

# Welsh taxes outlook – June 2021 update

- 1.1 In our December 2020 *Welsh taxes outlook (WTO)* we presented five-year tax forecasts alongside the Welsh Government’s draft Budget. 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 November 2020 UK economy and fiscal forecasts, plus new liabilities and receipts data published since then.<sup>2</sup> We published updated forecasts for the taxes devolved to the Welsh Government in our March 2021 *Devolved tax and spending forecasts* alongside the UK Government Budget. Ahead of its first supplementary Budget for 2021-22 on 22 June, the Welsh Government has asked us to update our forecasts for LTT and LDT to reflect the latest information. They are still underpinned by determinants from our March 2021 UK economy and fiscal forecasts.<sup>3</sup>
- 1.3 We will publish new Welsh tax forecasts based on updated UK-wide economy and fiscal forecasts in our next *Devolved tax and spending forecasts* document, alongside our next *Economic and fiscal outlook* that will accompany the UK Government’s next Budget.

## Land transaction tax

### Recent developments

- 1.4 Chart 1.1 shows recent developments in LTT receipts and compares them to our March forecast for receipts in 2020-21. The key points include:
  - The **coronavirus pandemic and associated property market restrictions weighed on receipts early in 2020-21**, but they picked up strongly from September onwards to end the year down just £18 million (8 per cent) on 2019-20.<sup>4</sup>
  - LTT receipts in 2020-21 **exceeded our March forecast by £22 million (11 per cent)**. Outturn data were available up to January when we produced that forecast, with February and particularly March receipts being materially stronger than expected.

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<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.

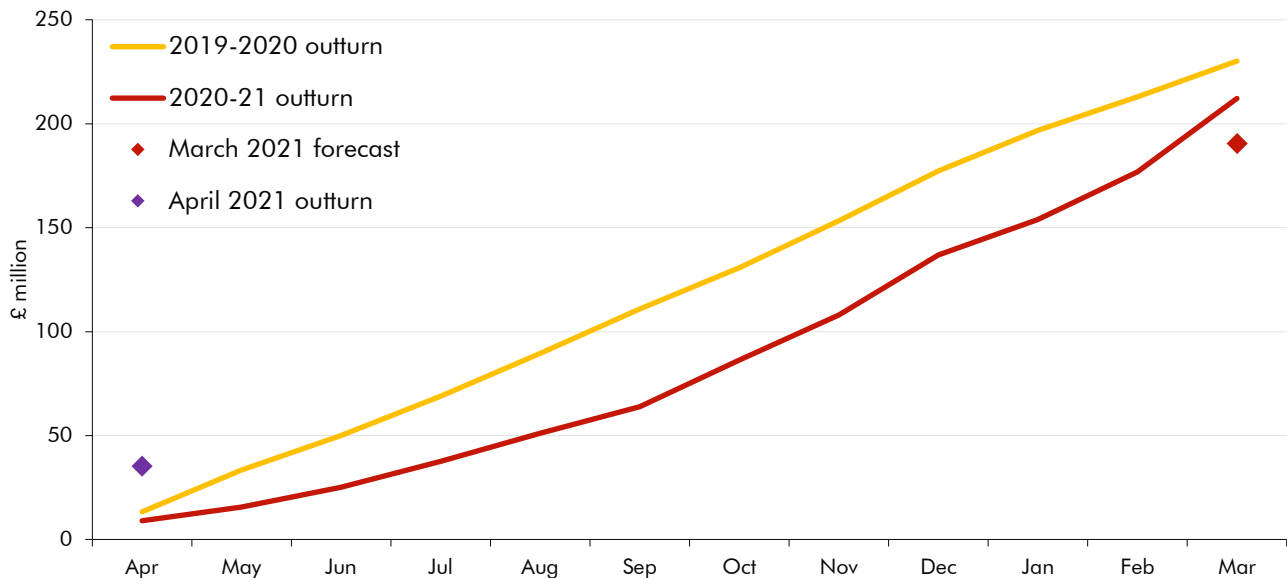
<sup>2</sup> See our November 2020 *Economic and fiscal outlook*.

<sup>3</sup> Analysts in the Welsh Government produced updated forecasts for LTT and LDT on 26 May 2021. The Budget Responsibility Committee scrutinised and finalised these forecasts on 7 June.

<sup>4</sup> This excludes the transfer of the Core Valley Lines (CVL) rail network into public ownership. The Welsh Revenue Authority (WRA) records this as an untypically large transaction, which adds £28 million to LTT receipts in 2019-20.

- This momentum was carried forward, with **receipts in April 2021 more than double their level in each of the previous two years**. Indeed, commercial LTT receipts in April were equivalent to 36 per cent of our March forecast for 2021-22 as a whole.

Chart 1.1: Recent land transaction tax outturns



Note: The 2019-20 monthly receipts shown above do not include the transfer of the Core Valley Lines (CVL) rail network into public ownership. The WRA records this as an untypically large transaction, which adds £28 million to total LTT receipts in 2019-20. An additional £2 million of receipts from transactions with restricted detail are also not included.

Source: WRA, OBR

- 1.5 Our forecast for LTT starts from our UK-wide property market forecasts, as we assume that in the absence of evidence to the contrary, Welsh property prices and transactions move in line with those across the UK as a whole. In some previous forecasts we have included an uplift to the house prices forecast underpinning our residential LTT forecasts, to reflect greater momentum in the Welsh housing market evident in the data that were available at the time. Given trends in the latest data, we have not included any Wales-specific assumptions on top of our UK house prices forecast (as was the case in our March forecast).

## Latest forecasts

- 1.6 Table 1.1 shows our updated forecasts for LTT and changes since March. It shows that overall receipts are up in each year by an average of £15 million (6 per cent), reflecting the higher starting point for the forecast due to the strong outturns in recent months. The contributions to these changes from each component of LTT are explained below.

Table 1.1: Land transaction tax forecast – June 2021 update

	£ million					
	Outturn	Forecast				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
<b>Total LTT</b>						
March forecast	190	260	272	285	310	338
June update	212	280	286	295	322	351
<b>Change</b>	<b>21</b>	<b>20</b>	<b>14</b>	<b>11</b>	<b>12</b>	<b>13</b>
<b>Residential (excluding additional properties)</b>						
March forecast	83	131	133	141	158	177
June update	89	127	140	143	160	180
<b>Change</b>	<b>6</b>	<b>-4</b>	<b>6</b>	<b>2</b>	<b>3</b>	<b>3</b>
<b>Additional properties</b>						
March forecast	59	77	84	86	90	95
June update	66	81	82	83	88	93
<b>Change</b>	<b>6</b>	<b>4</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>
<b>Commercial</b>						
March forecast	49	52	55	58	62	66
June update	58	72	65	69	74	78
<b>Change</b>	<b>9</b>	<b>19</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>12</b>

## Residential LTT forecasts

- 1.7 Tables 1.2 and 1.3 show our updated forecasts for main and additional rates of residential LTT respectively, and compare them to our March forecasts. We have revised down receipts from the main rates in 2021-22, but have revised them up thereafter. In contrast, additional rates receipts have been revised up slightly in 2021-22, but revised down thereafter.
- 1.8 The unexpected strength in 2020-21 main rates receipts appears to have been due to an unexpectedly tax rich composition of transactions. We assume that this compositional boost will diminish progressively over time. This raises our forecast for 2021-22 by £11 million, with the effect falling to £5 million in the medium term. We have assumed that the small negative outturn differential for the additional rates in 2020-21 relates to the LTT holiday and its extension, so its effect on future years is limited to 2021-22.
- 1.9 The relatively small modelling changes affecting both forecasts relate to the removal of adjustments to the 2019-20 and 2020-21 outturn data that featured in our March forecast.

## LTT holiday extension

- 1.10 Since we published our March forecast the Welsh Government has announced the extension of the LTT holiday (from an end date of 31 March to 30 June). Relative to that forecast, main rates residential transactions between £180,000 and £250,000 that are completed between 1 April and 30 June will not be subject to LTT, while transactions above £250,000 will pay £2,450 less tax. Around 7,300 transactions are expected to benefit, with an average reduction in LTT liability of £1,700. This gives a total cost of £12 million, made up of a £14 million reduction in main rates receipts and a £2 million increase in additional rates.

Table 1.2: Residential main rates LTT forecast

	£ million					
	Outturn	Forecast				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
March forecast	83	131	133	141	158	177
June update	89	127	140	143	160	180
<b>Change</b>		-4	6	2	3	3
<i>of which:</i>						
Modelling changes		-1	-2	-2	-2	-2
Outturn data		11	8	4	5	5
LTT holiday extension		-14	0	0	0	0

Table 1.3: Residential additional rates LTT forecast

	£ million					
	Outturn	Forecast				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
March forecast	59	77	84	86	90	95
June update	66	81	82	83	88	93
<b>Change</b>		4	-2	-2	-2	-2
<i>of which:</i>						
Modelling changes		4	-2	-2	-2	-2
Outturn data		-2	0	0	0	0
LTT holiday extension		2	0	0	0	0

## Commercial LTT forecast

1.11 Table 1.4 sets out our forecast for commercial LTT and how it has changed relative to our March forecast. Overall we have revised receipts up by an average of £13 million (22 per cent) a year. This reflects two factors:

- Unexpectedly stronger **outturn data at the end of 2020-21**. We have assumed that the greater share of higher value transactions in 2020-21 compared to the 2019-20 base year used in the forecast model will persist, raising receipts in every year.
- Very strong **receipts in April 2021**. These came in at £19 million in a single month, equivalent to 36 per cent of the full-year forecast for commercial receipts in 2021-22 that we published in March. Transactions over £2 million generated around £17 million of these receipts, a greater amount than in any previous quarter since LTT was introduced. We have assumed that these bumper April receipts will be a one-off, so have raised our 2021-22 forecast by £10 million but not carried it through to later years.

Table 1.4: Commercial LTT forecast

	£ million					
	Outturn	Forecast				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
March forecast	49	52	55	58	62	66
June update	58	72	65	69	74	78
<b>Change</b>		<b>19</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>12</b>
of which:						
Outturn alignment		10	10	11	12	12
In-year data		10	0	0	0	0

## Landfill disposals tax

1.12 Table 1.5 shows our updated LDT forecast. It is little changed since March, with outturn for 2020-21 coming in slightly higher than expected. We have assumed that this is a temporary effect related to the pandemic that does not push through to future years.

Table 1.5: Landfill disposals tax forecast – June 2021 update

	£ million					
	Outturn	Forecast				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
March forecast	31	34	34	33	33	32
June update	32	34	34	33	33	32
<b>Change</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
of which:						
Data	1	0	0	0	0	0

## Restated forecast: Welsh rates of income tax by tax band

1.13 Below we have corrected errors in the Welsh rates of income tax-by-tax bands and Welsh rates and England and Northern Ireland equivalent by band tables published in our March 2021 *Devolved tax and spending* forecast. Table 1.6 contains small revisions to all figures from 2019-20 onwards, while all figures in Table 1.7 have been revised. This reflects the correction of a spreadsheet error that was identified after the document had been published.

Table 1.6: Welsh rates of income tax by band – restated

	£ million							
	Estimated outturn	Forecast						
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
March forecast	2,010	2,027	2,093	2,113	2,233	2,315	2,495	2,643
of which:								
Basic rate	1,718	1,748	1,793	1,818	1,909	1,974	2,107	2,213
Higher rate	248	232	252	248	273	285	328	364
Additional rate	44	47	48	47	52	56	61	67
	Per cent							
Basic rate	85.5	86.2	85.6	86.0	85.5	85.3	84.4	83.7
Higher rate	12.3	11.5	12.0	11.7	12.2	12.3	13.1	13.8
Additional rate	2.2	2.3	2.3	2.2	2.3	2.4	2.4	2.5

Note: Shaded cells represent notional estimates for years when tax devolution has not occurred.

Table 1.7: Welsh Rates and England and Northern Ireland equivalent by band - restated

	£ billion							
	Outturn	Forecast						
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
England and Northern Ireland NSND income tax (WRIT basis)	57.8	59.0	59.8	60.5	64.4	66.7	71.2	75.0
of which:								
Basic rate	39.3	40.7	41.0	41.8	44.2	45.7	48.3	50.4
Higher rate	11.4	11.0	11.5	11.5	12.4	12.9	14.3	15.4
Additional rate	7.1	7.3	7.3	7.2	7.7	8.1	8.7	9.3
Welsh Rates	2.0	2.0	2.1	2.1	2.2	2.3	2.5	2.6
of which:								
Basic rate	1.7	1.7	1.8	1.82	1.91	2.0	2.1	2.2
Higher rate	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.4
Additional rate	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
	Percentage change on a year earlier							
England and Northern Ireland NSND income tax (WRIT basis)		2.2	1.3	1.1	6.4	3.6	6.8	5.3
of which:								
Basic rate		3.6	0.7	1.9	5.9	3.3	5.6	4.4
Higher rate		-3.9	4.8	0.1	7.8	3.4	10.8	7.9
Additional rate		4.1	-0.7	-1.3	7.3	5.5	6.6	6.6
Welsh Rates		0.9	3.3	1.0	5.7	3.7	7.8	5.9
of which:								
Basic rate		1.8	2.6	1.4	5.0	3.4	6.7	5.0
Higher rate		-6.3	8.6	-1.6	9.9	4.6	15.0	10.9
Additional rate		5.8	3.0	-2.2	9.9	7.5	9.2	9.6

Note: Shaded cells represent notional estimates for years when tax devolution has not occurred.