh Government has asked us to update our Welsh tax forecasts to reflect the latest information and outturn data. With no new quarterly LDT data available when the forecasts were being prepared, this only covers the Welsh rates and LTT. For each, we have two more months' data (November and December). They are still based on our March 2019 UK economy and fiscal forecasts.<sup>3</sup>
- 1.3 We will publish new Welsh tax forecasts based on our latest UK-wide economy and fiscal forecasts in our *Devolved tax and spending forecasts* document alongside the UK Government's Budget and our next *Economic and fiscal outlook* on 11 March.

## Welsh rates of income tax

- 1.4 Our updated forecast for the Welsh rates is shown in Table 1.1. Our December forecast was based on UK-wide PAYE receipts from the first seven months of 2019-20, which were up 2.3 per cent on the same period in 2018-19. With nine months of receipts data now available, that figure is 1.9 per cent, which explains the £7 million downward revision to our Welsh rates forecast for 2019-20 and feeds through to similar revisions to future years.

Table 1.1: Updated Welsh rates of income tax forecast, February 2020

	£ million					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
December forecast	2,053	2,089	2,206	2,286	2,368	2,456
February forecast	2,053	2,082	2,200	2,279	2,361	2,449
<b>Change</b>	<b>0</b>	<b>-7</b>	<b>-7</b>	<b>-7</b>	<b>-7</b>	<b>-7</b>

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

<sup>2</sup> See our March 2019 *Economic and fiscal outlook*. On 16 December 2019 we also restated our March 2019 forecast to be consistent with ONS classification and other statistical changes since March. This restatement did not affect any lines of the forecast that are relevant for our Welsh taxes forecast.

<sup>3</sup> Analysts in the Welsh Government produced an updated LTT forecast on 31 January 2020. The Budget Responsibility Committee scrutinised and finalised these on 6 February.

## Land transaction tax

- 1.5 Our updated forecast for LTT is shown in Table 1.2. Two additional months of LTT outturn data have raised our in-year estimate for commercial LTT by £4 million, which pushes through the remainder of the forecast. Our residential and additional properties forecasts are little changed since December, and the revisions to them largely offset.
- 1.6 Our updated 2019-20 commercial LTT forecast includes the liability associated with transferring the Core Valley Lines from Network Rail to Transport for Wales. The Welsh Government has informed us that it expects this transfer to take place in late March. In the explanatory note published alongside its *Supplementary budget 2019-20* on 4 February, the Welsh Government stated that “An additional £33,819k has been included to reflect the Land Transaction Tax liability in respect of the purchase of the Core Valley Line”.<sup>4</sup> We have used the Welsh Government’s assumptions on the value and timing of the transfer as the basis of this forecast, but note that some uncertainty remains over the precise details.

Table 1.2: Updated LTT forecast, February 2020

	£ million					
	Outturn	Forecast				
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Total LTT</b>						
December forecast	228	226	245	268	294	322
February forecast	228	264	250	273	299	328
<b>Change</b>	<b>0</b>	<b>38</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>Residential (excluding additional properties)</b>						
December forecast	95	100	117	133	151	171
February forecast	95	102	118	134	153	173
<b>Change</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Additional properties</b>						
December forecast	60	59	62	66	71	76
February forecast	60	58	61	65	70	74
<b>Change</b>	<b>0</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>
<b>Commercial</b>						
December forecast	72	66	66	69	72	75
February forecast	72	104	71	74	77	80
<b>Change</b>	<b>0</b>	<b>38</b>	<b>4</b>	<b>4</b>	<b>5</b>	<b>5</b>
<i>of which</i>						
In-year outturn		4	4	5	5	5
Core Valley Lines transfer		34	0	0	0	0

<sup>4</sup> Welsh Government, *Supplementary Budget 2019-20, Explanatory Note*, February 2020.

## Landfill disposals tax

1.7 Table 1.3 shows the LDT forecast that we published in December's WTO.

Table 1.3: LDT forecast, December 2019

	£ million					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
December forecast	44	38	36	35	35	35
February forecast	44	38	36	35	35	35
<b>Change</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>