

Office for  
**Budget  
Responsibility**

## **Welsh taxes outlook**

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# 1 Introduction

- 1.1 The Office for Budget Responsibility (OBR) was established in 2010 to provide independent and authoritative analysis of the UK's public finances. 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.<sup>1</sup> The fiscal framework also established a requirement for independent forecasting. The Welsh Government chose to use the OBR's forecasts to meet this requirement.<sup>2</sup>
- 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.<sup>3</sup> 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 and Final Budget every year. In this *WTO*, published alongside the Welsh Government's 2026-27 Final 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 November 2025 *EFO*. The key features of this forecast are:
- The UK real economy is expected to grow 1.5 per cent in 2025, 0.5 percentage points faster than we forecast in March. Growth is then expected to average 1.5 per cent a

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<sup>1</sup> More detailed information on the relevant legislation and governance is available on our website.

<sup>2</sup> Written statement by the Cabinet Secretary for Finance, *Provision of Welsh tax forecasts by the Office for Budget Responsibility*.

<sup>3</sup> The joint review is available on our website alongside the December 2020 *WTO*.

year over the forecast period, which is 0.3 percentage points lower than our March forecast. This is explained by the downward revision to our productivity forecast.

- Our pre-measures central forecast projects borrowing to fall from £134 billion (4.4 per cent of GDP) this financial year to £80 billion (2.3 per cent of GDP) by 2029-30. This is a modest deterioration compared to our March forecast. This reflects higher forecast spending, £22 billion higher on average each year, which is partly offset by stronger receipts, which are £12 billion higher on average each year.
- The November 2025 Autumn Budget policies increase spending in every year due to the summer reversals to welfare cuts and lifting of the two-child limit in universal credit. The Budget also raises taxes by amounts rising to £26 billion in 2029-30, through freezing personal tax thresholds and a number of smaller measures. This results in tax as a share of GDP reaching 38 per cent in 2030-31. The net impact of Budget spending and tax policies increases borrowing by £5 billion a year on average over the next three years, but then reduces it by £13 billion on average in the following two.
- This leaves borrowing at £138 billion (4.5 per cent of GDP) this year, with borrowing then forecast to fall to £68 billion (1.9 per cent of GDP) in 2029-30. This represents a deterioration in borrowing, relative to March, in all years of the forecast except the fiscal target year of 2029-30.
- On the central forecast, both the fiscal rules (to deliver a current budget balance and for net financial liabilities to be falling as a share of GDP by 2029-30) are on course to be met, by margins of £21.7 billion and £24.4 billion, respectively. Based on the distribution of historical shocks to the UK economy, we estimate the probability of the Chancellor achieving these targets to be 59 and 52 per cent, respectively.
- We produce a central forecast around which we judge these risks are evenly balanced, conditional on stated Government policy, 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 November 2025 *EFO*, we presented alternative scenarios for productivity and equity prices and their impacts on the economy and public finance forecasts.

**1.6** Throughout this document, as well as presenting the latest forecast, we also provide comparisons to our recent previous forecasts as reference. For LTT and LDT, we provide comparisons to our October 2025 *WTO*, which accompanied the Welsh draft budget. For Welsh rates of income tax, we did not update our forecasts for the Welsh Draft Budget, so we instead compare them to our March 2025 *EFO* and December 2024 *WTO*.

**1.7** We have also incorporated the impact of the new policy announced at the Welsh Final Budget related to LDT. The Welsh Government has announced that it will align the lower rate of landfill tax with England and Northern Ireland in 2026-27, with the rate thereafter rising by the cash increase to the standard rate of LDT. We expect this to yield £3.6 million a year on average from 2026-27. The main uncertainty in this costing relates to the size of the behavioural response and the impact on non-compliance. We scrutinised and certified this policy using the same approach as we apply to the UK Government's policies in *EFOs*.

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

## Forecast timetable

- 1.9 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 November 2025 *EFO*. These were scrutinised by the BRC in two meetings on 14 and 15 October.
  - A set of forecasts was produced on 21 November using our final economy forecast, which included the impact of UK Government policies, was published in our November 2025 *EFO*.
  - We have subsequently incorporated more recent receipts outturns for landfill transaction tax and landfill disposal tax and the impact of policy announcements from the Welsh final budget.

## Structure of the document

- 1.10 The rest of this document is structured as follows:
- **Chapter 2:** covers income tax on non-savings, non-dividend income from the Welsh rates.
  - **Chapter 3:** covers land transaction tax.
  - **Chapter 4:** covers landfill disposals tax.
  - **Chapter 5:** provides a summary of the latest projections for the block grant adjustment and Welsh net tax position.

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 our **forecasting methodology**;
- presents our **latest forecasts** for UK income tax liabilities and Welsh rates; and
- outlines some of the **recent developments** and **risks and uncertainties** around our Welsh rates forecast.

### Background

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 is reserved to the UK Government.
- Third, the Welsh rates are levied on **non-savings, non-dividend (NSND) income**. NSND income accounts for around 93 per cent of UK-wide income tax liabilities, and 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.



## Methodology

2.3 Our Welsh income tax forecasts are produced on a ‘top-down’ basis.<sup>4</sup> 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**. We provide more detail on this step in paragraph 2.9.<sup>5</sup>
- Finally, we add our estimates of the **effect of new policies** announced since our previous forecast on Welsh rates liabilities.

2.4 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 forecast income tax liabilities in Wales, and in England and Northern Ireland combined, split by tax band.<sup>6</sup>

## Latest forecast

### UK income tax forecast

2.5 Table 2.1 sets out the forecast for UK NSND income tax liabilities that underpins our Welsh rates of income tax forecast. We forecast that UK-wide NSND income tax liabilities will be £275.2 billion in 2024-25, £24.1 billion (9.6 per cent) higher than in 2023-24. Receipts then continue to rise over the rest of the forecast to reach £379.9 billion in 2030-31. Year-on-year growth is expected to average 6.1 per cent over the forecast period, with growth fastest in the near term due to the profile of nominal earnings.

2.6 Compared with both our December 2024 *WTO* and our March 2025 *EFO*, we have revised down receipts in the near term reflecting weaker outturn receipts, but then revised up the forecast in later years. The latter reflects our stronger nominal earnings forecast, which alongside the extension of the personal tax freezes discussed below, raises the forecast for NSND income tax liabilities.

2.7 The forecast includes several UK Government policies announced in the Autumn 2025 Budget, which together raise £11.6 billion by 2030-31:

- The extension of the personal tax threshold freezes from 2028-29 raises increasing amounts rising to £11.6 billion in 2030-31. The UK Government announced in the November 2025 budget that the personal allowance, higher rate and additional rate thresholds would remain frozen at £12,570, £50,270 and £125,140 respectively until

<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> For more on our approach, see Mathews, P., *OBR Working paper No.14: Devolved income tax: forecasting by tax bands*, September 2018.

2030-31 rather than be increased by CPI inflation. This raises significant revenues as more workers find that their earnings enter the tax system or are taxed at higher rates.

- A collection of smaller measures raises receipts by £1.4 billion in 2030-31. Most of this is explained by the 2 percentage point increase to the basic, higher and additional rates of property income tax, which raises £0.4 billion in 2030-31, alongside a range of tax compliance measures that raise £0.9 billion.
- The indirect effects of UK Government Budget policies on the economy reduce receipts by £1.5 billion by 2030-31. This is largely because measures affecting energy bills, the temporary extension of the fuel duty freeze, and the one-year freeze to rail fares together act to reduce CPI inflation. This in turn lowers nominal earnings growth, and therefore tax receipts, over the forecast.

**Table 2.1: Whole UK forecast of tax liabilities on non-savings, non-dividend income**

	£ billion							
	Outturn	Forecast						
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
December 2024 forecast	253.2	282.4	301.9	315.3	327.2	337.9	351.0	
March 2025 forecast	252.3	283.3	306.0	321.2	333.8	344.7	357.9	
January 2026 forecast	251.1	275.2	300.0	319.3	333.7	346.3	363.6	379.9
<b>Difference from December to January</b>	<b>-2.1</b>	<b>-7.2</b>	<b>-1.9</b>	<b>4.1</b>	<b>6.5</b>	<b>8.4</b>	<b>12.5</b>	
<b>Difference from March to January</b>	<b>-1.2</b>	<b>-8.1</b>	<b>-6.0</b>	<b>-1.8</b>	<b>-0.1</b>	<b>1.6</b>	<b>5.7</b>	
<i>of which:</i>								
UK NSND outturn alignment		-1.6	-1.7	-1.9	-1.9	-2.0	-2.1	
Pre-measures forecast		-6.5	-4.3	0.0	1.4	1.3	1.2	
UK Government policies			0.0	0.1	0.5	2.2	6.6	11.6
<i>of which:</i>								
Freezes to personal tax thresholds			0.0	0.0	0.0	3.6	7.7	11.6
Other direct effects			0.0	0.2	1.0	-0.3	0.5	1.4
Indirect effects			0.0	-0.1	-0.5	-1.1	-1.5	-1.5

Source: OBR

## Share subject to Welsh rates

- 2.8** We forecast the shares to apply to the UK NSND forecast by using HMRC's 2022-23 Survey of Personal Incomes (SPI). This is an annual sample of around 900,000 individuals in contact with HMRC during the year through the PAYE, self-assessment or repayment claim systems. Table 2.2 shows the shares of UK NSND income tax liabilities for both Welsh income tax and Welsh rates from 2019-20, the year in which Welsh rates were devolved, to the latest outturn year, 2022-23.<sup>7</sup> As Table 2.2 shows, with the exception of 2020-21, the Welsh rates share has remained broadly constant since devolution.

<sup>7</sup> Welsh income tax is total income tax paid by Welsh taxpayers, while Welsh rates represent the first 10p in each income tax band retained by the Welsh Government.

Table 2.2: Welsh share of UK NSND income tax liabilities since 2019-20

	Per cent			
	2019-20	2020-21	2021-22	2022-23
Welsh income tax	2.64	2.72	2.65	2.66
Welsh rates	1.16	1.19	1.15	1.15

Source: HMRC

**2.9** We use the 2022-23 SPI data to calculate an initial share of UK NSND income tax liabilities for Wales. We then project these SPI-based shares over the forecast period, making adjustments for:<sup>8</sup>

- **Outturn:** we use HMRC's 2023-24 Welsh rates of income tax outturn statistics, published in July 2025, to align our forecasts.
- **Earnings:** we extrapolate between 2023-24 and 2025-26 using HMRC's real-time information (RTI) from the PAYE system. This enables us to draw on more up-to-date information, from as recently as August 2025, for the majority of income tax payers. This includes judgements based on data that reflect both historical patterns of RTI shares through the fiscal year, and year-end bonus outturns. We discuss the latest data from the RTI from paragraph 2.13.
- **Previously announced policies:** we adjust the forecast to reflect the costings of existing UK and Welsh government policies which can affect the Welsh rates share.
- **Population:** beyond 2025-26, we use an index based on ONS population projections to reflect the different projected growth rates of the adult population in Wales compared to the wider UK. This 'population index' combines two separate indices – one each for adults aged below and above the State Pension age – that are weighted by the proportion of NSND income tax paid by each group. This aims to capture the effects of different trends in population ageing and population sizes between Wales and the wider UK.

**2.10** Table 2.3 shows our latest forecast for the Welsh rates share. 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. We expect the share of pre-measures liabilities to rise over the forecast period from 1.18 per cent in 2023-24 to 1.20 per cent in the medium term. This reflects faster growth in taxable income in Wales relative to England and Northern Ireland due to threshold freezes. We discuss this further in the Latest developments section (from paragraph 2.13). Compared to March and December, the Welsh rates share is up over the forecast period due to stronger outturn data in 2023-24, and stronger growth in Welsh taxable income from the RTI data.

<sup>8</sup> J. Murphy Corkhill, M. Hanson and S. Johal, *OBR Working Paper No.21: Developments in devolved income tax*, October 2023, explores the shares in depth, including how and why they have changed over time.

Table 2.3: Share of pre-measures liabilities subject to the Welsh rates

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
December 2024 forecast	1.15	1.15	1.15	1.15	1.16	1.16	1.16	
March 2025 forecast	1.17	1.18	1.17	1.17	1.17	1.17	1.17	
January 2026 forecast (pre-measures)	1.18	1.19	1.19	1.19	1.20	1.20	1.20	1.20
<b>Difference from December to January</b>	<b>0.03</b>	<b>0.04</b>	<b>0.05</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	
<b>Difference from March to January</b>	<b>0.01</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>	<b>0.03</b>	<b>0.03</b>	<b>0.03</b>	
<i>Memo: population index (2025-26=100)</i>			100.00	100.08	100.21	100.24	100.15	100.06
<i>Memo: RTI index (2023-24 = 100)</i>	100.0	99.9	100.4	100.4	100.4	100.4	100.4	100.4
<i>Change in RTI index since March</i>		0.2	0.7	0.7	0.7	0.7	0.7	
<i>Memo: combined index</i>		99.9	100.4	100.5	100.6	100.6	100.5	100.4
Source: OBR								

## Latest forecast for the Welsh rates of income tax

- 2.11** Table 2.4 sets out our latest forecast for the Welsh rates of income tax and changes since December and March, while Table 2.5 shows the forecast by tax band. Welsh rates receipts are forecast to increase from £3.0 billion in 2023-24 to £3.3 billion in 2024-25, up £0.3 billion (10.4 per cent). Year-on-year growth then slows slightly over the forecast period, reflecting the profile of nominal earnings growth, with receipts reaching £4.6 billion in 2030-31. As Table 2.5 shows, growth in receipts is fastest in the higher and additional rate tax bands, with their share of total Welsh rate receipts increasing over the forecast from 16 per cent in 2023-24 to 19 per cent in 2030-31.
- 2.12** Compared to the December 2024 *WTO* and March 2025 *EFO*, our latest forecast for Welsh rates is stronger in the medium term with receipts £0.3 billion higher than the December forecast and £0.2 billion higher than our March forecast in 2029-30. Focussing on the changes compared with the March *EFO*, this reflects:
- **Revisions to our pre-measures UK NSND forecast**, which lower receipts in the near-term but leave receipts broadly unchanged at the end of the forecast. The downward revisions in the near-term reflects lower UK-wide income tax receipts outturn. Through the forecast, the change reduces relative to March due to our stronger nominal earnings forecast.
  - **Welsh share modelling** increases liabilities by £74 million a year on average from 2024-25 onwards. This reflects stronger Welsh receipts in 2023-24 and higher-than-expected in-year data from HMRC's real-time information (RTI), which together raise the Welsh share of UK NSND liabilities.
  - **UK Government policies** announced at the November 2025 budget raise Welsh rates receipts by an increasing amount from 2025-26 onwards, reaching £147 million by

2030-31. This is driven primarily by the direct effects of the extension of the freezes to the personal allowance, higher rate and additional rate thresholds from 2028-29 onwards. The threshold freezes raise proportionately more in Wales relative to the rest of the UK due to the distributional differences in incomes. We discuss this further in Chapter 5.

**Table 2.4: Welsh rates of income tax forecast**

	£ million							
	Outturn 2023-24	Forecast						
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
December 2024 forecast	2,924	3,257	3,462	3,635	3,782	3,903	4,060	
March 2025 forecast	2,948	3,331	3,586	3,754	3,911	4,040	4,189	
January 2026 forecast	2,968	3,277	3,585	3,804	3,990	4,148	4,353	4,550
<b>Difference from December to January</b>	<b>45</b>	<b>20</b>	<b>123</b>	<b>169</b>	<b>209</b>	<b>245</b>	<b>294</b>	
<b>Difference from March to January</b>	<b>20</b>	<b>-54</b>	<b>-1</b>	<b>50</b>	<b>80</b>	<b>107</b>	<b>164</b>	
of which:								
Welsh share modelling		42	68	71	84	88	93	
UK NSND outturn alignment		-18	-20	-22	-23	-24	-24	
Other pre-measures changes		-77	-51	-1	17	16	14	
UK Government policies			2	2	2	27	82	147
of which:								
Freezes to personal tax thresholds			0	0	0	48	99	151
Other direct effects			2	4	8	-7	1	13
Indirect effects			0	-2	-6	-13	-18	-17

Source: OBR

**Table 2.5: Welsh rates of income tax forecast by tax band**

	£ million							
	Outturn 2023-24	Forecast						
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
<b>January forecast</b>	<b>2,968</b>	<b>3,277</b>	<b>3,585</b>	<b>3,804</b>	<b>3,990</b>	<b>4,148</b>	<b>4,353</b>	<b>4,550</b>
of which:								
Basic rate	2,506	2,739	2,969	3,132	3,275	3,392	3,546	3,695
Higher rate	373	434	497	542	578	611	653	692
Additional rate	89	104	120	130	137	145	154	163
Per cent								
Basic rate	84.4	83.6	82.8	82.3	82.1	81.8	81.5	81.2
Higher rate	12.6	13.3	13.9	14.3	14.5	14.7	15.0	15.2
Additional rate	3.0	3.2	3.4	3.4	3.4	3.5	3.5	3.6

Source: OBR

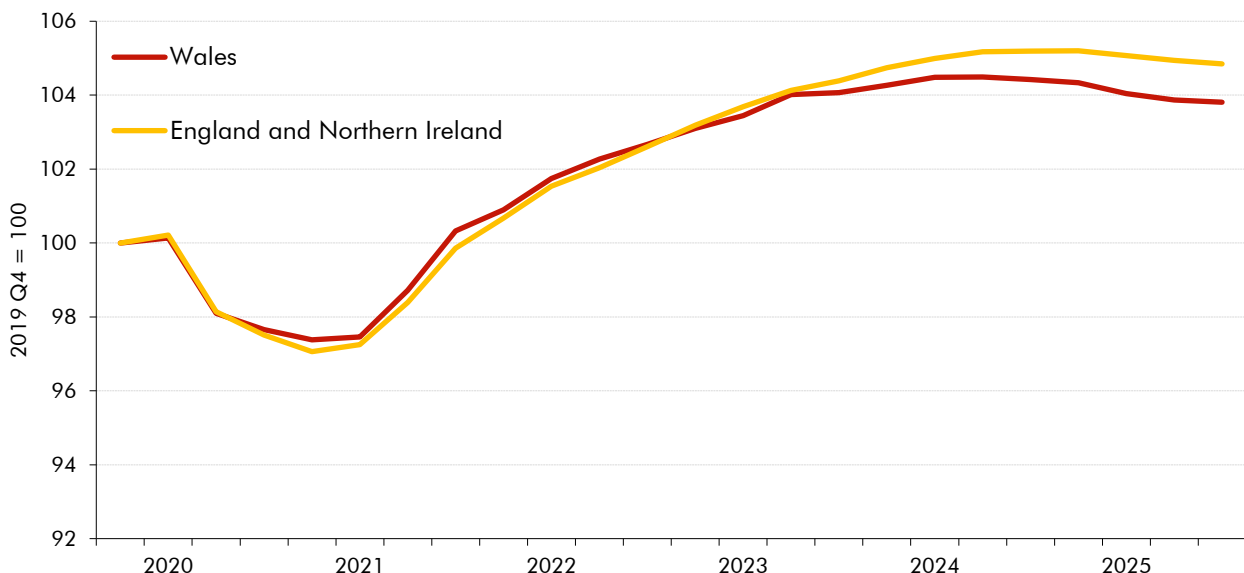
## Latest developments

**2.13** In this section, we examine the latest changes in incomes and employment in Wales using the real-time information (RTI) index. The RTI data allow us to analyse up-to-date trends in earnings levels, their distribution, and employment in Wales, using information available up

to August 2025. This captures payrolled employees, which, based on the 2022-23 Survey of Personal Incomes, accounted for around 90 per cent of total NSND liabilities. We use the RTI data to ensure our forecasts for Welsh rates are based on the most up-to-date information possible.

- 2.14** In our November 2025 *EFO*, we highlighted that recent data points to a loosening in the labour market with the number of employed individuals falling. Contributory factors are likely to include the recent increase in employer National Insurance contributions, and weak business sentiment weighing on labour demand. Chart 2.1 shows this trend is also evident in Wales, but with the total number of payrolled employees declining relatively faster in Wales relative to England and Northern Ireland. The latest data show that the number of payrolled employees in Wales has fallen by around nine thousand in the third quarter of 2025 compared to the peak of 1.32 million in the second quarter of 2024.

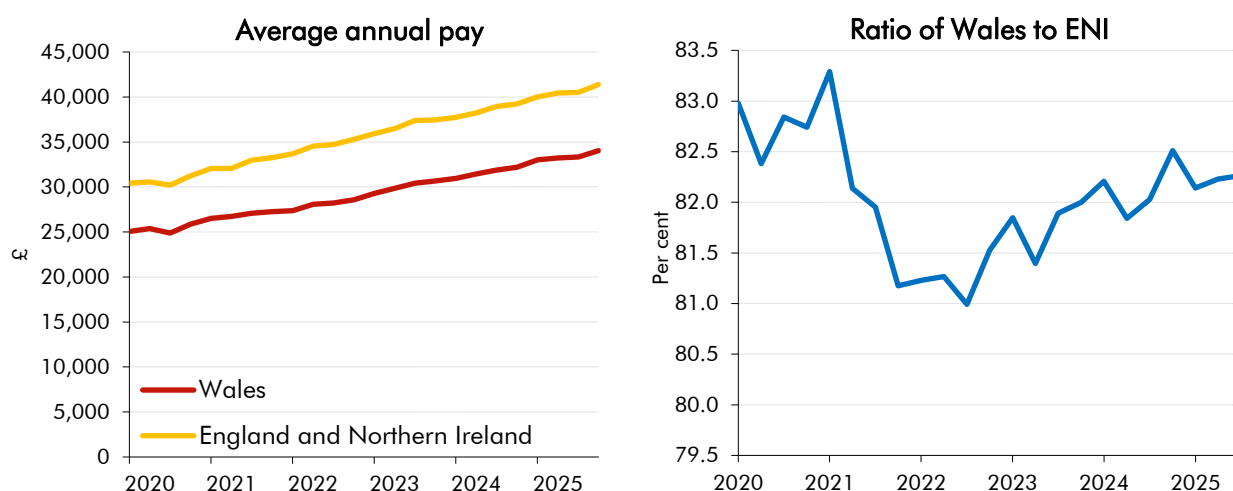
**Chart 2.1: RTI payroll employment in Wales and England and Northern Ireland**



Source: HMRC, ONS

- 2.15** In contrast, nominal pay continues to grow strongly. In our November 2025 *EFO*, we revised up nominal pay growth in 2025 by 1 percentage point to 5.2 per cent. Based on RTI employment data, Welsh annual earnings for employed workers have continued to rise, both in nominal terms and relative to average earnings in England and Northern Ireland (Chart 2.2). Average annual pay in the third quarter of 2025 rose 5.8 per cent year-on-year in Wales, compared with 5.5 per cent in England and Northern Ireland (ENI).

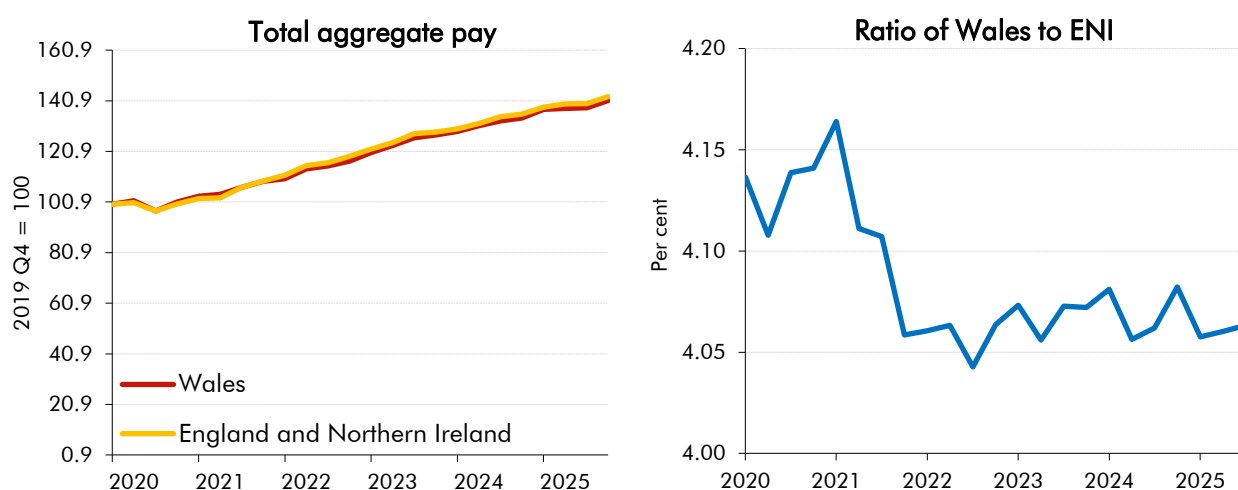
Chart 2.2: RTI average pay in Wales and England and Northern Ireland



Source: HMRC, ONS

**2.16** The net result is that total aggregate pay in the RTI (Chart 2.3), that is average pay multiplied by the number of employees, has risen strongly over the past year in both Wales and England and Northern Ireland, increasing by 5.1 per cent in each. But the ratio of aggregate pay in Wales to ENI has stayed broadly constant at 4.1 per cent.

Chart 2.3: RTI total aggregate pay in Wales and England and Northern Ireland



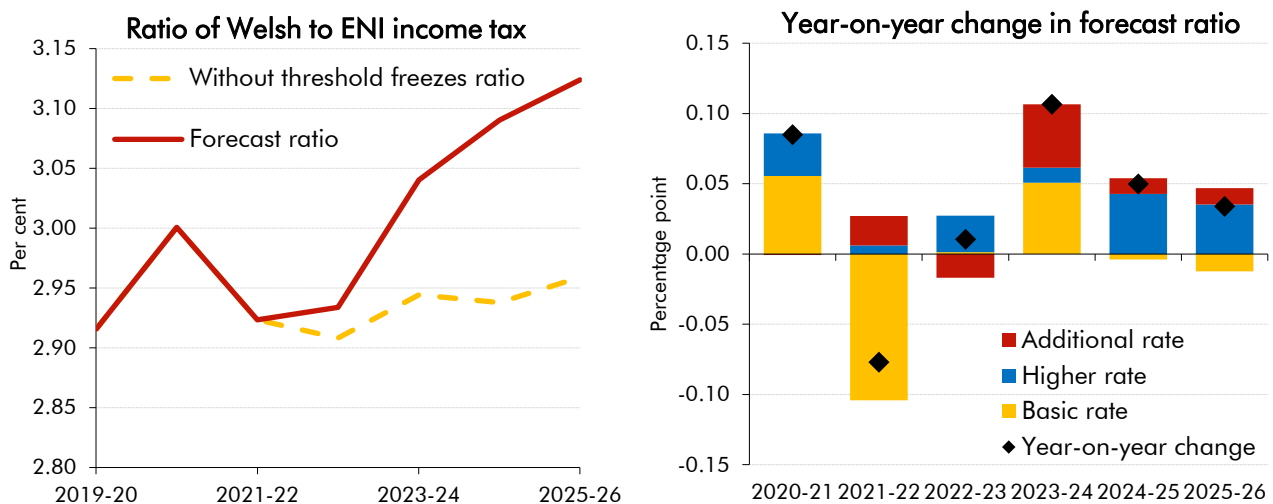
Source: HMRC, ONS

**2.17** In contrast, we expect the ratio of Welsh income tax to that in England and Northern Ireland to have increased, as shown in Chart 2.4. Although the latest RTI data suggest broadly similar growth in aggregate pay across the two regions, the RTI distributional data indicate that taxable income, meaning income above the personal allowance, has risen proportionally faster in Wales. A recent development in our forecasting has been to make better use of this RTI distributional data to inform our forecasts of Welsh income tax. In particular, as shown in the right-hand panel of Chart 2.4, we expect most of the growth in

the ratio between 2023-24, the latest outturn year, and 2025-26 to be driven by faster growth in higher rate taxpayers in Wales.

- 2.18** The main driver of this rise has been frozen personal tax thresholds. Most personal tax thresholds in both Wales and in England and Northern Ireland have been frozen since 2021. As a result, more income is brought into tax and into higher bands over time as nominal earnings grow. This effect is larger in Wales because lower average pay means that a relatively greater share of Welsh income is pushed above these fixed thresholds even when pay growth is similar. The dotted yellow line in Chart 2.4 shows a counterfactual scenario, based on our modelling, assuming that threshold had not been frozen from 2022-23 onwards. Under this scenario, in contrast to our latest forecast, we would have expected the ratio to have remained broadly constant.

**Chart 2.4: Ratio of Wales to England and Northern Ireland NSND income tax**



Note: This chart shows the ratio of total NSND income tax paid by Welsh taxpayers rather than just Welsh rates.

Source: HMRC, ONS

## Key uncertainties

- 2.19** There are several sources of uncertainty around our forecast for income tax liabilities subject to the Welsh rates. We summarise some of the most important ones here.

### Inflation and nominal earnings growth

- 2.20** Inflation and its impact on nominal earnings growth continues to be a significant source of uncertainty in our forecast for UK income tax and Welsh rates. This is especially the case given the freezes to personal tax thresholds, which following the Autumn 2025 budget are now in place until 2030-31. As Box 2.1 explores, faster growth in nominal earnings was the main driver of us underestimating both the UK and Welsh rates of income tax in the latest outturn year. Our Welsh rates forecast is in particular very sensitive to nominal earnings growth given the proportionately larger impact of fiscal drag in Wales. While we consider



our latest inflation and nominal earnings forecasts central, the extent to which inflation deviates from this, either higher or lower, would impact receipts.

## Employment

- 2.21** The level of employment remains a significant source of uncertainty in both our UK and Welsh rate income tax forecasts. In our November 2025 *EFO*, we assume that total employment will grow by 5 per cent over the forecast period. Key sources of uncertainty in this central estimate relate to both the quality of outturn data, notwithstanding recent improvements in the Labour Force Survey (LFS), and to net migration, which in recent years has been volatile. While our rates forecast adjusts for different projected trends in the Welsh adult population, there is further uncertainty around how employment growth will evolve relative to the rest of the UK.

## Growth of productivity

- 2.22** Our UK-wide and Welsh income tax forecasts are sensitive to the assumptions we make about labour productivity growth, which is the key determinant of real earnings growth. In our November 2025 *EFO*, we revised down our central forecast for underlying productivity growth, defined as medium-term growth in trend output per hour worked, from 1.3 to 1.0 per cent. While this is higher than the  $\frac{1}{2}$  a per cent average growth rate in the decade after the 2008 financial crisis, it is well below the 2 per cent rate seen before. It therefore remains highly uncertain, with risks to both sides. Factors that will affect productivity growth include developments in international trade, domestic supply-side reform, and global technological progress including Artificial Intelligence. We explore the uncertainties further in our *Briefing paper No.9: Forecasting productivity*, which was published alongside the November *EFO*.

### Box 2.1: Evaluating our forecasts for the Welsh rates of income tax for 2023-24

HMRC published 2023-24 outturn data for the Welsh rates in July 2025. Assessing the performance of our forecasts is important for transparency and accountability, while also helping us to understand and identify ways to improve them. In this box, we evaluate our forecast from the December 2022 *WTO*, which formed the basis of the revenue projections for the 2023 Welsh draft and final budget.

The December 2022 *WTO* forecast was produced against the backdrop of high inflation and rises in interest rates following the energy-price shock triggered by Russia's invasion of Ukraine. The forecast drew on the UK-wide economic projections set out in the November 2022 *EFO*, the 2019-20 Survey of Personal Incomes, UK-wide PAYE outturn data from 2020-21, and RTI data from August 2021.

Table A shows that Welsh rates of income tax outturn in 2023-24 exceeded the December 2022 forecast by £173 million (6.2 per cent). This is the second largest one year ahead forecast difference since we began forecasting Welsh rates. The £173 million difference can be attributed to three factors:

- **Economic determinants** account for £90 million of the difference between our December 2022 forecast and outturn, just over half of the overall error. This reflects stronger than expected nominal earnings and employment growth in our UK-wide forecast that underpinned the December 2022 projections. We forecast growth in wages and salaries of 3.3 per cent for 2023-24, compared with eventual outturn of 7.6 per cent. This was driven in particular by stronger nominal earnings growth, which was 6.9 per cent in 2023-24 compared to our forecast of 3.5 per cent.
- **Fiscal modelling differences** contribute £83 million, just under half of the overall difference. Part of this (£18 million) is driven by an underestimate of the Welsh share but the majority relates to underestimating the effective tax rate in our overall UKNSND forecast. This may reflect greater-than-expected fiscal drag, with more taxpayers moving into, or further into, the higher and additional rates than anticipated at the time of the forecast. This could have been driven by the stronger nominal pay growth noted above, alongside frozen income tax thresholds, which together raised the effective tax rate by more than expected. It may also reflect distributional differences in earnings growth relative to those we assumed in our December forecast – in particular, stronger growth in high-income earners and bonuses than expected.
- The difference relating to **subsequently announced policies** is small, at £0.2 million.

**Table A: The Welsh rates of income tax in 2023-24: forecast versus outturn**

	£ million			of which:		
	Forecast	Outturn	Difference	Economic determinants	Fiscal modelling	Policy changes
Welsh rates of income tax	2,795	2,968	173	90	83	0

Source: OBR

Since the December 2022 forecast, we have made a number of improvements to our forecasting models to raise their accuracy. In particular, for our UKNSND forecast, we now explicitly allow for the persistence of the recent ‘U-shaped’ pattern in earnings growth across the distribution (higher pay growth at the bottom and top of the income distribution), rather than assuming convergence to a uniform rate over the forecast horizon. We also now separately model bonuses by sector, linking bonuses in financial services to recent share price movements. This was based on work looking at the historical differences in the distribution of earnings.<sup>a</sup> These methodological changes aim to better capture distributional earnings dynamics and bonus behaviour. For our forecasts of the Welsh share, we now make greater use of HMRC real-time information data, looking at RTI by income tax band. This allows us to draw on more timely evidence on distributional differences between Wales and the rest of the UK.

<sup>a</sup> See Nash, A. *Income tax and the earnings distribution*, July 2024 for further information on these methodological changes.

## 3 Land transaction tax

### Introduction

3.1 This chapter:

- outlines our methodology for forecasting **land transaction tax (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;
- outlines the **latest developments** in land transaction tax receipts 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. 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 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.<sup>9</sup> 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.
- 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.<sup>10</sup> The models aggregate transactions within

<sup>9</sup> 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.

<sup>10</sup> 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.

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.<sup>11</sup>

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

## Latest property market forecasts

**3.4** The LTT forecast is based on the property market forecasts shown in Table 3.1.

**3.5** House prices are forecast to grow by an average of 2.8 per cent from 2025-26 onwards. Relative to October, which used OBR March 2025 determinants, the growth rate is lower in 2025-26 before growing faster from 2026-27 onwards. The forecast for residential transactions is down significantly since March, with a 3.7 percentage point decrease in forecast transactions growth in 2025-26. This has been changed to better align with recent trends in housing transactions, in particular reflecting lower housing turnover in recent years. Lower growth rates for transactions persist for most of the forecast, with average year-on-year growth 2.6 per cent through the forecast compared to the 4.5 per cent average for the same period in March.

**3.6** The commercial property prices forecast is up largely due to strength in average commercial prices in the early part of 2025-26, with slower growth from 2026-27 to 2028-29 offsetting part of this effect. Commercial transactions are expected to fall in 2025-26 before a steady increase for the rest of the forecast. Growth each year in the forecast is on average 1.2 percentage points lower annually relative to Spring.

Table 3.1: Forecasts for Welsh property prices and transactions

	Percentage change on previous year						
	Outturn	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Residential property prices	2.3	2.1	2.7	3.0	3.1	3.0	2.8
Residential property transactions	12.9	1.5	3.6	3.4	2.9	2.8	1.5
Commercial property prices	2.6	11.5	-1.9	1.8	1.9	1.8	2.0
Commercial property transactions	6.5	-5.2	1.5	1.5	1.5	1.5	1.6
Change since October forecast							
Residential property prices	-0.3	-0.4	0.1	0.3	0.3	0.2	
Residential property transactions	-0.2	-3.7	-1.2	-2.2	-1.4	0.1	
Commercial property prices	0.5	10.0	-3.6	-0.2	-0.1	0.0	
Commercial property transactions	3.2	-3.6	-1.7	-0.2	-0.2	-0.2	

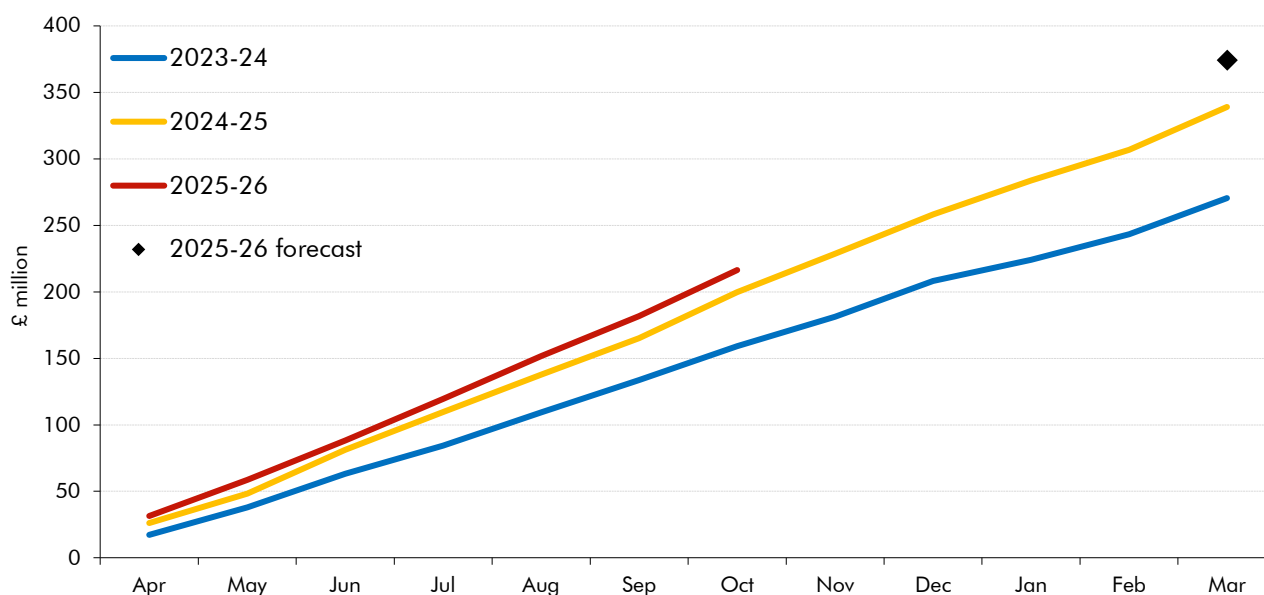
Source: OBR

<sup>11</sup> The methodology for forecasting these is set out in the 'In-depth' pages of our website.

## Latest LTT outturn data

- 3.7** LTT receipts are estimated to be up £16.7 million (8.4 per cent) in the first seven months of this year relative to the equivalent period last year. We forecast that this strength will continue, with receipts reaching £374 million by the end of 2025-26, which would be £34 million (9.9 per cent) up on last year's outturn.

**Chart 3.1: Cumulative monthly LTT receipts: 2023-24 to 2025-26**



Note: There is a slight discrepancy between the annual figure and the monthly cash position due to the timings of data reporting. The annual financial year figure is an extract taken on 30 April, while the monthly data is from the monthly fixed positions, with adjustments for higher rates refunds.

Source: OBR, WRA

## LTT forecast

- 3.8** Table 3.2 sets out the latest LTT forecast and its components. LTT receipts are expected to grow at an average rate of 7.8 per cent annually throughout the forecast period. Relative to October, the forecast is lower by £4.9 million (1.1 per cent) on average each year. This is largely driven by weaker commercial outturn in the early part of 2025-26 and the weaker transactions forecast relative to March, which is partly offset by stronger residential outturn and an improved outlook for commercial prices.

Table 3.2: Land transaction tax forecast: changes since October

	£ million						
	Outturn	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
<b>Total LTT</b>							
October forecast	341	368	401	440	478	512	
January forecast	341	374	399	432	466	502	535
Difference		6	-2	-8	-11	-10	
<b>Residential (excluding additional properties)</b>							
October forecast	178	200	223	251	279	304	
January forecast	178	204	225	250	276	303	326
Difference		4	2	-1	-3	-2	
<b>Additional properties</b>							
October forecast	74	83	87	94	100	105	
January forecast	74	86	90	95	100	106	112
Difference		4	3	1	0	1	
<b>Commercial</b>							
October forecast	89	86	91	95	99	103	
January forecast	89	84	83	87	90	94	97
Difference		-2	-7	-8	-9	-9	

Source: OBR

## Residential LTT

**3.9** Residential LTT receipts are expected to grow by an average of £30.9 million (9.7 per cent) a year. The forecast remains largely unchanged compared with October, with slightly higher receipts in the first couple of years of the forecast partly offset by slightly lower receipts later in the forecast. There is limited difference in the forecast because strength in both the additional property and main rates residential forecasts from stronger in-year receipts is offset by fewer forecasted transactions.

Table 3.3: Residential LTT: changes since October

	£ million						
	Outturn	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
October forecast	252	282	310	345	379	410	
January forecast	252	290	316	345	376	409	437
<b>Difference</b>		8	6	0	-3	-1	
<i>of which:</i>							
Price changes		-2	-2	0	2	4	
Transaction changes		-10	-15	-23	-31	-33	
Outturn data and modelling		20	22	24	26	28	
Policy changes		0	0	0	0	0	

Source: OBR

## Commercial LTT forecast

**3.10** Table 3.4 shows commercial LTT is expected fall in 2025-26 and 2026-27. Thereafter it is forecast to grow steadily by an average of £3.5 million (4 per cent) annually. Relative to

October, receipts have been revised down by £6.9 million (7.3 per cent) on average per year over the forecast. This is explained by weaker outturn in the first seven months of 2025-26 and a weaker commercial transactions forecast.

**Table 3.4: Commercial LTT: changes since October**

	£ million						
	Outturn	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
October forecast	89	86	91	95	99	103	
January forecast	89	84	83	87	90	94	97
<b>Difference</b>		<b>-2</b>	<b>-7</b>	<b>-8</b>	<b>-9</b>	<b>-9</b>	
of which:							
Price changes		11	7	7	7	7	
Transaction changes		-4	-5	-6	-6	-7	
Outturn data and modelling		-9	-9	-9	-9	-10	
Policy changes		0	0	0	0	0	

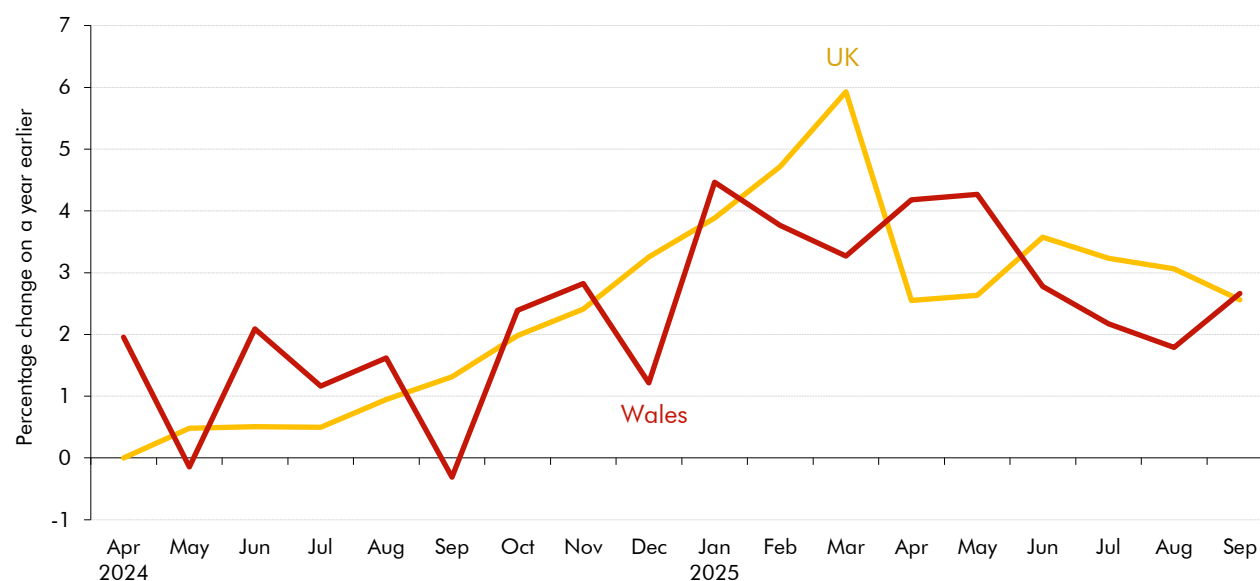
Source: OBR

## Latest developments

### Property prices

**3.11** Chart 3.2 shows that recent **house price growth** in Wales has been broadly similar but more volatile compared to the whole UK. In 2024-25 financial year growth rates increase in both the UK and Wales. The peak in UK price growth in March 2025 largely reflects forestalling for SDLT changes in April that only impact England and Northern Ireland. In the most recent month, September 2025, house price growth compared to the previous year is 2.6 per cent in the UK and 2.7 per cent in Wales.

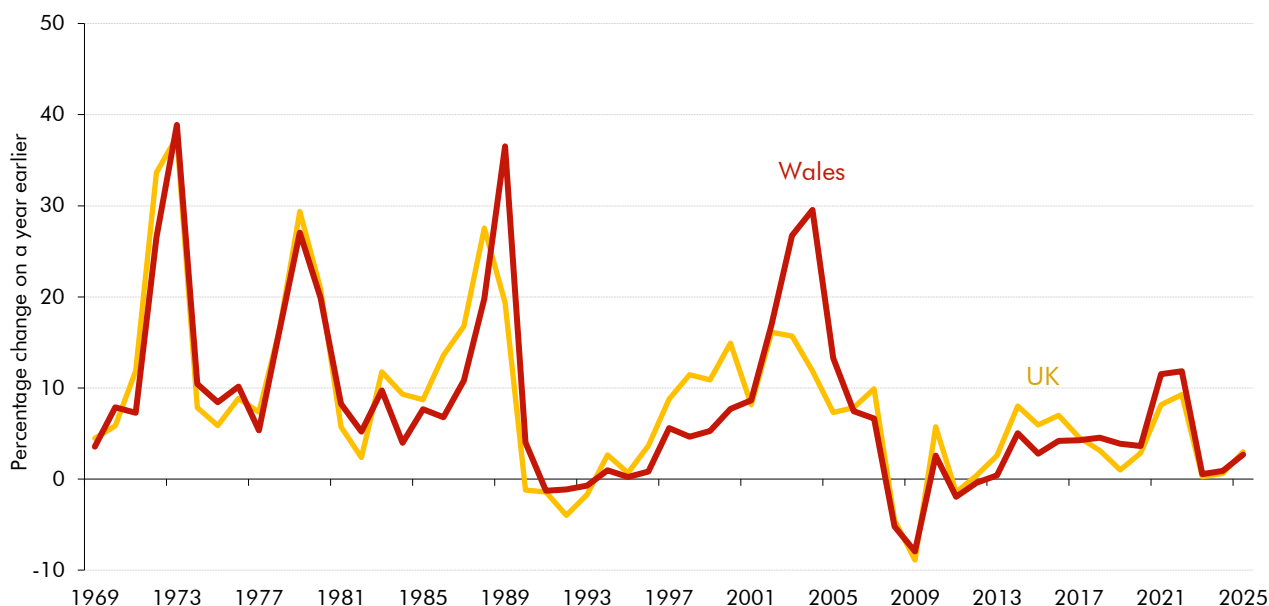
**Chart 3.2: House price inflation: Wales versus the UK as a whole**



Source: ONS

- 3.12** The similarity between property prices in Wales and the UK is broadly in line with historical trends, as is shown in Chart 3.3. Particularly in the long term, growth in property prices in Wales and the UK have been relatively similar. In the forecast we assume that house prices in the UK and Wales move together with the exception of the impact of planning reforms and SDLT changes, the effects of which are removed for Wales.

**Chart 3.3: Historical trends in house prices**



In the December 2024 *Welsh taxes outlook* we mistakenly published the incorrect series for UK property price changes in this chart.  
Source: ONS

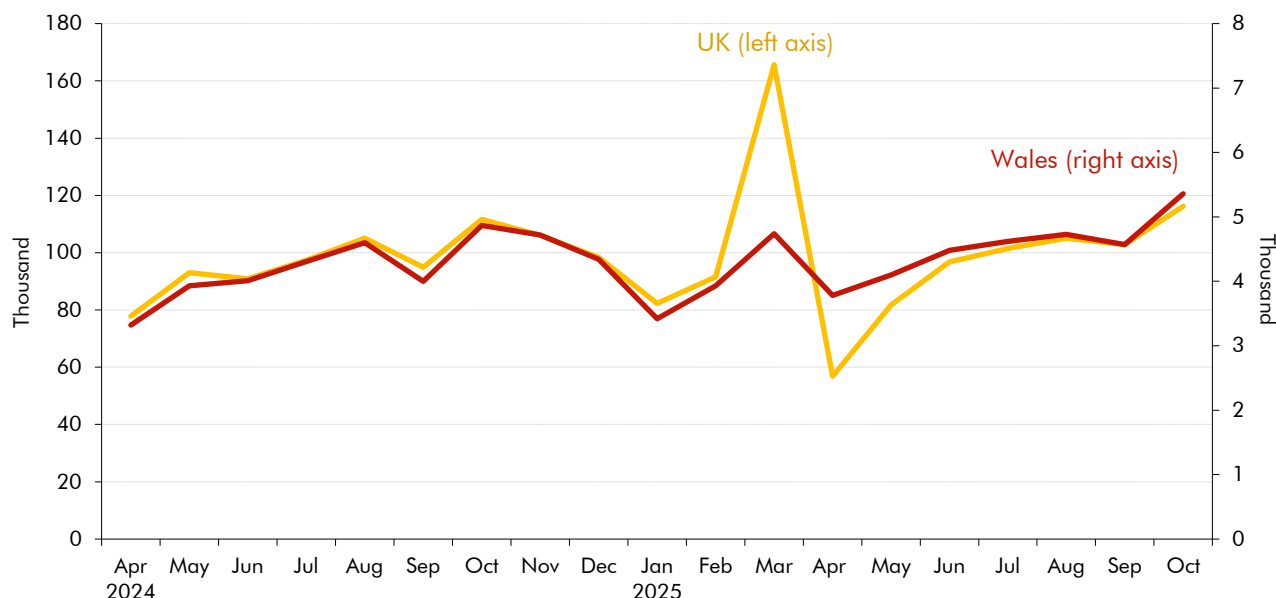
- 3.13** Commercial property prices (as measured by the average price of transactions recorded by the relevant tax authorities) in Wales decreased by 19 per cent in the first quarter of 2025-26 relative to the same quarter the previous year. This follows an increase of 23 per cent for the equivalent period in the previous year. It is also significantly different to the 29 per cent increase for the UK in the first quarter of 2025-26 relative to the previous year. However, commercial property prices are typically much more volatile than residential prices as they can be moved by large individual transactions. Welsh commercial prices are based on less than 2,000 transactions each quarter.

## Property transactions

- 3.14** In April 2025, changes to SDLT in England and Northern Ireland led to a significant increase in receipts in March and decrease in April. This is because of forestalling, where property transactions are brought forward to before the policy change is implemented. These changes did not impact Wales as property transaction tax is devolved, which is something we account for in our Welsh residential property determinants. Other than the forestalling impact, the profiles of Welsh and UK transactions were relatively similar in 2024-25 and the early part of 2025-26.



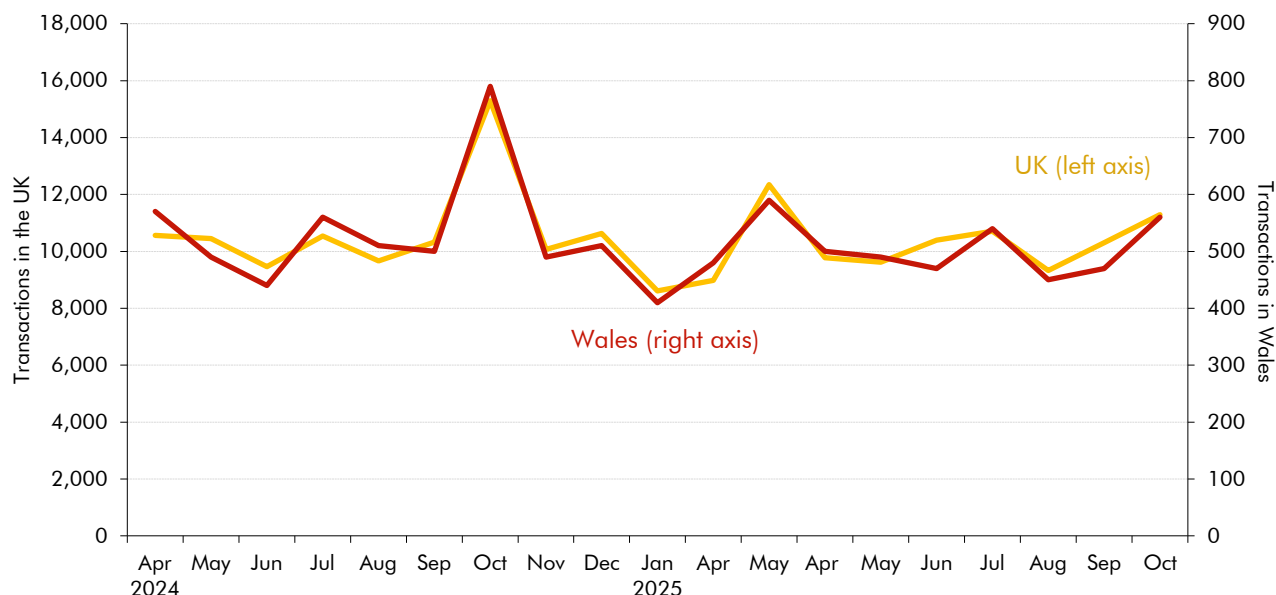
Chart 3.4: Residential property transactions



Source: HMRC

3.15 Changes in **commercial property transactions** in the UK and Wales have been largely similar for 2024-25 and 2025-26, as shown in Chart 3.5.

Chart 3.5: Commercial property transactions



Source: HMRC

## Risks and uncertainties

3.16 The above forecast represents our central LTT forecast, risks to this forecast include:

- **House price and transactions forecasts.** Our forecast is particularly sensitive to changes in house prices and transactions. While risks are balanced to the upside and

downside, our forecast for these is uncertain and will change based on the path of interest rates. It is also a challenge to map these forecasts, which are based on transactions and prices in the whole property market, to the subset of properties that are liable to pay LTT. This is because the number of transactions annually relative to the stock of properties is relatively small and properties below the residential main rates threshold of £225,000 are exempt (among other LTT exemptions). Tax base concentration also complicates this, as the progressive structure of LTT means that a small proportion of policies represent a large amount of the taxbase for both residential and commercial transactions.

- **Commercial market volatility.** Commercial property forecasts are based on a small number of transactions and are sensitive to the economic outlook. Uncertainty about the impact of the increased prevalence of online retailers and working from home also present a potential downside risk.
- **Previous policy changes.** Changes to property taxation, particularly when they are pre-announced, add uncertainty to our forecasts due to the behavioural response of taxpayers, such as forestalling<sup>12</sup> or changes in house prices. As there have been several changes in LTT over previous years, this is a risk to our forecast. The extent to which changes in property taxation in England and Northern Ireland impact the Welsh property market is also a key source of uncertainty.
- **Future policy changes.** Our forecasts are based on the effects of current stated policies, and do not consider policy intentions or ambitions (as required by the UK parliament when establishing the OBR). Future policy changes from the UK or Welsh government's will only be included in our forecast when the policies are sufficiently firm and costed.

### Box 3.1: Evaluation of LTT forecasts

Table A shows that LTT receipts in 2024-25 were £97 million (40 per cent) higher than we expected in our February 2024 forecast. Most of this difference is explained by stronger-than-expected residential transactions and prices. This is labelled as 'economic determinants' in the table. In Chart A we compare changes to 2022-23 as this is the year that the model was based on at the February 2024 forecast, meaning it is the changes since then that are relevant. As Chart A shows, we forecast that the total value of residential transactions would fall cumulatively by 27 per cent between 2022-23 and 2024-25, but instead it only fell by 5 per cent. The forecast for house prices and transactions was based on our November 2023 *EFO* forecast, in which we expected a significant decline, reflecting the higher outlook for mortgage rates, low transactions outturn and weak market indicators. As a result, transactions and prices were expected to continue declining into 2024-25. However, the housing market recovered from this shock faster than forecast.

<sup>12</sup> For more detailed information on this see Mathews, P., OBR Working Paper No.10: Forestalling ahead of property tax changes, October 2016.

Commercial property receipts were £23 million (36 per cent) higher than expected. 90 per cent of this is explained by modelling. This is because there were a few unusually large commercial transactions in 2024-25 and because outturn was higher in the final quarter of 2023-24 than expected, information that was not available at the time of forecasting.

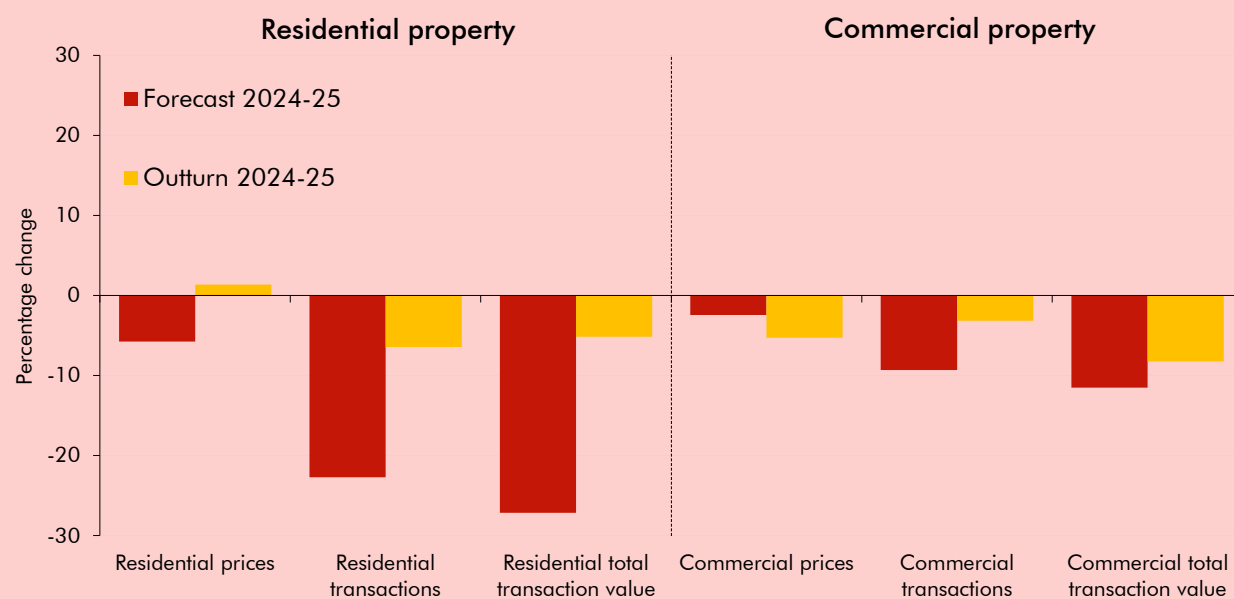
Changes from policy were relatively minor, with higher rates increased in December 2024 which was not known at the time of forecasting.

**Table A: Land transaction tax receipts in 2024-25: forecast versus outturn**

	£ million					
	Forecast	Outturn	Difference	Economic determinants	Fiscal modelling	Policy changes
<b>Total LTT forecast</b>	<b>244</b>	<b>341</b>	<b>97</b>	<b>77</b>	<b>18</b>	<b>2</b>
<i>of which:</i>						
Residential (main rates)	120	178	58	59	1	-1
Residential (higher rates)	58	74	16	16	-4	3
Non-residential	65	89	23	2	21	0

Source: OBR

**Chart A: Property prices and transactions: changes between 2022-23 and 2024-25 forecasts versus outturn**



Source: OBR

## 4 Landfill disposals tax

### Introduction

4.1 This chapter:

- describes the **landfill disposals tax (LDT)** 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*”.<sup>13</sup>

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). Like in England and Northern Ireland, there is a ‘standard’ and ‘lower’ rate for landfill disposals. Since April 2025, the ‘lower rate’ in Wales has been set at 5 per cent of the standard rate, bringing it above the rate in England and Northern Ireland. In Wales, there is also an ‘unauthorised disposals’ rate, which is set at 150 per cent of the standard rate.

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 given there are three different rates. In 2024-25 revenue from standard rate waste accounted for 96 per cent of total revenue from LDT,<sup>14</sup> although this is forecast to fall due to increases in the lower rate of landfill tax.

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<sup>13</sup> Welsh Government, *Landfill Disposals Tax (Wales) Bill 2016: Impact Assessments*.

<sup>14</sup> This does not include revenue from unauthorised disposals, which has not been included in recent WRA statistics releases.

## Forecast methodology

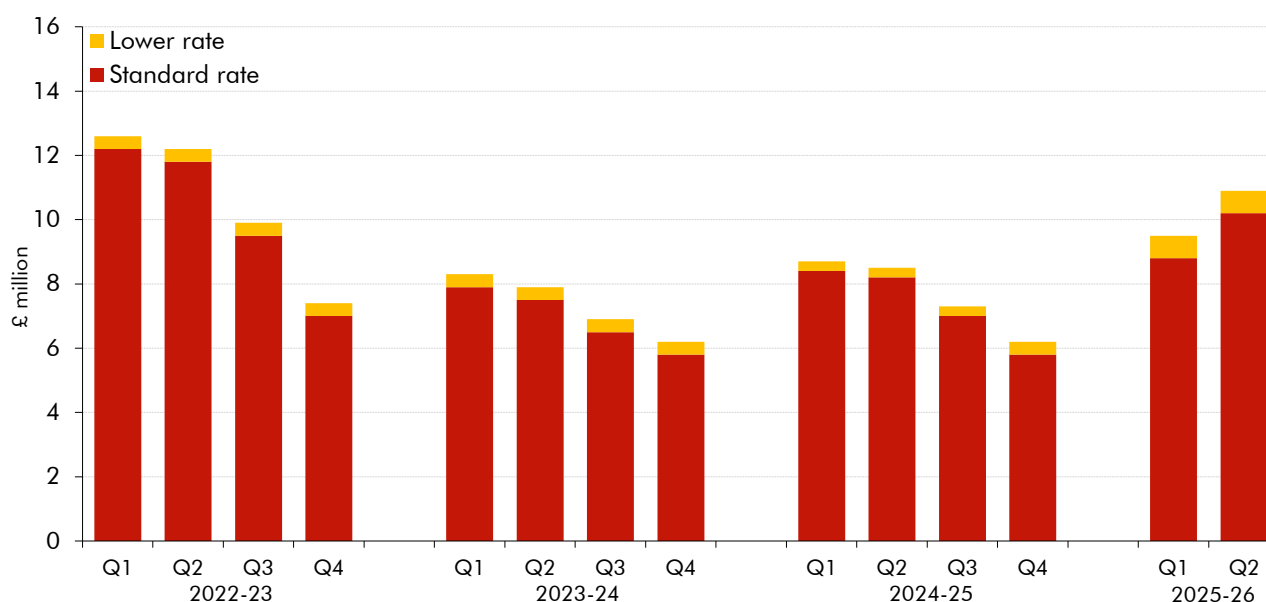
4.5 The LDT forecast uses a bottom-up model operated on our behalf by analysts in the Welsh Government. The assumptions and judgements that are fed into it are those of the Budget Responsibility Committee. The forecast methodology is straightforward – the main steps are:

- 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;
- 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.

## Latest LDT outturn data

4.6 Chart 4.1 shows the latest LDT outturn data. Receipts are up by £3.2 million (19 per cent) in the first half of 2025-26 relative to 2024-25. Lower rate receipts now make up 7 per cent of total receipts following the recent increase to the lower rate, compared to 3 per cent in first two quarters of 2024-25.

Chart 4.1: Quarterly LDT receipts



Note: This does not include revenue from unauthorised disposals, which has not been included in recent WRA statistics releases.

Source: Welsh Revenue Authority (WRA)

## Latest forecast

4.7 Since October, we have revised down our forecast by £0.7 million in 2025-26 and up on average by £4 million a year thereafter. This reflects several factors:

- A repayment that we project to cost £1.6 million in 2025-26 which lowers receipts in that year and is assumed not to persist through the forecast.
- Higher than anticipated volume and share of standard rated waste in 2025-26, which we assume will persist in future years. This increases receipts by £1 million a year annually.
- Other minor changes, such as downwards revisions to the lower rate series from the WRA which cause a decrease in the lower rate forecast and a slightly stronger inflation forecast increasing the forecast for rates.
- The policy decision of the Welsh Government to align with the English and Northern Irish lower rate from 2026-27, with the rate thereafter rising by the cash increase to the standard rate, increases the forecast by £3.6 million (10 per cent) a year on average from 2026-27 onwards.

Table 4.1: LDT forecast

	£ million						
	Outturn	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
October forecast	34	35	34	34	33	32	
January forecast	34	34	37	37	38	38	39
<b>Difference</b>		-1	2	4	5	6	
of which:							
Outturn data		-1	1	1	1	1	
Modelling and other		0	0	0	0	0	
LDT rates increase policy		0	1	2	4	5	

Source: OBR

## Latest developments

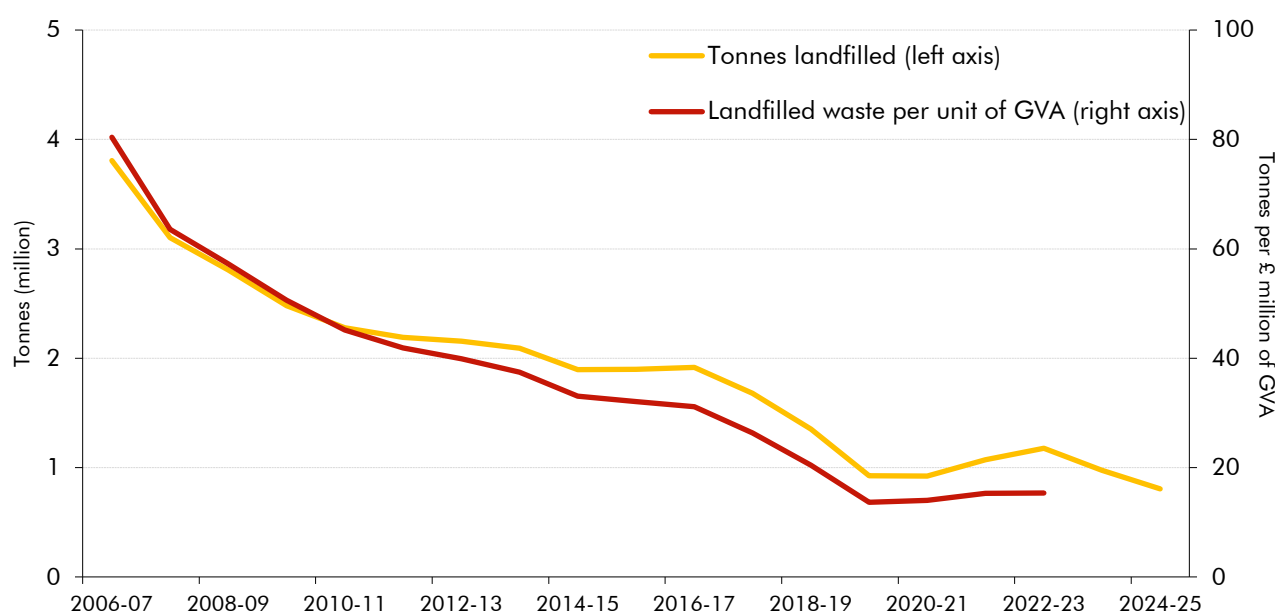
### The volume of waste sent to landfill

- 4.8** The volume of waste sent to landfill in the UK has been trending down, and Chart 4.2 shows that this has generally also been the case in Wales. However, between 2019-20 and 2022-23 Welsh landfill tonnage increased, likely reflecting disruption from Covid and issues at waste sites. In the most recent two full years of outturn, tonnage sent to landfill has decreased, from 1.2 billion tonnes in 2022-23 to 0.8 billion tonnes in 2024-25. This is likely due to disruption at landfill sites in Wales and policies such as Workplace recycling which came into effect in April 2024. Tonnage from the first half of 2025-26 is higher than it was in 2024-25.
- 4.9** The Welsh Government increased the lower rate of LDT above the level in England and Northern Ireland from the beginning of 2025-26. There was uncertainty at the time around whether this divergence of rates between England and Wales would reduce the amount of waste from England that is disposed of in Wales. However, evidence from the first half of

2025-26 suggests that it has had relatively little impact on the amount of English waste disposed of in Wales. In fact, the volume and proportion of lower rate waste from England has slightly increased since 2023-24. This is likely because transport costs of moving waste from England to Wales are higher than the relative difference in the lower rates of landfill tax.

- 4.10 The Welsh Government has now announced their intention to increase the lower rate of landfill tax to align it with the rate in England and Northern Ireland. We forecast that this policy will decrease overall lower rate tonnage sent to landfill by 15 per cent by 2030-31.

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



Note: This does not include tonnage from unauthorised disposals, which has not been included in recent WRA statistics releases.  
Source: WRA, ONS

## Risks and uncertainties

- 4.11 In this section we summarise some of the main uncertainties and risks to our central forecast. These include:

- The **net volume of waste arising** is uncertain. Changes in Welsh infrastructure, such as increases to incineration capacity, mean that the forecast for tonnes of waste sent to landfill has previously trended down. As shown in Chart 4.2 the trend for landfilled waste has been less clear in recent years, this means there is an upside and downside risk to our forecast of tonnage. Five landfill site operators accounted for 96 per cent of the total tax due<sup>15</sup>, meaning changes to any of these sites can have a significant impact on the volume of landfilled waste.

<sup>15</sup> This relates to July to September 2025. For more details see WRA's Landfill Disposals Tax statistics: July to September 2025.

- All taxes are subject to a degree of **non-compliance**, which may result from simple errors or deliberate criminal activity. At the UK level, HMRC's most recent estimates<sup>16</sup> put the 'tax gap' for UK landfill to be 22.6 per cent (£150 million). There is no estimate for the LDT tax gap, but if the gap were the same in percentage terms, this would imply that £10 million of potential receipts in 2024-25 were not collected. We assume in our forecast that there is no change in the rate of baseline compliance in future years, and the only changes relate to policy measures which increase compliance activity. If there are changes in compliance this presents a risk to our forecast.
- LDT on **unauthorised disposals** arises when the WRA identifies suitable cases and issues a charging notice. The WRA plans to increase its operational activity in the coming years, with additional compliance resource included in our forecast and expected to increase LDT receipts by £0.7 million from 2026-27 onwards. The amount that will be collected is uncertain and will depend on resources, planning and risks of litigation.
- Our forecast implicitly assumes that there is sufficient **incineration and recycling capacity** in Wales to accommodate any increase in waste. These assumptions are revisited when there are problems with infrastructure, for example if a large incinerator were to be offline for a significant period. Such an event would imply a higher share of waste going to landfill than is assumed in our forecast.
- **Behavioural responses to policy changes.** In this budget, the Welsh Government has increased its lower rate of landfill tax to align with England and Northern Ireland in 2026-27, with increases in future years matching the cash increase to the standard rate. This will generate a significant increase in the lower rate, which is forecast to rise from £6.30 per tonne in 2025-26 to £24.05 in 2030-31. We have projected a 15 per cent decrease in lower rate tonnage in 2030-31 based on the response to previous increases in the lower rate. We have also assumed there to be no compliance impact from this policy, either from increased non-compliance on lower rate waste due to the increased cost or increased compliance on standard rated waste due to less incentive to mislabel standard rated waste as lower rated.

### Box 4.1: Evaluation of LDT forecasts

Table A compares our February 2024 LDT forecast to outturn for 2024-25, showing outturn was £5.8 million (20 per cent) higher than forecast. Just under half of this change, £2.8 million, is due to an adjustment made by the WRA where revenues accrued in 2018-19 were received in 2024-25, along with some unauthorised disposals cases. The other half comes from modelling differences, largely in relation to non-local authority standard waste which was £2.8 million higher than forecast.

<sup>16</sup> This relates to 2022-23. For more detail see HMRC's Measuring tax gaps 2025 edition.



Table A: Landfill disposals tax receipts in 2024-25: forecast versus outturn

	£ million						
	Forecast	Outturn	Difference	<i>of which:</i>			
				Economic determinants	Fiscal modelling	Policy changes	WRA adjustments
<b>Total LDT forecast</b>	<b>28</b>	<b>34</b>	<b>6</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>3</b>
Source: OBR							

# 5 Block grant adjustment and net tax position

## Introduction

5.1 In this chapter we provide:

- The latest forecasts of the **block grant adjustment (BGA)** for each of the Welsh taxes, including the corresponding England and Northern Ireland taxes on which they are based;<sup>17</sup>
- based on these forecasts, the latest projections of the **net tax position** for Wales.

5.2 The **block grant** is the mechanism through which the UK Government provides the majority of funding to the Welsh government and is allocated from within the departmental spending limits set by the Treasury.<sup>18</sup> Changes to block grants are determined by the Barnett formula, which is driven by changes in planned spending by the UK Government on programmes which are devolved in Wales.<sup>19</sup>

5.3 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. These **block grant adjustments (BGAs)** are calculated separately for each tax. The BGAs were initially set at the relevant amount of UK Government revenue raised in Wales at the time of devolution. They are then adjusted each year using the “comparable” method which adds the Welsh population share of the change in equivalent cash revenues for the rest of the UK, adjusted by a comparability factor. The comparability factor reflects tax revenue per person in Wales as a proportion of revenue per person in the rest of the UK at the time devolution. We explain this in more detail in Box 5.1 of our November 2025 *Devolved tax and spending forecasts*, including the differences between the Welsh and Scottish block grant adjustment mechanisms.

5.4 The tax BGAs are initially based on our forecasts for the rest of the UK Government’s revenue from taxes that have been devolved, which is equivalent to the estimated revenue from those taxes in England and Northern Ireland.<sup>20</sup> For income tax, the England and Northern Ireland forecast used to derive the BGA is calculated by subtracting the Scottish and Welsh revenues from the whole of the UK forecast that we produce. We produce these

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<sup>17</sup> For the devolved taxes covered in this report, the corresponding UK Government taxes are income tax liabilities excluding those on savings and dividend income, stamp duty land tax and landfill tax, all from England and Northern Ireland.

<sup>18</sup> Annually Managed Expenditure (AME) funding is also provided to the devolved administrations separately to the block grant.

<sup>19</sup> The OBR has no direct involvement in the setting of the block grant, but our forecasts are used as the basis for the spending settlements for both Scotland and Wales.

<sup>20</sup> This was on an England, Wales and Northern Ireland basis for Scotland prior to Welsh devolution of relevant receipts.

forecasts but are not responsible for the BGA calculations, which are produced by the Treasury. For this year's Welsh final budget, the forecasts for 2026-27 published alongside the Autumn 2025 budget are used to set the BGA. From 2027-28 onwards, the forecasts are merely illustrative as the projections will be updated again before being used for budgetary purposes.

**5.5** The difference between the amount of revenue raised by the devolved Welsh taxes and the amount deducted from the block grant (the tax BGA) is called the **net tax position**. A positive figure means that Welsh revenues will exceed the funding that is deducted from the Welsh block grant, while a negative figure means that Welsh revenues are lower than the funding deducted. Devolved governments set their initial budget plans based on the forecast for the net position. For income tax, when outturn data is released the difference between outturn and forecast is settled with the devolved administration in a process known as reconciliation. For example, a positive reconciliation of £124 million, reflecting the difference between forecasts and outturn for the net income tax position in 2023-24, will be added to the Welsh budget in 2026-27. For the other devolved taxes, differences in devolved revenues and spending are managed in-year. There is a reconciliation process for the associated block grant adjustments with any resulting changes applied in the year after outturn information is available.

**5.6** In this chapter, when comparing the latest forecasts for the tax BGAs and net tax position, we provide comparisons to our March 2025 *EFO* and the December 2024 *WTO* as these contain our most recent income tax projections, with income tax the largest component of both the tax BGAs and the net tax position.

## Inputs to the block grant adjustment

**5.7** Table 5.1 sets out the latest England and Northern Ireland equivalent taxes, which form the basis of the Welsh tax BGAs. In our central forecast, we expect England and Northern Ireland equivalent taxes to grow by around 6.5 per cent a year on average over the forecast period. This is driven by income tax growth, given it represents the largest component of the partially or fully devolved taxes. As discussed in Chapter 2, growth in income tax is driven by strong nominal wage growth, particularly in the short term due to higher inflation, coupled with the freezes to the personal tax thresholds. As shown by the bottom half of the table, the Welsh devolved taxes are forecast to grow at a similar pace, with the ratio to their England and Northern Ireland equivalent taxes remaining broadly constant across the forecast at 1.4 per cent.

Table 5.1: Devolved Welsh taxes relative to rest of UK equivalents

	£ million							
	Outturn	Forecast						
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
<b>Total England and Northern Ireland (ENI) equivalent</b>	<b>239,221</b>	<b>263,017</b>	<b>286,485</b>	<b>306,681</b>	<b>322,101</b>	<b>336,098</b>	<b>353,912</b>	<b>370,555</b>
of which:								
NSND income tax	227,119	248,648	271,062	288,665	301,810	313,323	329,115	344,115
SDLT	11,614	13,883	14,904	17,649	19,924	22,312	24,355	25,965
Landfill tax	489	486	519	367	368	463	442	475
<b>Total Welsh devolved taxes</b>	<b>3,268</b>	<b>3,652</b>	<b>3,993</b>	<b>4,240</b>	<b>4,460</b>	<b>4,652</b>	<b>4,894</b>	<b>5,124</b>
of which:								
Welsh rates of income tax <sup>1</sup>	2,968	3,277	3,585	3,804	3,990	4,148	4,353	4,550
Land transaction tax	270	341	374	399	432	466	502	535
Landfill disposals tax	30	34	34	37	37	38	38	39
<b>Wales as a share of ENI</b>								
<b>Total Welsh devolved taxes</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>
of which:								
Welsh rates of income tax <sup>1</sup>	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Land transaction tax	2.3	2.5	2.5	2.3	2.2	2.1	2.1	2.1
Landfill disposals tax	6.1	7.0	6.6	10.0	10.2	8.2	8.7	8.1

<sup>1</sup> Currently outturn data is only available for 2023-24 for income tax, and 2024-25 remains a forecast. For land transaction tax and landfill disposals tax, the latest outturn is 2024-25.

Source: OBR

**5.8** Table 5.2 compares Welsh rates of income tax by band to their UK Government equivalents on a Welsh rates basis, which forms the basis of the income tax BGAs. On a Welsh rates basis, England and Northern Ireland income tax receipts are forecast to grow by around 5.8 per cent a year on average. This is slower than Welsh rate receipts, which are forecast to grow at around 6.3 per cent a year. The relatively faster growth in Welsh rate receipts is driven by the effective tax rate on personal incomes in Wales rising faster than in the rest of the UK. Relative growth is fastest in the higher rate band in Wales, with the ratio of Welsh to England and Northern Ireland receipts in the higher rate band rising from 2.4 to 2.8 per cent over the forecast period. We explore the reasons for this in more detail in Box 5.1.

Table 5.2: Welsh rates and rest of UK equivalents by band

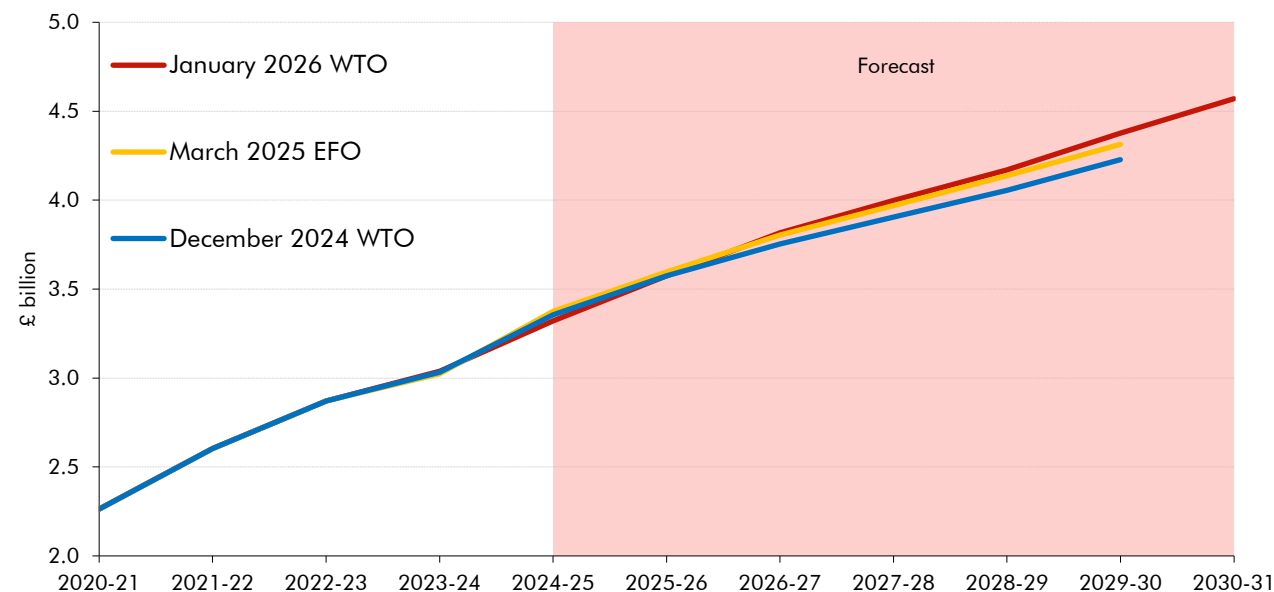
	£ billion							
	Outturn	Forecast						
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
<b>England and Northern Ireland NSND income tax (WRIT basis)</b>	<b>82.7</b>	<b>90.2</b>	<b>97.7</b>	<b>103.8</b>	<b>108.2</b>	<b>112.1</b>	<b>117.5</b>	<b>122.7</b>
of which: Basic rate	54.8	59.4	63.6	67.3	69.9	72.2	75.3	78.4
Higher rate	15.6	17.3	19.2	20.6	21.6	22.5	23.7	24.9
Additional rate	12.2	13.5	14.9	15.9	16.7	17.5	18.5	19.4
<b>Welsh rates</b>	<b>3.0</b>	<b>3.3</b>	<b>3.6</b>	<b>3.8</b>	<b>4.0</b>	<b>4.1</b>	<b>4.4</b>	<b>4.6</b>
of which: Basic rate	2.5	2.7	3.0	3.1	3.3	3.4	3.5	3.7
Higher rate	0.4	0.4	0.5	0.5	0.6	0.6	0.7	0.7
Additional rate	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
<b>Wales as a share of ENI WRIT-equivalent</b>								
<b>Welsh rates</b>	<b>3.6</b>	<b>3.6</b>	<b>3.7</b>	<b>3.7</b>	<b>3.7</b>	<b>3.7</b>	<b>3.7</b>	<b>3.7</b>
of which: Basic rate	4.6	4.6	4.7	4.7	4.7	4.7	4.7	4.7
Higher rate	2.4	2.5	2.6	2.6	2.7	2.7	2.8	2.8
Additional rate	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8

Source: OBR

## The latest forecasts for the block grant adjustment

- 5.9** As a result, the BGA that is underpinned by the England and Northern Ireland forecasts presented above is expected to grow over the forecast, rising from £3.0 billion in 2023-24 to £4.6 billion by 2030-31, an average increase of 6.0 per cent a year. As Table 5.3 shows, most of this reflects growth in the basic rate element of the Welsh rates BGA, which increases from £2.4 billion to £3.4 billion over the period and continues to account for the majority of devolved NSND income tax.
- 5.10** The higher and additional rate BGAs grow more quickly in percentage terms, but from a much smaller base, so together still make up only around 16 per cent of the total Welsh rates BGA by the end of the forecast. The non-income tax BGAs make only a modest contribution to overall growth: the land transaction tax BGA rises by around £0.3 billion over the period, while the landfill disposals tax BGA remains broadly flat.

Chart 5.1: Forecast of the Welsh block grant adjustment



Source: HM Treasury, OBR

Table 5.3: Forecast of the block grant adjustments by tax

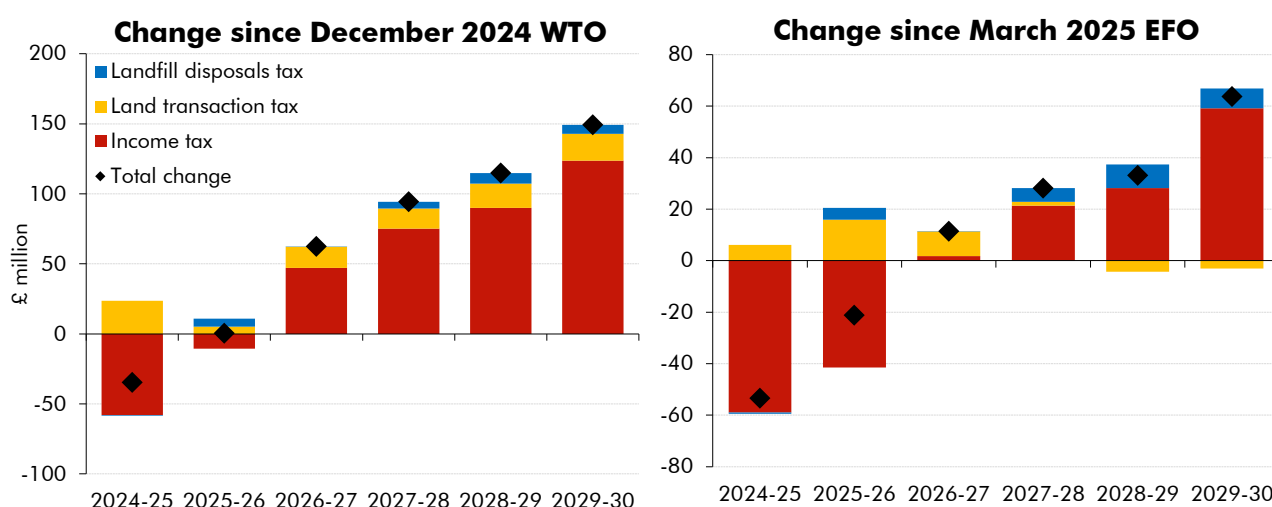
	£ million							
	Outturn	Forecast						
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
<b>Welsh tax BGA</b>	3,038	3,322	3,574	3,816	3,999	4,171	4,378	4,571
of which:								
<b>Welsh rates</b>	2,782	3,020	3,251	3,444	3,580	3,702	3,868	4,028
of which:								
Basic rate	2,384	2,580	2,764	2,922	3,034	3,132	3,267	3,398
Higher rate	324	358	396	426	446	464	490	513
Additional rate	74	82	90	96	101	105	111	117
<b>Land transaction tax</b>	237	283	303	358	403	451	492	524
<b>Landfill disposal tax</b>	19	19	21	15	15	18	18	19

Note: BGA figures are based on HM Treasury calculations of OBR forecasts. The latest outturn year for land transaction tax and land disposal tax is 2024-25.

Source: HM Treasury, OBR

- 5.11** Compared with our March forecast, the overall tax BGA is slightly lower in the short term and then significantly stronger by the end of the forecast. The downward short term revision reflects weaker income tax outturn receipts from PAYE, but from 2026-27 this is offset by our stronger nominal earnings forecast, plus the extension of the personal tax threshold freezes from 2028-29, which raise England and Northern Ireland receipts and so the BGA. Compared with December, the BGA is higher in every year, with the profile of revisions increasing. Revisions to land transaction tax and landfill disposals tax are relatively small and together account for only a modest share of the overall changes.

Chart 5.2: Change in the block grant adjustment forecast since March and December

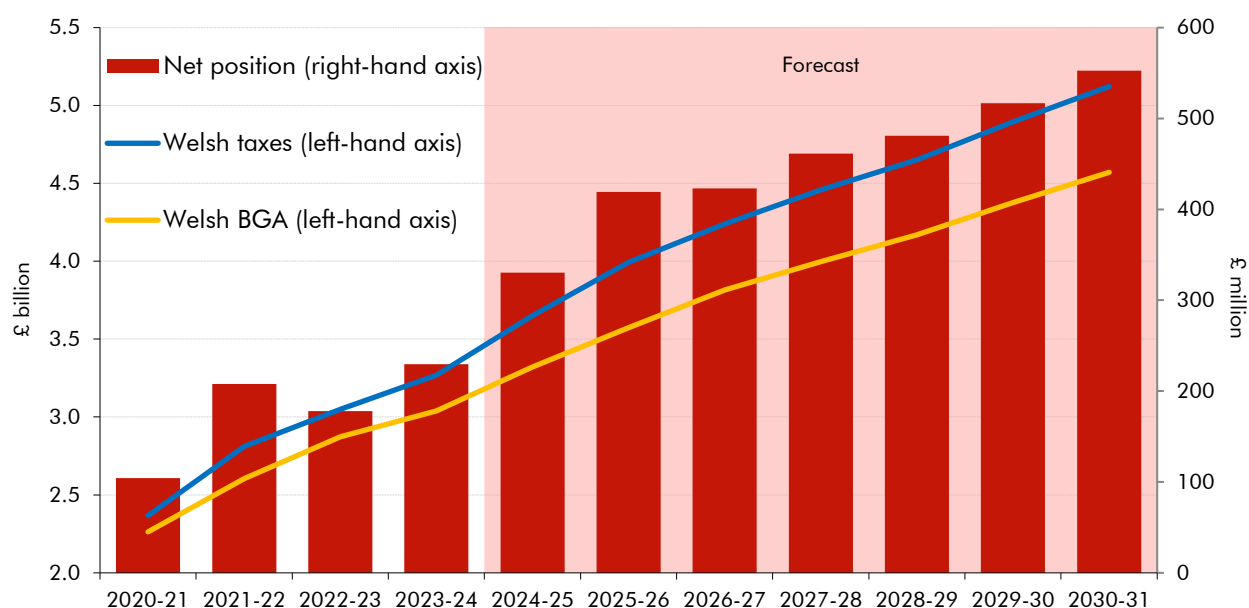


Source: HM Treasury, OBR

## Welsh net tax position

**5.12** Chart 5.3 sets out the latest projections of the net tax position, reflecting the forecast difference between the Welsh devolved taxes whose profiles are described in Chapters 2 to 4, and the BGAs set out in the previous section. The net tax position is projected to rise from £230 million in 2023-24 to £553 million in 2030-31, with growth averaging around 14 per cent a year over the forecast. This reflects stronger growth in Welsh taxes relative to the associated BGAs, with Welsh tax revenues forecast to rise by around 6 per cent a year on average over the forecast period, compared with around 5 per cent a year for the BGAs over the same period.

Chart 5.3: Latest forecast for the net tax position



Source: HM Treasury, OBR

5.13 As shown in Table 5.4, this net position is comprised of:

- **Welsh rates of income tax**, which increase from £187 million in 2023-24 to £522 million by 2030-31. Growth is driven by rising basic and higher rate liabilities, with basic rate revenues increasing from £122 million to £297 million and higher rate revenues from £49 million to £179 million over the forecast period. This reflects the freeze to personal tax thresholds, which increase Welsh receipts more than their equivalent England and Northern Ireland equivalent receipts due to distributional differences in incomes (see Box 5.1).
- **Land transaction tax**, which rises from £33 million in 2023-24 to a peak of £71 million in 2025-26, before declining to £11 million by 2030-31. The net position is positive as Wales has generally higher rates of property transaction tax. However, the net tax position declines later in the forecast due to an expectation of higher relative SDLT receipts due to the impact of planning reforms in England.
- **Land disposal tax**, which increases from £10 million in 2023-24 and rises to £20 million in 2030-31. This reflects an assumption, based on outturn, that English and Northern Irish landfill tonnage responds more strongly to uprating than in Wales.

Table 5.4: Forecast of the Welsh net position by tax

	£ million							
	Outturn	Forecast						
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Total Welsh taxes	3,268	3,652	3,993	4,240	4,460	4,652	4,894	5,124
Welsh tax BGA	3,038	3,322	3,574	3,816	3,999	4,171	4,378	4,571
<b>Net tax position</b>	<b>230</b>	<b>330</b>	<b>419</b>	<b>423</b>	<b>461</b>	<b>481</b>	<b>517</b>	<b>553</b>
of which:								
<b>Welsh rates</b>	187	257	334	360	410	446	485	522
of which:								
Basic rate	122	158	203	210	241	260	279	297
Higher rate	49	77	101	117	132	147	163	179
Additional rate	15	22	30	33	37	40	43	46
<b>Land transaction tax</b>	33	58	71	41	29	15	11	11
<b>Landfill disposals tax</b>	10	15	14	22	23	20	21	20

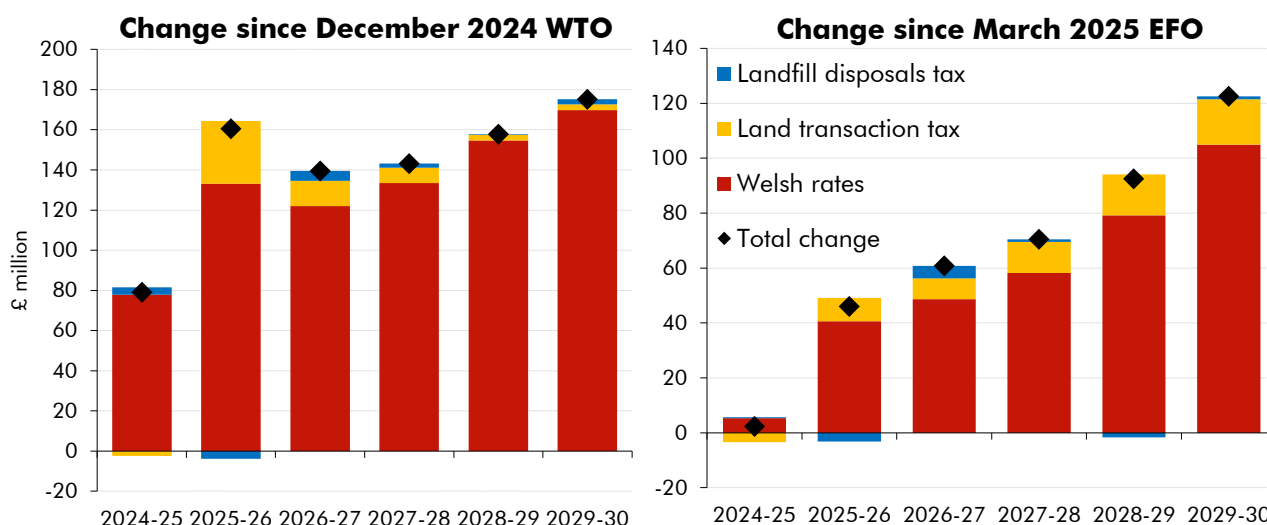
Note: BGA figures and the corresponding net tax position are based on HM Treasury calculations of OBR forecasts. We present the outturn numbers net of reconciliations. Reconciliations reflect differences from the initial forecast used to set the block-grant adjustment and tax forecasts, and outturn. The latest outturn year for land transaction tax and land disposal tax is 2024-25.

Source: HMRC, OBR

5.14 Chart 5.4 shows that the net tax position forecast has risen on average by around £78 million per year from 2025-26 onwards compared with March, with the profile increasing each year. Most of this growth is due to the increase in the Welsh rates net position, reflecting higher inflation which boosts receipts, as well as the impact of threshold freezes and their extension, which further amplify receipts through fiscal drag (see Box 5.1). The rest of the growth, compared with March, is due to our upward revision to the LTT forecast as explained in Chapter 3. Compared with December, the net tax position is higher in every year, with the average revision rising from £79 million in 2024-25 to £175 million by 2029-30.



Chart 5.4: Change in the net tax position forecast since March and December



Source: HM Treasury, OBR

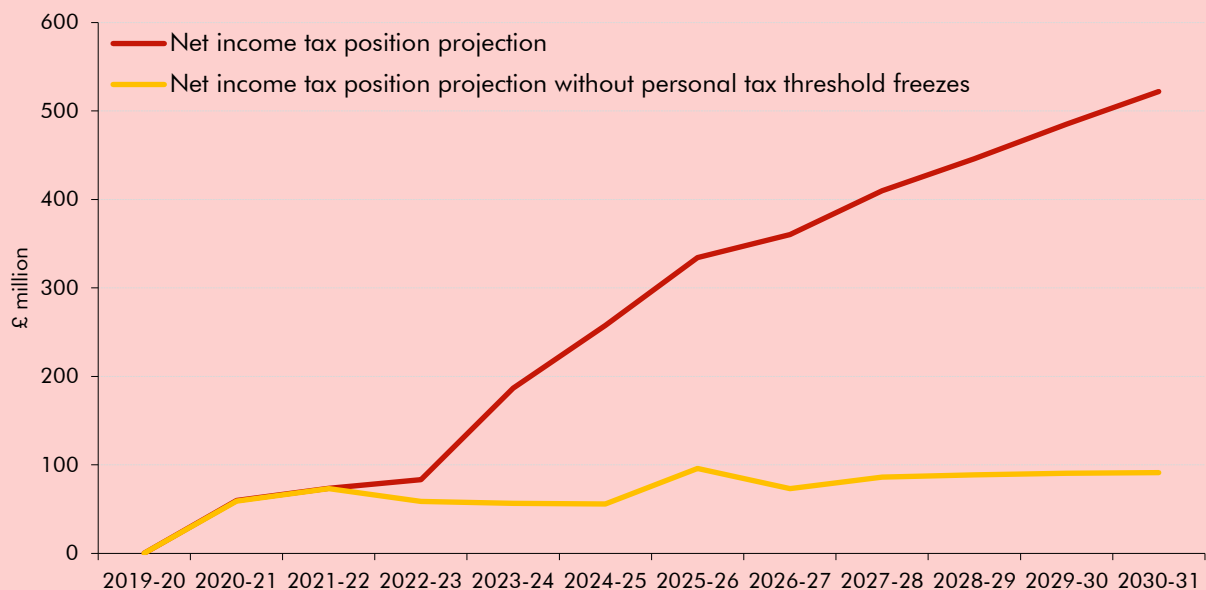
### Box 5.1: Impact of UK Government threshold freezes on the Welsh net income tax position

The Autumn 2025 Budget saw the extension of the personal allowance (PA), higher rate and additional rate threshold freezes until 2030-31. Most personal tax thresholds have been frozen in cash terms since April 2021. The resulting 'fiscal drag' raises significant revenue, especially when inflation and nominal earnings growth is strong, as more workers find that their earnings enter the tax system or are taxed at higher rates. Across the whole of the UK, in our November 2025 EFO, we estimated that the threshold freezes would yield £66.6 billion by the end of the forecast compared with the previous UK Government policy of thresholds rising with inflation.

For the Welsh budget, the direct impact of these changes is captured by the impact on the net income tax position, that is, the extent to which Welsh rate receipts rise faster than the tax BGA (which is based on the change in England and Northern Ireland receipts) as a result of the freezes. Chart A shows the net income tax position based on our latest forecasts, and a counterfactual assuming thresholds had risen in line with inflation. It shows that:

- Between 2019-20, the year of devolution of Welsh rates, and 2023-24, the latest outturn year for income tax, the net income tax position rose to £187 million. We estimate that in the absence of the personal allowance and higher rate threshold freezes and the lowering of the additional rate threshold from 2022-23 onwards, the net income tax position would have risen more modestly to £57 million.
- From 2023-24 onwards, we expect the net income tax position to rise from £187 million to £522 million by 2030-31, £431 million higher than in the scenario without the threshold freezes. This means that cumulatively, we estimate the combined effect of the threshold freezes since April 2021 to have improved the Welsh budgetary position by £2.4 billion by 2030-31.

Chart A: Impact of threshold freezes on the Welsh net income tax position



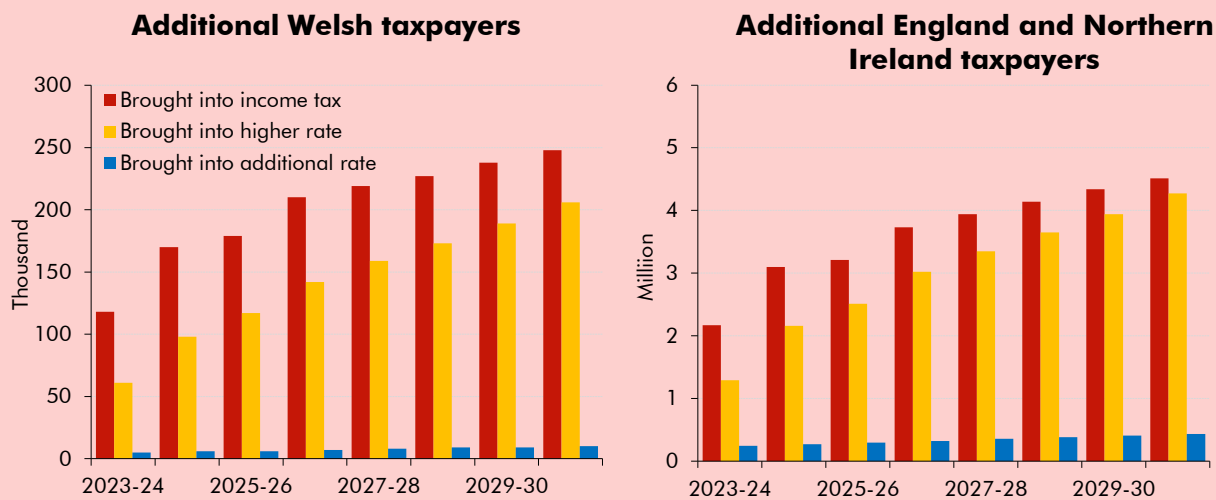
Note: We use some simplifying assumptions to produce the net income tax position without personal tax threshold freezes. For example, we do not account for behavioural changes that would occur if thresholds had risen with inflation. Compared with the analysis in our November 2025 EFO, we also include the impact of the basic and higher rate threshold freezes on the net tax position in 2022-23.

Source: HM Treasury, OBR

Given that thresholds and rates are aligned between Wales and England and Northern Ireland, this improvement in the net tax position reflects distributional differences in income. In Wales, there is a higher proportion of individuals at the lower end of the income distribution. In 2024-25, we estimate that 88.5 per cent of Welsh taxpayers have incomes, on an NSND basis, below the higher rate threshold, compared with 82.4 per cent in England and Northern Ireland. This means that, when thresholds are fixed and incomes rise, a greater number of taxpayers are pushed above the threshold compared to England and Northern Ireland, where there is already a comparatively higher share. As a result, Welsh rates receipts grow faster than England and Northern Ireland receipts and the corresponding tax BGA.

Chart B shows that, in our central forecast, we expect there to be an additional 248, 206 and 10 thousand basic, higher and additional rate Welsh taxpayers by 2030-31 as a result of the freezes. This compares to 4.5, 4.3 and 0.4 million, respectively, for England and Northern Ireland taxpayers. While the absolute increases in Wales are smaller than in England and Northern Ireland, the percentage change in the number of taxpayers is greater in Wales. For example, in 2030-31, we expect there to be 15, 186 and 67 per cent more basic, higher and additional rate Welsh taxpayers compared to if thresholds had risen with inflation. This compares to 13, 117, 48 per cent more in England and Northern Ireland.

Chart B: Number of taxpayers brought into tax bands by threshold freezes



Source: OBR

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