Office for
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Welsh taxes outlook

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Supplementary information and charts and tables data are available on our website.

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.[1] The fiscal framework also established a requirement for independent forecasting. The Welsh Government chose to use the OBR's forecasts to meet this requirement.[2]

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

1.4 Our forecasts for the Welsh devolved taxes are presented in the *Welsh taxes outlook* (*WTO*) which is published alongside the Welsh Government's Draft and Final Budget every year. In this *WTO*, published alongside the Welsh Government's 2027-28 Draft Budget, we describe our latest forecasts for three sources of revenue:

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

1.5 These forecasts are consistent with the central forecast for the UK economy and public finances presented in our October 2026 *EFO*. The key features of this forecast are:

- The impact of the higher energy prices following the escalation of conflict in the Middle East are forecast to raise inflation and interest rates and weigh on real household incomes. As a result, while the UK real economy is expected to grow by 1¼ per cent in

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

2026, broadly in line with our March forecast, it is then expected to slow to 1 per cent in 2027 as higher energy prices and interest rates weigh on activity. Growth then recovers and averages around 1¾ per cent a year over the remainder of the forecast period, leaving the level of real GDP broadly unchanged relative to March by 2030.

- There is a moderate deterioration in public sector net borrowing relative to our March forecast across all years. This is because higher inflation and interest rates increase spending on debt interest, welfare and public service pensions, by more than the amount that stronger nominal earnings and profits boost receipts. Relative to March, and before the impact of Budget policy decisions, spending is around £28 billion higher a year on average over the forecast period and receipts are around £17 billion higher a year, leaving borrowing around £11 billion higher a year on average.

- Budget policy measures increase borrowing in the near-term but reduce borrowing from 2029-30 onwards. The near-term loosening is primarily driven by measures which increase government spending, notably the £100 council tax rebate and the funding of the defence investment plan. From 2029-30 onwards, however, this is more than offset by a range of tax-raising measures including HMRC tax administration, compliance and debt collection measures, changes to corporation and bank taxes, and higher tax rates on savings and property income.

- Overall, borrowing is forecast to be 4.2 per cent of GDP this year and then to fall gradually to 1.8 per cent of GDP by 2031-32. This represents a deterioration in borrowing, relative to March, in all years of the forecast.

- In the central forecast, the fiscal mandate to achieve a current budget surplus in 2029-30 is met by a margin of £15 billion, while the target for public sector net financial liabilities to be falling as a share of GDP is met by a margin of £24 billion. Based on the distribution of historical shocks to the UK economy, we estimate the probability of the Chancellor achieving these targets to be 56 and 54 per cent, respectively.

- We produce a central forecast around which we judge these risks to be 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 October 2026 *EFO*, we presented alternative scenarios for energy prices, including if energy prices were to rise faster or fall back faster than in our central forecast, including the impacts on the economy and public finance forecasts.

1.6 Alongside our latest forecasts, we provide comparisons with recent previous forecasts for reference. For LTT and LDT, we compare our latest forecasts with those published in the January 2026 *WTO*, which accompanied the Welsh Government's Final Budget and was underpinned by our November 2025 forecast, but incorporated more recent outturn data. For Welsh rates of income tax, we compare our latest forecast with both the January 2026 *WTO* and the March 2026 *EFO*. The January 2026 *WTO* forecast was based on our

November 2025 Welsh rates forecast, while the March 2026 *EFO* incorporated both our updated economic outlook and more recent outturn data.

1.7 There have been no tax policy changes announced by the Welsh Government since our January 2026 *WTO* forecast.

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 October 2026 *EFO*. These were scrutinised by the BRC in two meetings on 14 and 15 September.
- A final set of forecasts was produced on 22 October, which included the impact of UK Government policies.

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 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. The Welsh Government also has the power to set different rates for property income compared with other types of income. 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 (ENI). 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 92 per cent of UK-wide and Welsh income tax liabilities.
- 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 rates of income tax forecasts are produced on a 'top-down' basis.[1] 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 in paragraph 2.7.[2]
- Finally, we add the 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 ENI combined, split by tax band.[3]

Latest forecast

UK income tax forecast

2.5 Table 2.1 sets out that we forecast that UK-wide NSND income tax liabilities will be £300 billion in 2025-26, rising to £410 billion by 2031-32. Year-on-year growth is forecast to average 6 per cent, largely reflecting frozen personal tax thresholds until 2030-31 which result in greater numbers of taxpayers moving into higher tax bands as nominal earnings rise.

2.6 Compared with both our January 2026 *WTO* and our March 2026 *EFO*, we have revised up receipts from 2026-27 onwards. This is driven by both stronger in-year receipts for Pay as you earn (PAYE) income tax, and a stronger path for nominal earnings which raises both PAYE and SA income tax. The impact of UK Government policy measures announced since March is relatively small, increasing receipts by £0.2 billion on average from 2026-27 onwards. This is more than explained by the 2 percentage point increase to property income tax rates announced at the Autumn 2026 Budget, which raises receipts by £0.4 billion a year from 2027-28 onwards, and a range of HMRC tax administration, compliance and debt collection measures which raise receipts in the later years of the forecast. A collection of smaller measures partly offset these changes.

[1] 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.
[2] 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.
[3] For more on our approach, see Mathews, P., *OBR Working paper No.14: Devolved income tax: forecasting by tax bands*, September 2018.

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

	£ billion							
	Outturn	Forecast						
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
January 2026 forecast	275	300	319	334	346	364	380	
March 2026 forecast	276	300	319	334	347	365	382	
November 2026 forecast	277	300	327	342	355	374	394	410
Difference from January to November	**1.4**	**-0.3**	**7.6**	**8.2**	**8.9**	**10.8**	**14.4**	
Difference from March to November	**0.7**	**-0.2**	**8.2**	**8.1**	**8.1**	**9.8**	**12.7**	
of which:								
Pre-measures forecast		-0.2	8.3	8.0	7.9	9.8	12.3	
UK Government policies			-0.1	0.1	0.1	0.0	0.4	0.5
of which:								
Direct effect			-0.1	0.1	0.1	0.1	0.5	0.8
Indirect effects			0.0	-0.1	0.1	-0.1	-0.1	-0.3

Source: OBR

Share subject to Welsh rates

2.7 We forecast the shares to apply to the UK NSND forecast by using HMRC's 2023-24 Survey of Personal Incomes (SPI). This is an annual sample of around 1 million individuals in contact with HMRC during the year through the PAYE, self-assessment or repayment claim systems. We use the 2023-24 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:[4]

- **Outturn:** we use HMRC's 2024-25 Welsh rates of income tax outturn statistics, published in July 2026, to align our forecasts.
- **Earnings:** we extrapolate between 2024-25 and 2026-27 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 June 2026, for the majority of income taxpayers. 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 RTI data 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:** from 2026-27 onwards, 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

[4] 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.

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 size between Wales and the wider UK.

2.8 Table 2.2 shows our latest forecast for the Welsh rates share. It is presented on a pre-measures basis because the impact of policy measures incorporated at the October 2026 UK Budget are added separately to the forecast, rather than via the share. The share is projected to rise in 2025-26 reflecting the latest real-time information (RTI) outturn tax data which shows growth in the overall share. We discuss the latest trends in employment and earnings in Wales from the RTI further in the Latest Developments section. The share is then projected to remain broadly constant across the forecast period.

2.9 Compared with our January and March 2026 forecasts, the share has been revised up slightly, reflecting a stronger Welsh rates share in the latest RTI tax data. This is partly offset by incorporating the latest ONS principal population projections, which imply both weaker growth in the Welsh population and relatively faster ageing than in the rest of the UK compared with our previous forecasts. The latter factor lowers the Welsh rates share because income tax liabilities are on average lower for older age groups.

Table 2.2: Share of UK total pre-measures liabilities subject to Welsh rates

	Per cent of UK total for non-savings, non-dividend liabilities							
	Outturn	Forecast						
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
January 2026 forecast	1.19	1.19	1.19	1.20	1.20	1.20	1.20	
March 2026 forecast	1.19	1.19	1.19	1.19	1.19	1.19	1.19	
November 2026 forecast (pre-measures)	1.19	1.20	1.19	1.20	1.20	1.19	1.19	1.19
Difference from January to November	**0.00**	**0.01**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	
Difference from March to November	**0.00**	**0.01**	**0.01**	**0.01**	**0.01**	**0.00**	**0.00**	
Memo: RTI combined index (2024-25=100)	*100.0*	*100.9*	*101.1*	*101.0*	*101.0*	*100.9*	*100.9*	*100.8*
Change since March		*0.7*	*0.9*	*0.8*	*0.8*	*0.7*	*0.7*	
Memo: index of relative population (2025-26=100)		*100.0*	*100.0*	*99.9*	*99.8*	*99.7*	*99.5*	*99.3*
Change since March		*0.0*	*-0.1*	*-0.3*	*-0.4*	*-0.5*	*-0.6*	

Note: The RTI combined index captures adjustments made to the Welsh rates share to reflect the latest differences in both the aggregate Welsh share of RTI pay and Welsh rates share of RTI tax data by band. As the latter adjustment is applied on a cash basis, its relative effect diminishes as overall UK NSND receipts grow, causing the index to fall slightly over the forecast period.
Source: OBR

Latest forecast for the Welsh rates of income tax

2.10 Table 2.3 sets out our latest forecast for the Welsh rates of income tax and changes compared to the forecasts in January and March, while Table 2.4 shows the forecast by tax band. Welsh rates receipts are forecast to increase from £3.3 billion in 2024-25 to £3.6 billion in 2025-26. Year-on-year growth averages 6 per cent over the forecast period, with

growth fastest in the near term reflecting the path of our UK-wide nominal earnings forecast.

2.11 Table 2.4 shows that basic rate revenues make up around 82 per cent of overall receipts reflecting the fact that Welsh Government retains a higher proportion of overall Welsh income tax raised from basic rate revenues compared to higher and additional rate. Growth is fastest in the higher and additional rate tax bands, with their share of total Welsh rate receipts forecast to increase from 17 per cent in 2024-25 to 19 per cent in 2031-32 as more Welsh taxpayers are brought into the higher and additional rate bands as nominal earnings rise and personal tax thresholds remain frozen.

2.12 Compared to the January 2026 *WTO* and March 2026 *EFO*, our latest forecast for Welsh rates is slightly higher in the medium term. Focusing on the changes compared with the March *EFO*, this reflects:

- **Revisions to our pre-measures UK NSND forecast**, which raise receipts by on average around £100 million a year from 2026-27 onwards. This reflects our stronger UK-wide nominal earnings forecast and higher in-year PAYE receipts, which raise our overall UK NSND forecast.

- **Welsh share modelling** increases liabilities by around £30 million a year on average from 2026-27 onwards. This reflects a higher-than-expected Welsh share of RTI tax data in 2025-26 and 2026-27, which is assumed to persist through the forecast. The upwards revision to the Welsh share relative to March declines slightly over the forecast period reflecting the incorporation of the latest ONS principal population projections discussed in paragraph 2.9.

- The effect of **UK Government policies** announced since March on the Welsh rates forecast is small. In particular, while the 2 percentage point increase in income tax rates on property applies in Wales, it only directly affects the non-devolved element of Welsh income tax. [5] We discuss how we have adapted our methodology for forecasting Welsh rates to account for changes to property income tax rates in Box 2.1.

[5] While the increase does not directly affect Welsh rates, there is a small impact from changes to finance cost relief and from the behavioural effects of the measure on the Welsh property income tax base.

Table 2.3: Welsh rates of income tax forecast

	£ million							
	Outturn	Forecast						
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
January 2026 forecast	3,277	3,585	3,804	3,990	4,148	4,353	4,550	
March 2026 forecast	3,285	3,568	3,781	3,965	4,129	4,339	4,541	
November 2026 forecast	3,300	3,601	3,906	4,081	4,240	4,460	4,689	4,859
Difference from January to November	**23**	**16**	**102**	**91**	**92**	**106**	**139**	
Difference from March to November	**15**	**33**	**126**	**116**	**110**	**121**	**148**	
of which:								
Welsh share modelling		35	35	33	29	19	12	
UK NSND pre-measures changes		-2	92	88	86	107	136	
UK Government policies			-1	-5	-5	-5	-1	1
of which:								
Direct effect			-1	-4	-6	-4	0	4
Indirect effects			0	-1	1	0	-1	-3

Source: OBR

Table 2.4: Welsh rates of income tax forecast by tax band

	£ million							
	Outturn	Forecast						
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
November 2026 forecast	**3,300**	**3,601**	**3,906**	**4,081**	**4,240**	**4,460**	**4,689**	**4,859**
of which:								
Basic rate	2,747	2,979	3,208	3,332	3,448	3,611	3,778	3,921
Higher rate	437	494	554	594	627	672	720	735
Additional rate	116	128	145	155	165	177	191	204
	Per cent							
Basic rate	83.2	82.7	82.1	81.6	81.3	81.0	80.6	80.7
Higher rate	13.2	13.7	14.2	14.6	14.8	15.1	15.4	15.1
Additional rate	3.5	3.5	3.7	3.8	3.9	4.0	4.1	4.2

Source: OBR

Box 2.1: Welsh rates of income tax on property

In November 2025, the UK Government announced the introduction of separate tax rates on property income, with rates increasing by 2 percentage points across the basic, higher and additional rate bands from April 2027. At its October 2026 Budget, the UK Government announced a further 2 percentage point increase. Combined, this means an increase of 4 percentage points across all property income tax bands from April 2027. Although this affects the headline rates on property income for Welsh taxpayers, it has no direct effect on either our Welsh rates of income tax forecast or the block grant adjustments, since Welsh rates continue to apply to the first 10 percentage points of each band.[a] Nonetheless, the policy does affect the Welsh rates share of UK non-savings non-dividends (NSND) income which is a key component of our forecast methodology of Welsh rates. This box explains how we have adjusted our forecast methodology to account for this change and sets out our latest forecast for Welsh rates of income tax on property.

Table A shows the property income tax rates that underpin our forecasts for Welsh income tax and Welsh rates of income tax, alongside the shares of liabilities retained by the Welsh and UK Governments. Before April 2027, property income is taxed at the same rate as other NSND income, so a basic-rate taxpayer's 20 per cent liability is split equally between the Welsh and UK Governments. From April 2027, however, the increase in the property basic rate to 24 per cent changes this split, with 14 percentage points of the basic rate retained by the UK Government and 10 percentage points received by the Welsh Government. The same principle applies in the higher and additional rate bands. This change therefore reduces the share of Welsh income tax on property attributable to Welsh rates and increases the share retained by the UK Government, as shown in the lower half of the table. This also means the shares retained by the Welsh Government for property income are different to other forms of NSND income where rates have remained unchanged.

Table A: Property income tax rates in Wales

	Per cent						
	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Total property income tax rates							
Basic rate	20	20	24	24	24	24	24
Higher rate	40	40	44	44	44	44	44
Additional rate	45	45	49	49	49	49	49
	of which:						
UK Government tax rates for Welsh taxpayers							
Basic rate	10	10	14	14	14	14	14
Higher rate	30	30	34	34	34	34	34
Additional rate	35	35	39	39	39	39	39
Welsh rates of income tax							
Basic rate	10	10	10	10	10	10	10
Higher rate	10	10	10	10	10	10	10
Additional rate	10	10	10	10	10	10	10
	Share retained by Welsh Government						
Basic rate	0.50	0.50	0.42	0.42	0.42	0.42	0.42
Higher rate	0.25	0.25	0.23	0.23	0.23	0.23	0.23
Additional rate	0.22	0.22	0.20	0.20	0.20	0.20	0.20

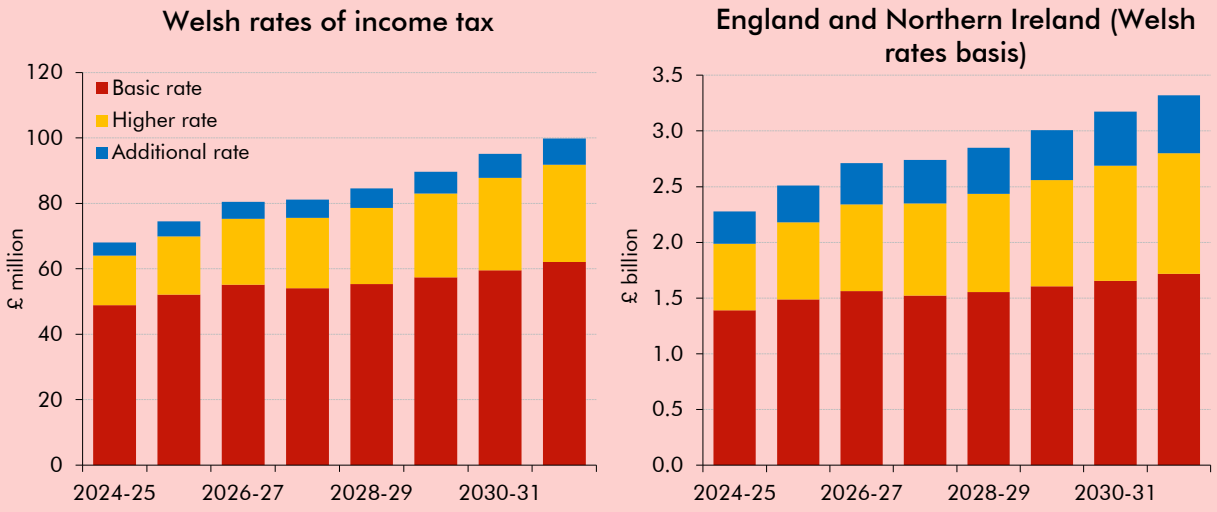
Note: Shaded cells represent policy baselines assumed for forecasting purposes. We assume that Welsh rates will remain unchanged until the Welsh Government states otherwise.

Source: OBR

As our Welsh rates forecast is produced on a 'top-down' basis by projecting the Welsh share of UK NSND income tax liabilities, we have therefore had to adapt our methodology to reflect the fact that property income is taxed differently from other forms of NSND income. This has involved separately forecasting property and non-property income tax liabilities within our overall UK NSND income tax forecast, and the shares of each attributable to Welsh rates and to England and Northern Ireland. This is so we can separately identify Welsh rates receipts, the amount of income tax from Welsh taxpayers retained by the UK Government, and the equivalent England and Northern Ireland revenues used in calculating the block grant adjustments. Likewise, we have worked with HMRC to develop a method for allocating the effects of UK Government policy measures between property and non-property income so we can calculate these splits.

Chart A sets out our latest forecast for Welsh rates receipts from property income alongside the equivalent revenues in England and Northern Ireland. Welsh rates receipts from property income are projected to rise from around £68 million in 2024-25 to £100 million by 2031-32 and so account for only a small proportion (around 2 per cent) of overall Welsh rates receipts. Compared with their rest of the UK equivalent revenues, a larger share of Welsh rates receipts from property income is forecast to come from the basic rate band throughout the forecast period. That said, the skew towards the basic rate band is less than other forms of NSND income, with basic rate property revenues making up 66 per cent of Welsh rates property receipts compared with 82 per cent for the wider Welsh rates forecast.

Chart A: Welsh rates of income tax from property and ENI equivalent



Source: OBR

[a] While the increase does not directly affect Welsh rates, there is a small impact from changes to finance cost relief and from the behavioural effects of the measure on the Welsh property income tax base.

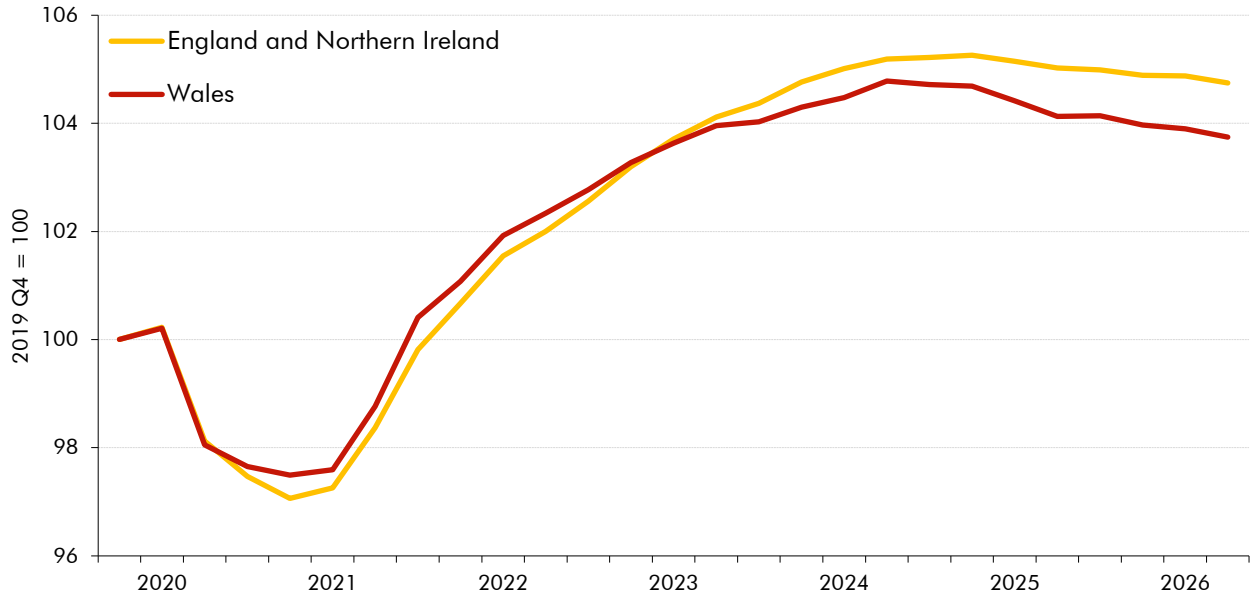
Latest developments

2.13 In this section, we examine the latest changes in incomes and employment in Wales using the real-time information (RTI) data. The RTI data allow us to analyse up-to-date trends in earnings levels, their distribution, and employment in Wales. This captures payrolled employees, which accounted for around 90 per cent of total UK NSND liabilities in the 2024-25 outturn data. 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 October 2026 *EFO*, we highlighted that recent RTI data continues to point to a loosening in the labour market with the number of employed individuals falling.[6] We have previously highlighted possible factors weighing on labour demand as increases to employer National Insurance contributions and weak business sentiment. Chart 2.1 shows this trend of falling employment is also evident in Wales, but with the total number of payrolled employees declining relatively faster in Wales relative to ENI. The latest data shows that the number of payrolled employees in Wales has fallen by around 13 thousand in the second quarter of 2026 compared to the peak of 1.32 million in the second quarter of 2024.[7] Sectoral data indicates the slightly faster decline in employment in Wales has been driven by the manufacturing sector.

[6] While RTI payroll data point to falling employment, the Labour Force Survey (LFS) continues to show employment growth. That said, the LFS remains subject to acknowledged data quality issues and the ONS recommends interpreting it alongside a wider range of labour market indicators. For more details, see ONS, *Labour market overview, UK*, September 2026.
[7] The analysis in this section is consistent with the *ONS September 2026 Earnings and employment from Pay As You Earn Real Time Information, UK* release.

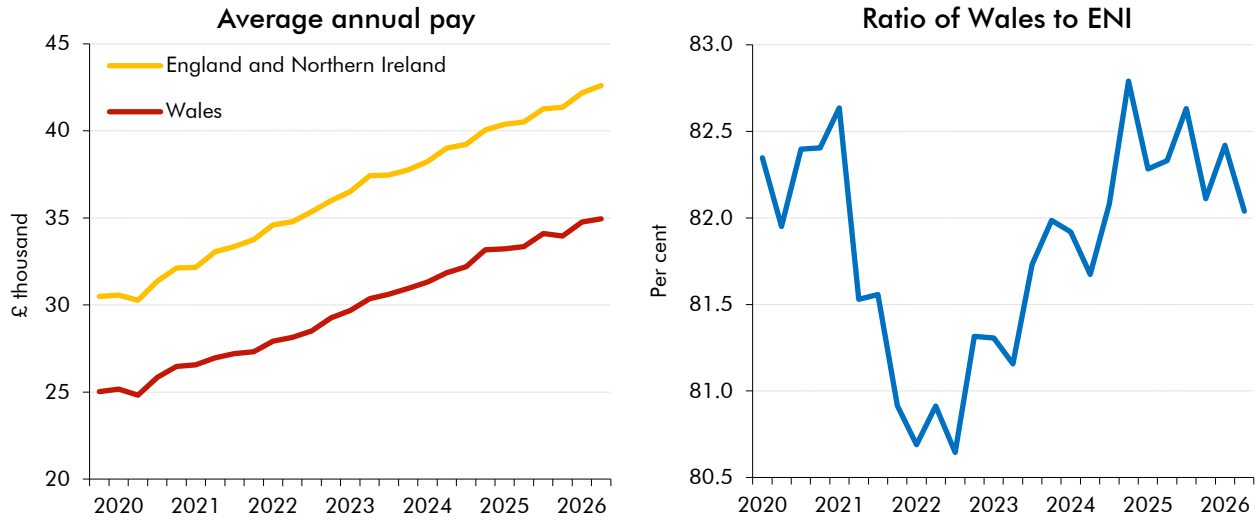
Chart 2.1: RTI payroll employment in Wales and England and Northern Ireland



Source: HMRC, ONS

2.15 In contrast, the latest RTI data for both Wales and ENI shows earnings growth remains strong, albeit having slowed recently (Chart 2.2). Average annual pay in 2025-26 rose 4.4 per cent year-on-year in Wales, compared with 4.2 per cent in ENI. In our October 2026 *EFO*, we anticipate that nominal earnings growth will continue to slow in the near term, but to a lesser extent than we expected in March. This has led us to revise up UK nominal pay growth in 2026-27 by 0.4 percentage points to 3.6 per cent.

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

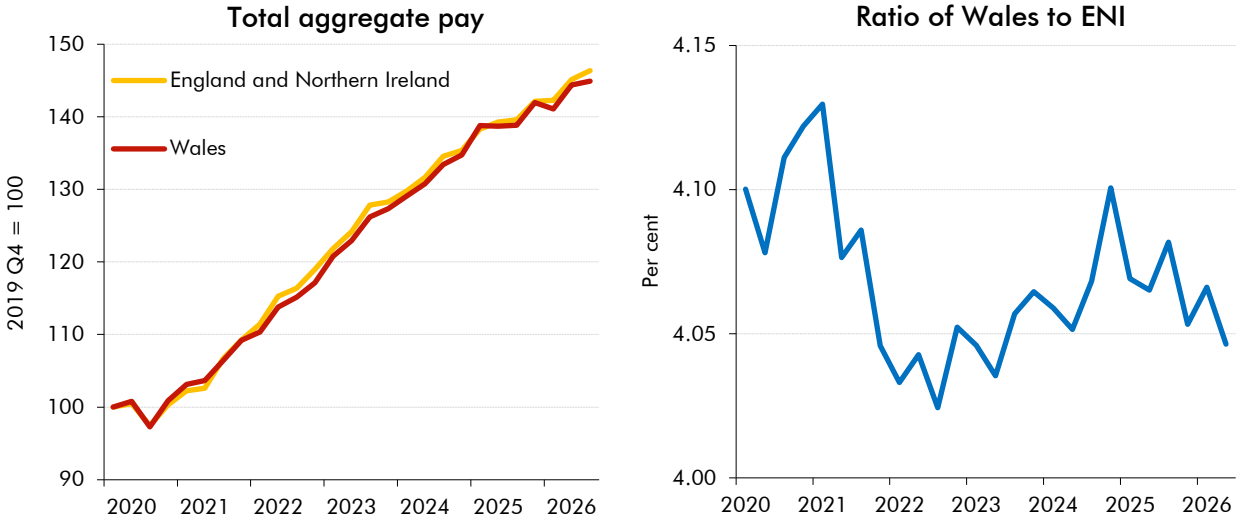


Source: HMRC, ONS

2.16 The net result is that total aggregate pay in the RTI (Chart 2.3), defined as average pay multiplied by the number of employees, has continued to rise over the past year in both Wales and ENI. In 2025-26, aggregate pay increased by 3.8 per cent in Wales and 3.9 per cent in ENI. This has meant the ratio of aggregate pay in Wales to ENI has stayed broadly

flat. Our Welsh rates of income tax forecast is based on our UK-wide employment and earnings forecasts and therefore implicitly assumes similar growth in aggregate pay in Wales and the rest of the UK absent the impact of differences in population growth and demographic change. We discuss the risks around this judgement in Box 5.2.

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

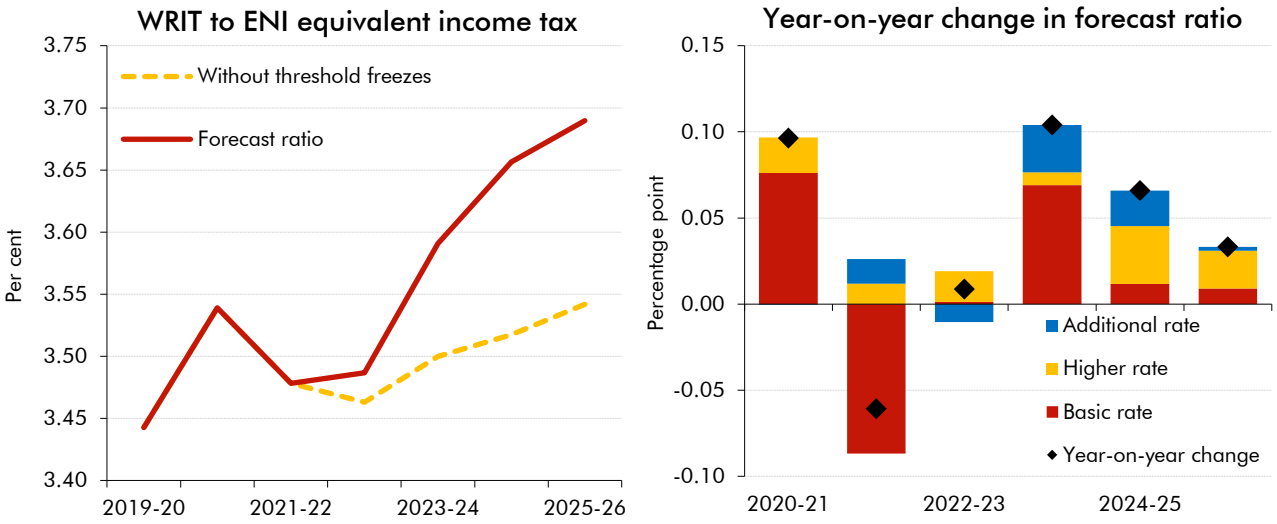


Source: HMRC, ONS

2.17 Despite this, we expect the ratio of Welsh rates of income tax to that in ENI on an equivalent basis to have increased in 2025-26, as shown in Chart 2.4. Although the latest RTI data suggest broadly similar growth in aggregate pay across the two areas, the RTI distributional data indicates that taxable income, meaning income above the personal allowance, has risen proportionally faster in Wales. We use the RTI distributional data to inform our forecasts of Welsh rates of income tax. As shown in the right-hand panel of Chart 2.4, the increase in the ratio in 2025-26 is forecast to be driven mainly by an increase in Welsh rates receipts from the higher rate band.

2.18 The main driver of this rise has been the policy decisions to freeze most personal tax thresholds in both Wales and ENI since 2021. As a result, more income is brought into tax and into higher tax 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 thresholds 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 Welsh rates to ENI equivalent NSND income tax



Source: HMRC, ONS, OBR

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. While these can all have material impacts on Welsh rates of income tax, we discuss in Box 5.2 how it is the differences in the relative performance of the income tax bases in Wales and England and their distribution which are key to considering the risks around the Welsh Government's funding position.

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 are in place until 2030-31. In our October 2026 *EFO*, we highlighted the path of energy prices and the extent to which the resulting inflation shock passes through to wages and nominal tax bases as a key risk to our central forecast. While we expect the latest inflation shock following the Middle East conflict to have a lower peak and be less persistent than that following Russia's invasion of Ukraine in 2022, there is uncertainty around this judgement. In particular, in Chapter 7 of the October 2026 *EFO*, we considered scenarios in which energy prices rise faster and remain higher for longer than in our central forecast reaching levels similar to those seen in 2022, and conversely one in which they fall more quickly. Our Welsh rates forecast is particularly sensitive to nominal earnings growth given the proportionately larger impact of fiscal drag in Wales.

Employment

2.21 The level of employment also remains a source of uncertainty in both our UK and Welsh rates of income tax forecasts. In our October 2026 *EFO*, we assume that total employment

will grow by 3.4 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, and to net migration, which we have revised down in our latest forecast but in recent years has been volatile. As discussed above, recent RTI data suggest that employment growth in Wales has been slightly weaker than in ENI, with the number of payrolled employees falling more rapidly in Wales over the past two years. While our Welsh rates forecast adjusts for different projected trends in the demographic composition and size of Welsh and UK populations, we otherwise assume that employment growth in Wales evolves in line with the UK over the medium term. This nonetheless remains a risk.

Growth of productivity

2.22 Our UK-wide and Welsh rates tax forecasts are also sensitive to assumptions about productivity growth, which is the key determinant of real earnings growth over the medium term. In our October 2026 *EFO*, we assume that trend productivity growth slows temporarily in the near term before averaging around 1.1 per cent by 2031, leaving our medium-term productivity growth assumption unchanged from March. While this is stronger than the growth experienced in much of the post-financial-crisis period, it remains well below the pre-2008 trend. The recent ONS revisions to productivity data also highlight the uncertainty surrounding both historical estimates and the underlying pace of productivity growth.[8] Our Welsh rates forecast implicitly assumes that productivity and real earnings growth in Wales evolve broadly in line with the UK as a whole over the medium term. Factors that could affect productivity growth include developments in international trade, domestic supply-side reforms, business investment, and technological advances, including artificial intelligence.

[8] See ONS, *Component approach to measuring labour productivity, UK: 1997 to 2024*, September 2026.

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 From April 2018 land transaction tax (LTT) replaced stamp duty land tax (SDLT) in Wales. 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, which mean it is generally more progressive than SDLT for both residential and commercial transactions; 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.[1] 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,

[1] 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.

commercial sales, and commercial leases.[2] The models aggregate transactions within relatively small segments of the property market, calculating the tax due on the average price in each segment, and then projecting that forward in line with our forecasts for prices and transactions.[3]

- 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, which are consistent with our October 2026 *EFO* property forecast. House prices are forecast to grow annually by an average of 2.7 per cent. Relative to our January 2026 forecast, which used OBR November 2025 determinants, we assume lower near-term house price growth largely driven by higher mortgage costs and stagnating real incomes, with growth improving later in the forecast due to an expected recovery in real income growth.

3.5 Residential transactions are forecast to fall this year before the housing market turnover rate recovers to its long-term average later in the forecast. Compared to our January 2026 *WTO*, residential transactions are lower early in the forecast but are higher by 2029-30. In the short term, this reflects lower-than-expected outturn this year driven by higher mortgage rates. It also reflects that the residential property determinants used in the LTT forecast are now the same as those used for the rest of the UK. Previously the determinants used in our LTT forecast excluded the impact of the England-specific National Planning Policy Framework (NPPF), which is assumed to have a positive impact on residential transactions. As the NPPF has now been enacted, we will now assess at each forecast whether there is any evidence in recent outturn data for the Welsh property market diverging from the rest of the UK.

3.6 At this forecast, we have not found sufficient evidence that the Welsh property market is diverging from the UK-wide property market. We outline the reasoning for this further in our discussion of recent trends in the property market from paragraph 3.12 onwards. We will continue to monitor property market performance in Wales at future forecasts, including the impact of planning reforms and other regulatory differences. In Box 5.1 we discuss the risk of the Welsh property market diverging from the rest of the UK and the impact this may have on LTT revenues and the net position.

3.7 Commercial property prices and transactions are both projected to grow by an average of 1.3 per cent annually. Relative to January 2026, commercial property prices are lower in the early part of the forecast before growth recovers from 2027-28 onwards. Similarly,

[2] 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.
[3] The methodology for forecasting these is set out in the 'In-depth' pages of our website.

commercial property transactions are significantly lower in 2026-27, reflecting the latest outturn data, but the growth rate is forecast to recover thereafter.

Table 3.1: Forecasts for Welsh property prices and transactions

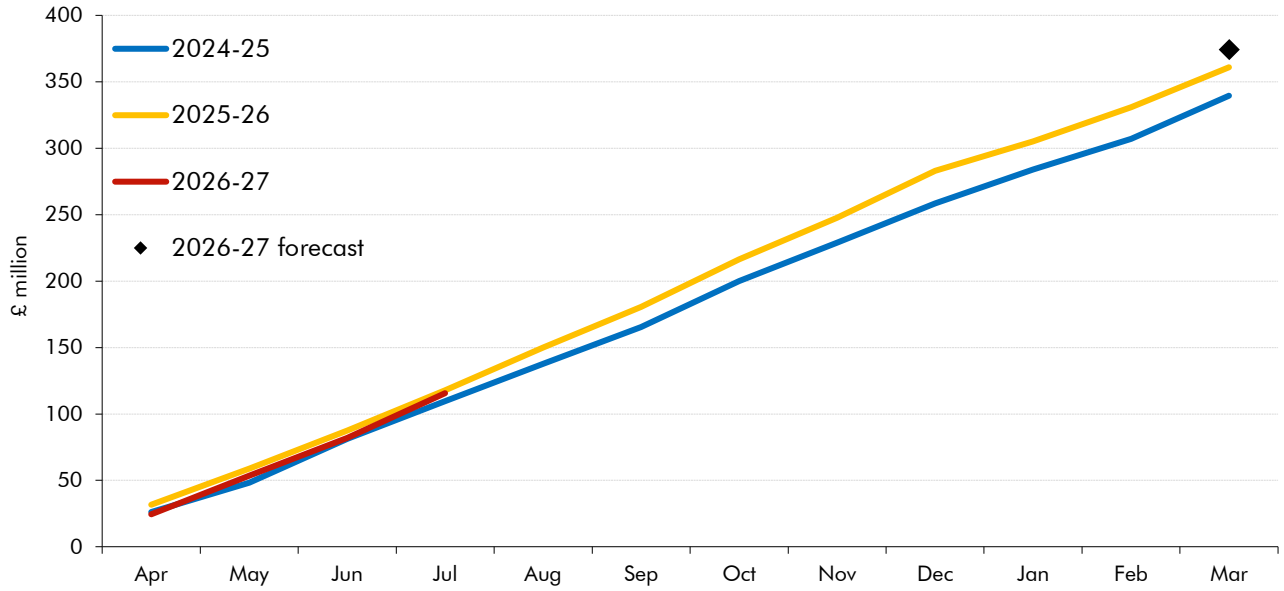
	Percentage change on previous year						
	Outturn	Forecast					
	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Residential property prices	1.9	2.4	2.6	2.8	2.7	2.7	2.7
Residential property transactions	5.6	-0.8	2.0	2.6	2.8	2.7	2.2
Commercial property prices	3.2	-3.7	3.8	2.0	2.0	2.0	1.9
Commercial property transactions	-0.1	-0.8	1.8	1.7	1.8	1.7	1.6
	Change since January forecast						
Residential property prices	-0.2	-0.3	-0.4	-0.4	-0.2	-0.1	
Residential property transactions	4.1	-4.4	-1.3	-0.4	0.0	1.2	
Commercial property prices	-8.3	-1.7	1.9	0.1	0.1	0.0	
Commercial property transactions	5.1	-2.3	0.3	0.3	0.2	0.1	

Source: OBR

Latest LTT outturn data

3.8 LTT receipts are estimated to be £2 million (1.7 per cent) lower in the first four months of this year relative to the equivalent period last year. Despite currently being lower, we expect receipts to grow faster in the second half of this year than last year, partly because we do not expect a slowdown of the same magnitude that was seen at the end of 2025-26 to recur. By the end of 2026-27 we forecast that receipts will reach £374 million.

Chart 3.1: Cumulative monthly LTT receipts: 2024-25 to 2026-27



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

3.9 As set out in Table 3.2, LTT receipts are expected to grow at an average rate of 7 per cent annually throughout the forecast period. Relative to January, the forecast is lower by £32 million (7 per cent) on average each year. This is almost entirely driven by decreases in our forecasts for property prices and transactions, which are discussed further in paragraphs 3.4 and 3.5. A smaller part of this change is explained by the particularly weak outturn in late 2025-26 and early 2026-27 for commercial LTT.

Table 3.2: Land transaction tax forecast: changes since January

	£ million						
	Outturn	Forecast					
	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Total LTT							
January forecast	374	399	432	466	502	535	
November forecast	363	374	402	432	465	499	534
Difference	**-11**	**-25**	**-30**	**-34**	**-38**	**-35**	
Residential (excluding additional properties)							
January forecast	204	225	250	276	303	326	
November forecast	203	221	240	262	286	312	338
Difference	**0**	**-4**	**-10**	**-14**	**-17**	**-14**	
Additional properties							
January forecast	86	90	95	100	106	112	
November forecast	84	81	84	89	94	99	104
Difference	**-2**	**-10**	**-11**	**-11**	**-12**	**-12**	
Commercial							
January forecast	84	83	87	90	94	97	
November forecast	75	73	78	81	85	88	92
Difference	**-9**	**-11**	**-9**	**-9**	**-9**	**-9**	

Source: OBR

Residential LTT

3.10 Residential LTT receipts including additional properties are expected to grow to £442 million in 2031-32, growing by an average of £26 million (7 per cent) a year. Compared to January, this is on average £23 million lower in each year of the forecast. This is largely explained by downward revisions to our residential prices and transactions forecast, with weakness in residential higher rates also being pushed through the forecast. This is partially offset by strength in residential main rates receipts in early 2026-27 relative to the forecast for prices and transactions.

Table 3.3: Residential LTT including additional properties: changes since January

	£ million						
	Outturn	Forecast					
	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
January forecast	290	316	345	376	409	437	
November forecast	288	302	324	351	380	411	442
Difference		**-14**	**-21**	**-25**	**-29**	**-26**	
of which:							
Price changes		-2	-5	-7	-10	-11	
Transaction changes		-14	-19	-21	-23	-20	
Outturn data and modelling		2	2	3	4	4	

Source: OBR

Commercial LTT forecast

3.11 Table 3.4 shows commercial LTT is forecast to rise from £75 million in 2025-26 to £92 million in 2031-32. We forecast that there will be a fall in receipts in 2026-27, with annual growth of 4.9 per cent on average thereafter. Relative to January, receipts have been revised down by £9 million on average per year over the forecast. This is largely explained by lower commercial outturn at the end of 2025-26. The commercial LTT forecast is particularly uncertain because it can be driven by a small number of very large transactions, meaning it is often volatile and subject to large revisions. This is particularly the case in Wales where there are fewer than 2,000 commercial transactions in each quarter.

Table 3.4: Commercial LTT: changes since January

	£ million						
	Outturn	Forecast					
	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
January forecast	84	83	87	90	94	97	
November forecast	75	73	78	81	85	88	92
Difference		**-11**	**-9**	**-9**	**-9**	**-9**	
of which:							
Price changes		-2	0	0	0	0	
Transaction changes		-2	-2	-1	-1	-1	
Outturn data and modelling		-7	-8	-8	-8	-8	

Source: OBR

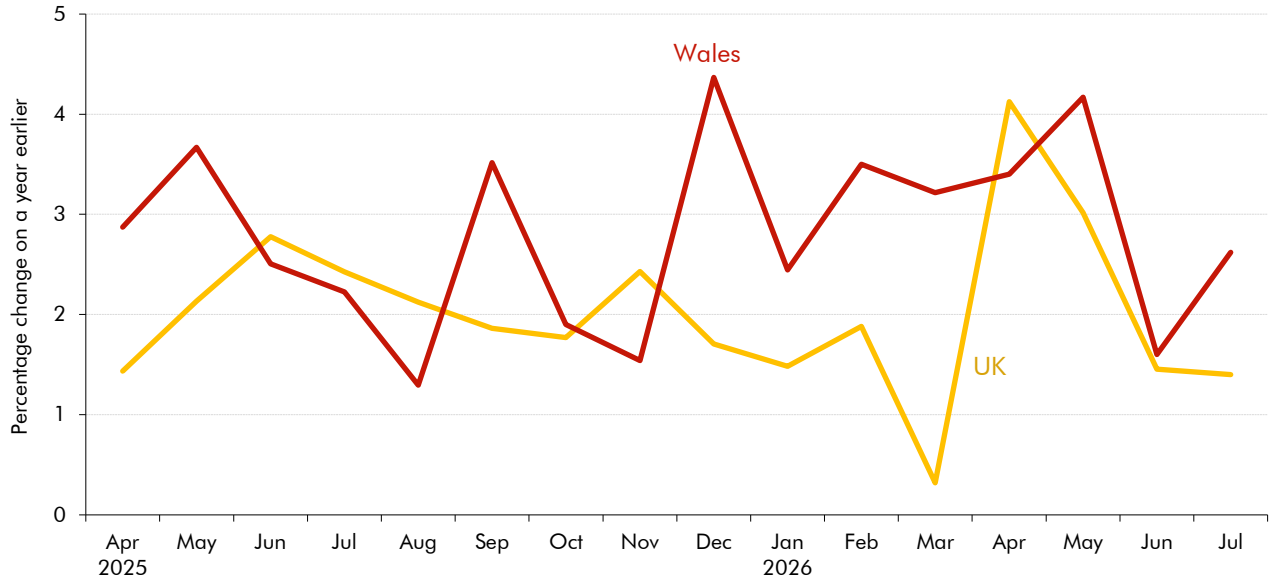
Latest developments

Property prices

3.12 Chart 3.2 shows recent house price growth in Wales and the UK. Welsh house price growth has been slightly stronger than the UK as a whole since April 2025, although a small part of

this can be explained by the unwinding of SDLT forestalling from the end of 2024-25 in England and Northern Ireland (ENI).[4]

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



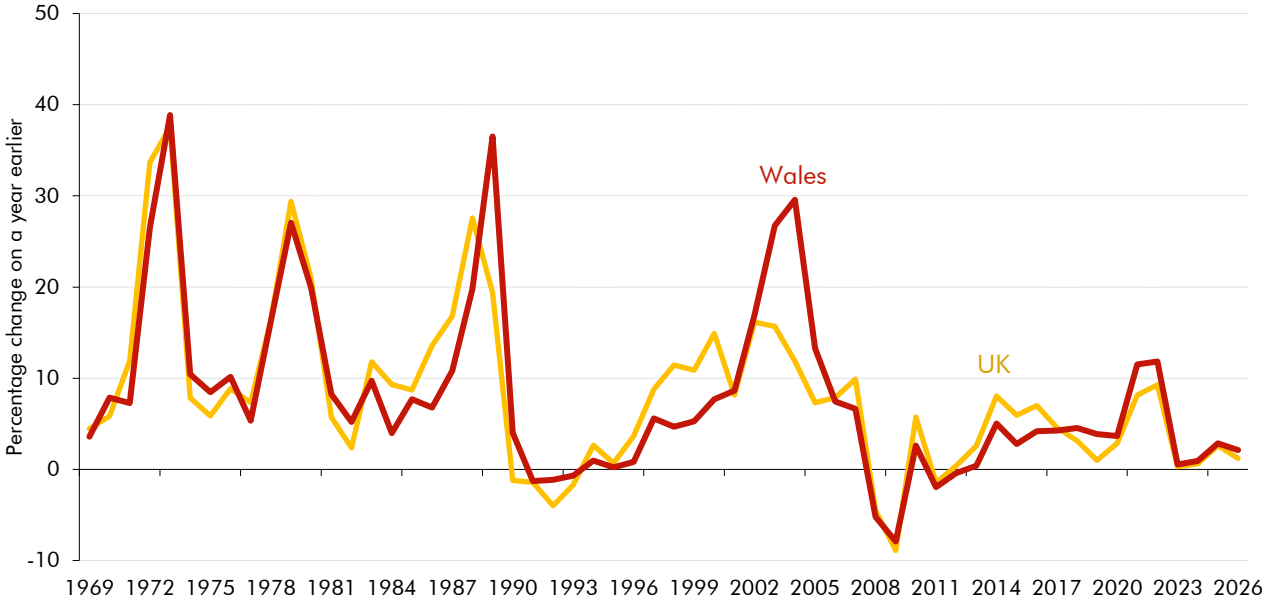
Source: Land Registry

3.13 However, Welsh property prices tend to be more volatile than whole UK house prices, and periods of over-performance in the Welsh property market are often followed by convergence.[5] Chart 3.3 shows that in the long term Welsh property prices generally track UK-wide property prices. As a result, in our forecast we assume that growth in house prices in the UK and Wales will be the same in the medium term. However, we will continue to monitor Welsh house prices at future forecasts to see if there is sufficient evidence to justify applying a wedge. In Box 5.1 we explore scenarios where property price growth differs between Wales and the rest of the UK and the implications of this for the Welsh net position.

[4] At the beginning of 2025-26, the SDLT nil-rate band and thresholds for first time buyer relief were lowered. These changes did not apply to LTT and therefore Welsh properties were not affected. This led to forestalling in ENI at the end of 2024-25, where transactions and prices increased as property transactions were brought forward to avoid the higher tax burden. In March 2025, the final month of forestalling, year-on-year growth was 5.1 per cent in the UK but only 3.2 per cent in Wales. For further discussion of our approach to forestalling see Matthews, P., *OBR Working Paper No.10: Forestalling ahead of property tax changes,* October 2016.

[5] See the entry for *devolved property taxes* on the 'In-depth' section of our website for further information on long-run differences in house price growth in the UK and Wales.

Chart 3.3: Historical trends in house prices



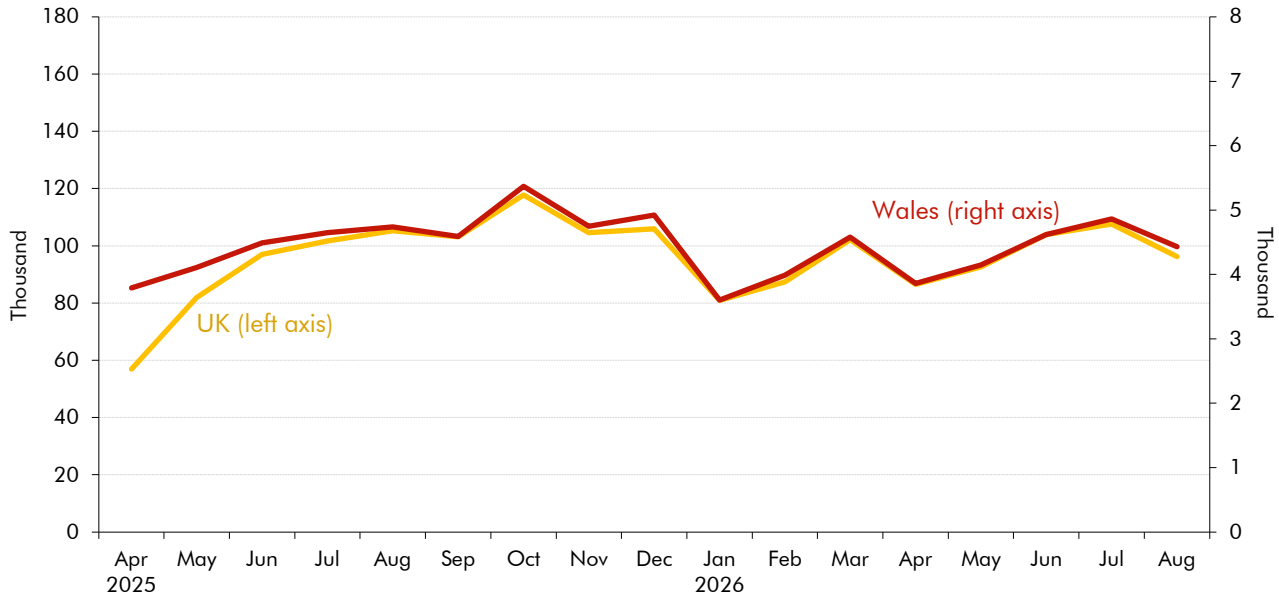
Source: Land Registry

3.14 Commercial property prices (as measured by the average price of transactions recorded by the relevant tax authorities) in Wales fell by significantly more than they did in the rest of the UK in the second quarter of 2026 relative to the same period in the previous year. However, commercial property prices are typically much more volatile than residential prices as they can be moved by large individual transactions, with there being fewer than 2,000 Welsh transactions each quarter.

Property transactions

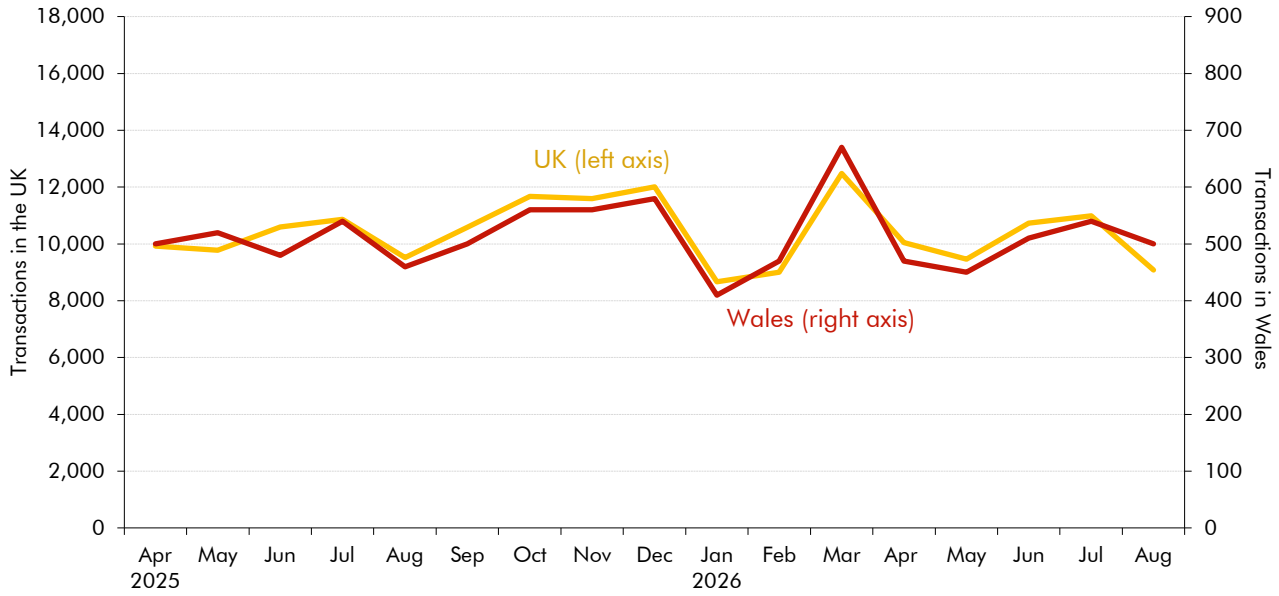
3.15 As shown in Chart 3.4, residential transactions in Wales and the whole UK have followed relatively similar paths. The only significant difference is in early 2025-26, which is explained by the unwinding of forestalling from the end of 2024-25 in ENI. As shown in Chart 3.5, the profiles of commercial property transactions in the UK and Wales have also been similar in 2025-26 and early 2026-27.

Chart 3.4: Residential property transactions



Source: HMRC

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.

- **The subset of properties that are liable to pay LTT.** Properties below the residential main rates threshold of £225,000 are exempt (among other LTT exemptions). Estimating the number of properties each year that will be exempt is uncertain as the number of overall transactions annually is small relative to the stock of properties. This is particularly important as the progressive structure of LTT means that a small proportion of higher-value transactions represent a large amount of the tax base for both residential and commercial transactions. This effect has been shown in ENI recently, where particularly poor performance in the high-value property market in London and the South East has led to significant weakness in SDLT receipts.

- **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 presents a potential downside risk.

- **LTT and SDLT 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 for changes in house prices.[6] 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 ENI impact the Welsh property market is also a key source of uncertainty.

- **Policy differences between Wales and the rest of the UK.** The Welsh and UK governments have different policies on several areas that could impact the property market, including planning, building safety regulation and council tax. As noted in paragraph 3.5, we have previously judged that planning reforms in England could have a material impact on property transactions. While that judgement may still hold, the overall effect on relative housing market performance between the rest of the UK and Wales will also depend on how other policy differences interact with these reforms, either reinforcing or offsetting their impact.

- **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 governments will only be included in our forecast when the policies are sufficiently firm and costed.

[6] For more detailed information see Mathews, P., *OBR Working Paper No.10: Forestalling ahead of property tax changes*, October 2016.

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*".[1]

4.3 LDT is charged per tonne of waste disposed of at a landfill site. It is payable by landfill site operators, who are expected to pass the costs onto those making the disposals. A small number of disposals are exempt from LDT, while some reliefs and discounts are also available. The tax is collected by the Welsh Revenue Authority (WRA). Like in England and Northern Ireland (ENI), there is a 'standard' and 'lower' rate for landfill disposals. In April 2025, the 'lower rate' in Wales was set at 5 per cent of the standard rate, bringing it above the rate in ENI. This has been aligned back to ENI from 2026-27 onwards. 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 2025-26 revenue from standard rate waste accounted for 91 per cent of total revenue from LDT,[2] although this share is forecast to fall largely due to increases in the lower rate of landfill tax.

[1] Welsh Government, *Landfill Disposals Tax (Wales) Bill 2016: Impact Assessments,* 2016.
[2] This does not include revenue from unauthorised disposals, which has not been included in recent WRA statistics releases.

Forecast methodology

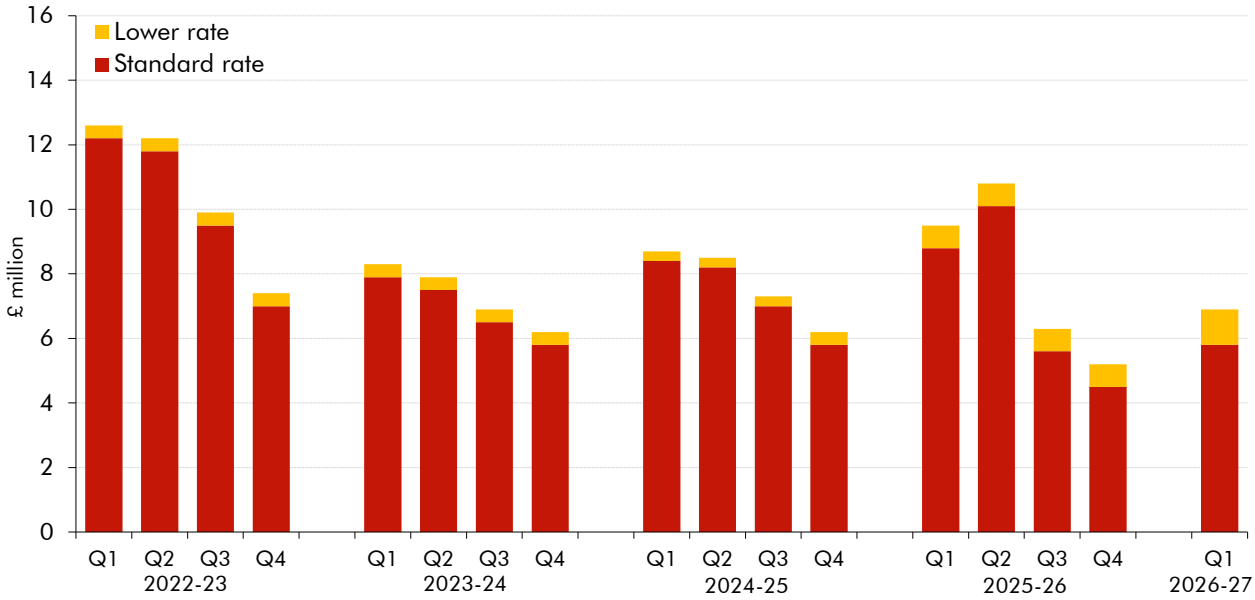
4.5 The LDT forecast uses a bottom-up model operated on our behalf by analysts in the Welsh Government. The assumptions and judgements that are fed into it are those of the Budget Responsibility Committee. The main steps in the forecast methodology are:[3]

- 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 down by £2.6 million (27 per cent) in the first quarter of 2026-27 relative to the first quarter of 2025-26. Lower rate receipts now make up 16 per cent of total receipts following the recent increase to the lower rate, compared to 7 per cent in first quarter of 2025-26.

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)

[3] The methodology for forecasting these is set out in the 'In-depth' pages of our website.

Latest forecast

4.7 Since January, we have revised down our forecast by £8 million in 2026-27 and an average of £6 million per year thereafter, an average annual decrease of 18 per cent. These changes in receipts reflect two main drivers:

- Lower-than-expected standard rate volumes in the final two quarters of 2025-26 and first quarter of 2026-27 due to operational issues at a number of the largest waste sites. Since these disruptions are deemed temporary, we assume only half of the fall in standard rate volumes persists across the forecast. This results in an average reduction of £8 million a year.

- Higher RPI, which is used to index rates, means that from 2027-28 rates are higher than was assumed in January. This increases the forecast modestly by £1 million a year.

Table 4.1: LDT forecast

	£ million						
	Outturn	Forecast					
	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
January 2026 forecast	34	37	37	38	38	39	
November 2026 forecast	32	29	30	31	32	33	33
Difference		**-8**	**-7**	**-7**	**-6**	**-6**	
of which:							
Modelling and outturn		-8	-8	-8	-7	-7	
Determinants		0	1	1	1	1	

Source: OBR

Latest developments

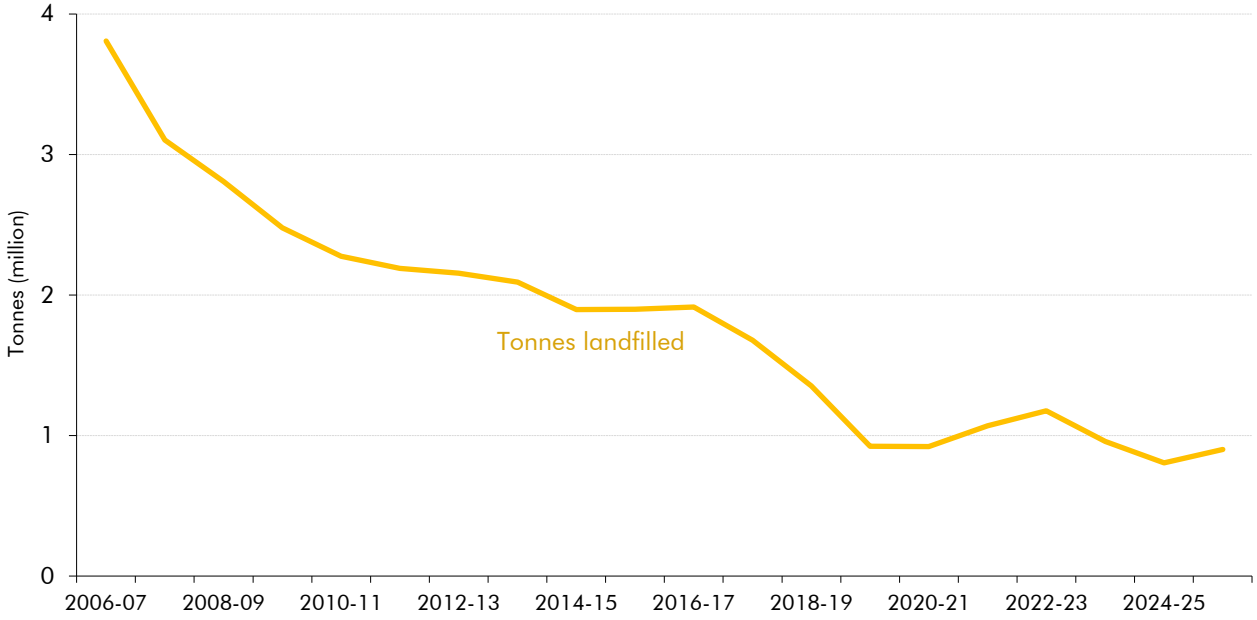
The volume of waste sent to landfill

4.8 Chart 4.2 shows that the volume of waste sent to landfill in Wales has generally fallen over time, in line with the trend in the rest of the UK. However, between 2019-20 and 2022-23 Welsh landfill tonnage increased, likely reflecting disruption from Covid and issues at waste sites. Since then tonnage has fallen back, with total standard and lower rate tonnage declining from 0.9 million tonnes in 2022-23 to an average of 0.7 million tonnes between 2023-24 and 2025-26. This is likely due to disruption at landfill sites in Wales and policies such as Workplace recycling which came into effect in April 2024. Recent data shows that this trend of declining tonnage has continued, with tonnage in early 2026-27 lower than it was in 2025-26 reflecting disruption to some landfill waste sites.

4.9 The Welsh Government increased the lower rate of LDT above the level in ENI from the beginning of 2025-26, before matching the rates from 2026-27 onwards. 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, but so far there is little evidence that it has had a material effect.

Chart 4.2: Landfill waste tonnage in Wales



Note: This does not include revenue from unauthorised disposals, which has not been included in recent WRA statistics releases. This includes relieved and discounted waste.
Source: WRA

Risks and uncertainties

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

- The **net volume of waste arising**. 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. The recent trends for landfilled waste have been less clear, creating upside and downside risk to the tonnage forecast. Five landfill site operators accounted for nearly 100 per cent of the total tax due[4], meaning changes to any of these sites can have a significant impact on the volume of landfilled waste. Recent outturn illustrates this risk, with operational issues at landfill sites reducing volumes at the end of 2025-26 and the start of 2026-27.

- 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[5] put the 'tax gap' – a measure of non-compliance – for UK landfill tax to be 33 per cent (£240 million). There is no estimate for the LDT tax gap, but if the gap were the same in percentage terms, this would imply that £16 million of potential receipts in 2025-26

[4] This relates to April to June 2026. For more details see WRA's Landfill Disposals Tax statistics: April to June 2026.
[5] This relates to 2024-25. For more detail see HMRC's Measuring tax gaps 2026 edition.

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 £0.8 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**. Last year, the Welsh Government increased its lower rate of landfill tax to align with ENI 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. We have projected a behavioural response to impact the forecast from 2027-28 onwards, a year later than we assumed in our January *WTO* as we have seen limited evidence of a behavioural response in the early months of 2026-27. 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.

5 Block grant adjustment and net tax position

Introduction

5.1 In this chapter we provide:

- The latest projections of the **block grant adjustment (BGA)** for each of the Welsh taxes, including the corresponding England and Northern Ireland (ENI) taxes on which they are based;[1]
- based on these projections, 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.[2] 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.[3]

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** are calculated separately for each tax, and by each band in the case of income 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 of devolution. We explain BGAs in more detail in Box 5.1 of our November 2025 *Devolved tax and spending forecasts* and provide more context on wider devolved funding arrangements and our role in the devolved fiscal frameworks in McCurry et al. (2026).[4]

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 ENI.[5] For income tax, the ENI forecast used to derive the BGA is

[1] 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 ENI.
[2] Annually Managed Expenditure (AME) funding is also provided to the devolved administrations separately to the block grant.
[3] 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.
[4] McCurry, H., Lanskey, L., and Baiju, T., *The OBR's role in the devolved fiscal frameworks,* July 2026.
[5] This was on an England, Wales and Northern Ireland basis for Scotland prior to Welsh devolution of relevant receipts.

calculated by subtracting the Scottish and Welsh revenues from the whole of the UK forecast that we produce. We also produce this forecast by tax band to estimate the ENI (Welsh rates of income tax equivalent) forecast, which forms the basis of the Welsh rates BGA. We produce these forecasts but are not responsible for the BGA calculations, which are produced by the Treasury. The forecasts for 2027-28 published alongside the October 2026 UK Budget are used to set the BGA. From 2028-29 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 £146 million, reflecting the difference between forecasts and outturn for the net income tax position in 2024-25, is due to be added to the Welsh budget in 2027-28. 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 projections for the tax BGAs and net tax position, we provide comparisons to our March 2026 *EFO* and the January 2026 *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 forecast for ENI equivalent taxes, which form the basis of the Welsh tax BGAs. In our central forecast, we expect ENI equivalent taxes to grow by around 6 per cent a year on average over the forecast period. This is largely driven by non-savings non-dividends (NSND) income tax which comprises 86 per cent of ENI equivalent tax receipts, although stamp duty land tax (SDLT) grows more quickly over the forecast. Growth in ENI NSND income tax is driven by nominal earnings growth, which is particularly high up to 2030-31 due to frozen tax thresholds. Welsh devolved taxes grow at a similar rate, meaning Welsh devolved taxes are forecast to remain broadly constant as a share of ENI equivalent taxes at 3.5 per cent.

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

	£ million							
	Outturn	Forecast						
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Total England and Northern Ireland (ENI) equivalent	**104,603**	**113,372**	**121,192**	**127,098**	**133,242**	**140,587**	**148,293**	**154,865**
of which:								
NSND income tax (WRIT basis)	90,251	97,606	105,725	109,837	113,830	119,731	125,795	130,655
SDLT[1]	13,854	15,177	15,038	16,871	18,945	20,398	22,015	23,697
Landfill tax[1]	497	588	429	390	468	459	483	514
Total Welsh devolved taxes	**3,675**	**3,997**	**4,309**	**4,514**	**4,703**	**4,957**	**5,221**	**5,426**
of which:								
Welsh rates of income tax[2]	3,300	3,601	3,906	4,081	4,240	4,460	4,689	4,859
Land transaction tax	341	363	374	402	432	465	499	534
Landfill disposals tax	34	32	29	30	31	32	33	33
	Wales as a share of ENI WRIT-equivalent							
Total Welsh devolved taxes	**3.5**	**3.5**	**3.6**	**3.6**	**3.5**	**3.5**	**3.5**	**3.5**
of which:								
Welsh rates of income tax[2]	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Land transaction tax	2.5	2.4	2.5	2.4	2.3	2.3	2.3	2.3
Landfill disposals tax	6.9	5.5	6.7	7.8	6.7	7.0	6.8	6.4

[1] The outturn data for ENI landfill tax and SDLT is consistent with our October 2026 devolved tax and spending document. This may differ from the outturn data used for the final BGA reconciliation.

[2] Currently outturn data is only available for 2024-25 for income tax, and 2025-26 remains a forecast. For land transaction tax and landfill disposals tax, the latest outturn is 2025-26.

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, ENI income tax receipts are forecast to grow by around 5.4 per cent a year on average. This is slower than Welsh rate receipts, which are forecast to grow at around 5.7 per cent a year. This relatively faster growth in Wales reflects threshold freezes and the distribution of the Welsh tax base which leads to stronger by-band growth in Wales, a fact we explore further in Box 5.1 of our January 2026 *Welsh Taxes Outlook*. In 2031-32, when threshold freezes are set to end and all thresholds rise with CPI inflation, Welsh rates are forecast to grow more slowly than their ENI equivalent.

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

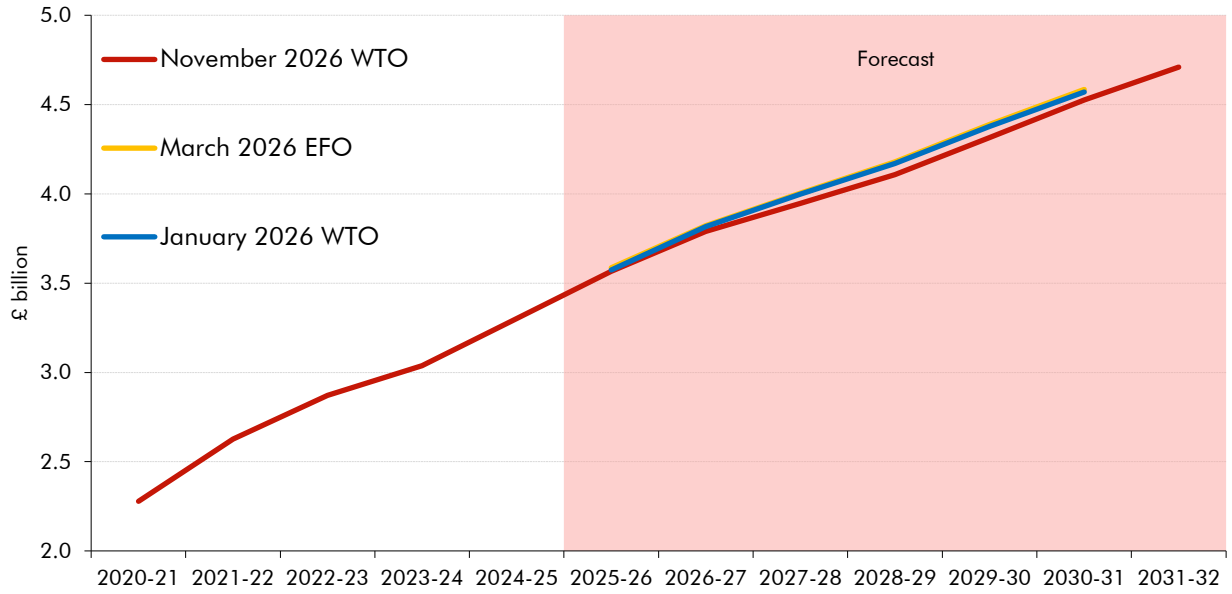
	£ billion							
	Outturn	Forecast						
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
England and Northern Ireland NSND income tax (WRIT basis)	**90.3**	**97.6**	**105.7**	**109.8**	**113.8**	**119.7**	**125.8**	**130.7**
of which:								
Basic rate	58.9	63.5	67.7	70.0	72.2	75.5	78.9	82.0
Higher rate	17.1	18.7	20.6	21.6	22.5	23.8	25.2	25.7
Additional rate	14.2	15.4	17.4	18.2	19.1	20.4	21.7	23.0
Welsh rates	**3.3**	**3.6**	**3.9**	**4.1**	**4.2**	**4.5**	**4.7**	**4.9**
of which:								
Basic rate	2.7	3.0	3.2	3.3	3.4	3.6	3.8	3.9
Higher rate	0.4	0.5	0.6	0.6	0.6	0.7	0.7	0.7
Additional rate	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
	Wales as a share of ENI WRIT-equivalent							
Welsh rates	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**
of which:								
Basic rate	4.7	4.7	4.7	4.8	4.8	4.8	4.8	4.8
Higher rate	2.6	2.6	2.7	2.7	2.8	2.8	2.9	2.9
Additional rate	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9

Source: OBR

The latest projections for the block grant adjustment

5.9 Chart 5.1 shows the latest projections of the tax BGA, which is underpinned by the ENI forecasts presented above. Due to rising tax revenues in ENI, the BGA is projected to rise from £3.3 billion in 2024-25 to £4.7 billion by 2031-32. As shown in Table 5.3, this is largely driven by growth in the basic rate of income tax, which is 76 per cent of the total block grant adjustment over the forecast. The BGAs for the higher rate, additional rate and LTT all grow more quickly over the forecast than the basic rate, but from a much smaller base, so together make up only 30 per cent of the increase in the BGA between 2024-25 and 2031-32.

Chart 5.1: Projection of the Welsh block grant adjustment



Source: HM Treasury, OBR

Table 5.3: Projection of the block grant adjustments by tax

	£ million							
	Outturn	Forecast						
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Welsh tax BGA	**3,303**	**3,567**	**3,791**	**3,947**	**4,109**	**4,315**	**4,527**	**4,710**
of which:								
Welsh rates	**3,001**	**3,235**	**3,469**	**3,590**	**3,708**	**3,885**	**4,064**	**4,213**
of which:								
Basic rate	2,560	2,755	2,938	3,033	3,128	3,271	3,415	3,546
Higher rate	355	387	426	447	465	491	519	529
Additional rate	86	93	105	110	115	123	131	138
Land transaction tax	**283**	**308**	**306**	**342**	**383**	**412**	**444**	**478**
Landfill disposal tax	**19**	**24**	**16**	**15**	**18**	**18**	**19**	**20**

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 2025-26.
Source: HM Treasury, OBR

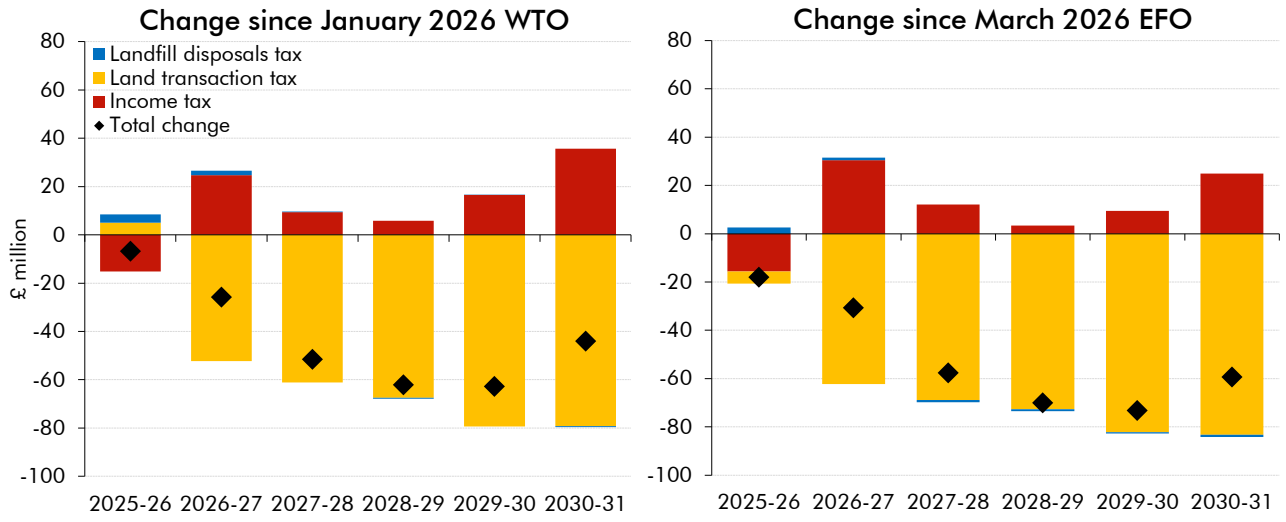
5.10 Chart 5.2 shows that compared to our March 2026 forecast and our January 2026 *WTO* forecast, the tax BGA is lower in every year. This is driven by the downwards revisions to our SDLT forecast which decreases the size of the BGA due largely to weak outturn in the early months of 2026-27 in both commercial and residential receipts. This aligns with reports of particularly weak housing market performance in high-value properties in London and the South-East, which SDLT receipts are particularly sensitive to given the tax's progressive structure. Given the sensitivity of the forecast to a relatively small number of high value properties, in Box 5.1 we explore alternative scenarios for the LTT net position, including the potential implications for the Welsh Budget if receipts in England were to recover.

5.11 This is only partially offset by increases to the income tax BGA projection. While we have revised up our ENI NSND forecast, as most of the revision upwards to ENI NSND income

tax is related to the higher and additional rate bands, this has a more muted impact on the Welsh rates BGA. This in part reflects our updated assessment of the distribution of carried interest receipts across tax bands. Carried interest refers to income received by fund executives linked to the performance of investment funds and is classified as income tax from April 2026 onwards (see Box 2.1 of the October 2026 *Devolved tax and spending document* for more detail). Compared with our March forecast, we now assume that a higher proportion of carried interest receipts accrue to the higher and additional rate bands, in line with HMRC evidence on the taxpayer population. This change reduces the income tax BGA given the BGA is calculated on a Welsh rates of income tax equivalent basis and these bands have a lower comparability factor than the basic rate. In Box 5.2 we discuss the importance of differences in the growth and distribution of income tax receipts across tax bands for the Welsh funding position.

5.12 The total impact of UK Government policies announced since March on the BGA is small, decreasing the projection of the BGA by an average of £3 million a year.

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



Source: HM Treasury, OBR

Box 5.1: Risks to the land transaction tax net position

We discuss in the risks and uncertainties section of Chapter 3 some of the key risks to the land transaction tax (LTT) forecast. However, for the Welsh Government's funding position the most relevant metric is the LTT net position, which reflects not only changes in LTT receipts but also changes in England and Northern Ireland (ENI) stamp-duty land tax (SDLT) receipts which inform the block grant adjustments (BGAs). Our forecasts for both SDLT and LTT are uncertain given that both house price and transaction growth can be volatile. The fiscal framework provides protection to the Welsh LTT net position from UK-wide changes, as in this case changes in LTT revenues would generally be offset by changes in SDLT and so the BGA, reducing the impact on

the net position and the Welsh Government's budget. As a result, the main risk to the Welsh funding position arises if there is divergence in the performance of the housing market in Wales and in ENI.

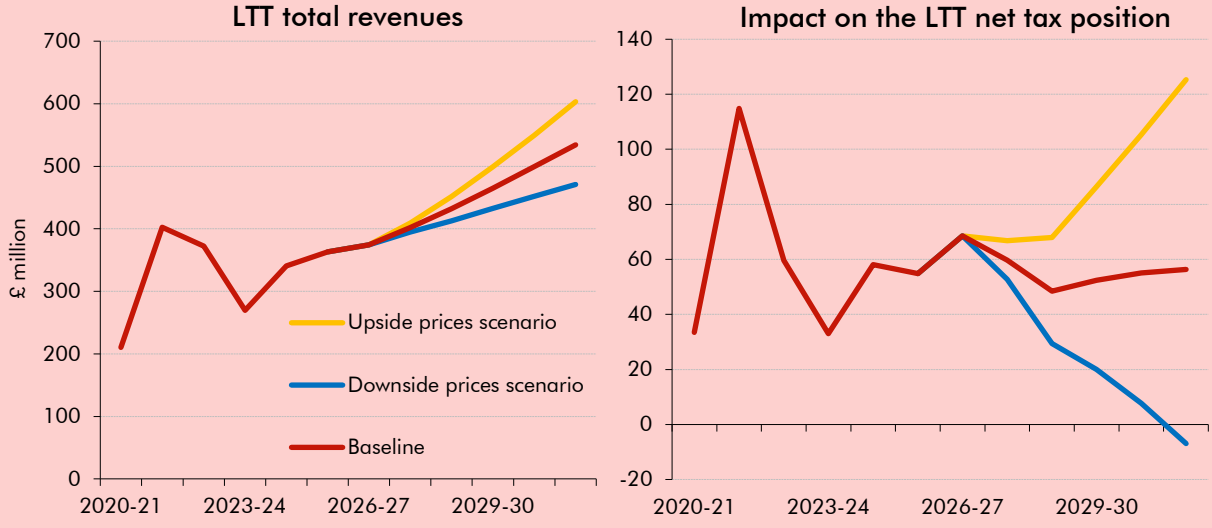
In our central forecast, we assume that aggregate growth in property determinants between Wales and ENI remains aligned. This means that the LTT forecast is conditioned on UK property market determinants, with Welsh property prices and transactions assumed to grow in line with those in ENI over the medium-term. Historical trends largely support this assumption. Since the 1970s, Welsh and UK residential property prices have both grown by around 8 per cent a year and have differed by only 0.1 percentage points on average, while transaction growth has remained similar.[ab]

In recent years, however, there has been some evidence of divergence with Welsh residential property prices, having grown around 1.5 percentage points faster than the UK each year since 2018.[c] Such divergence is likely to have all else equal increased the net position for LTT. In Chart A, we consider two scenarios: one in which this difference in property price growth persists (upside scenario); and one where the ratio of Welsh to UK property prices reverts back, closer to its long-term historical level (downside scenario):[d]

- In the upside scenario, property price growth is around 1.5 percentage points faster in Wales each year than in the rest of the UK. In this scenario, LTT receipts increase from £374 million in 2026-27 to £603 million by 2031-32 (left hand Chart). This increases the net position to around £125 million by 2031-32 (right-hand Chart), which is £69 million above our central forecast.

- In the downside scenario, property price growth is around 1.5 percentage points lower in Wales than in the rest of the UK. LTT receipts reach £471 million by 2031-32, leaving the net position at -£7 million, £63 million below our central forecast.

Chart A: Potential impact of divergence in Welsh property price growth

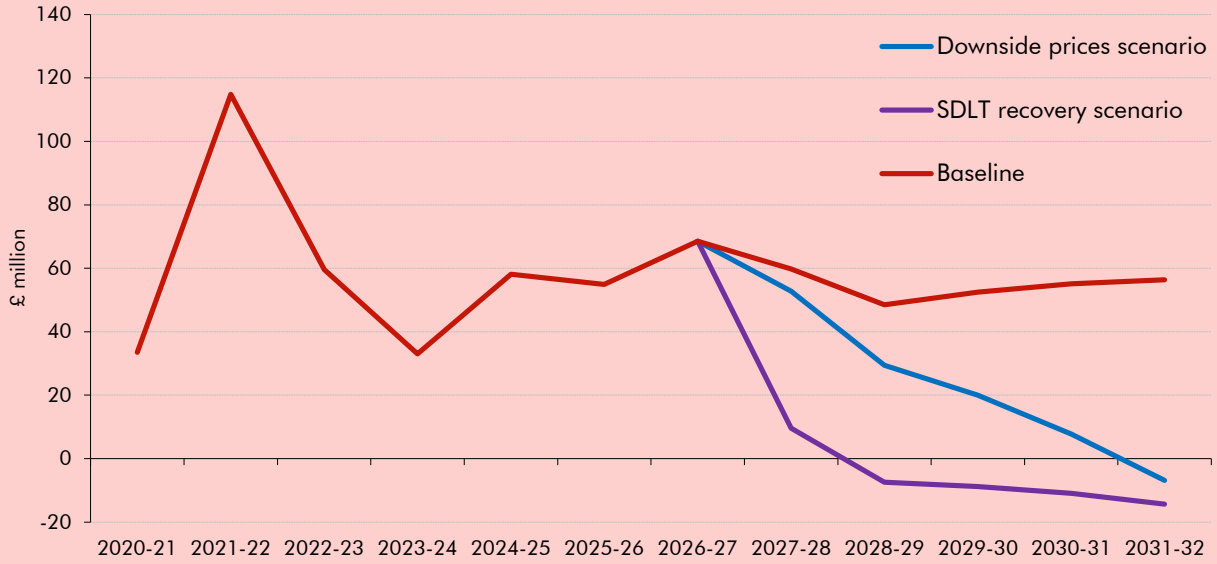


Source: HMT, WRA, OBR

Differences in aggregate property price growth and transactions are not the only factor affecting relative tax base growth. The distribution of transactions and property prices also matter because SDLT and LTT are progressive taxes, with receipts particularly sensitive to activity at the top end of the property market. This means that changes in average prices and transactions do not necessarily always fully capture movements in the tax base. Both the SDLT and LTT forecast models are based on projecting forward the distribution from a recent outturn base year, using assumptions for aggregate property prices and transactions. This means that any changes in the distribution of activity across the market relative to this base year can have a significant effect on receipts.

This has been important in our most recent SDLT forecast which informs the LTT BGA presented in Chapter 5. In our October 2026 *EFO*, we revised down our forecast for SDLT receipts, largely reflecting weakness in the early part of 2026-27 that appears to be particularly concentrated among high-value properties in London and the South East. In Chart B, we show an illustrative scenario where we remove part of this downward revision from 2027-28 onwards. In this SDLT recovery scenario, we leave our October 2026 forecasts for property prices and transactions unchanged, but assume that SDLT receipts relative to those property market determinants return to a relationship consistent with that which we assumed in our March 2026 forecast.[e] This shows the sensitivity of the LTT net position forecast to assumptions on SDLT. This illustrative scenario would increase the BGA and so reduce the LTT net position by an average of £61 million a year, a larger change in the net position than in the downside property price scenario.

Chart B: Impact of SDLT recovery and changes to Welsh property price growth on the net position



Source: HMT, WRA, OBR

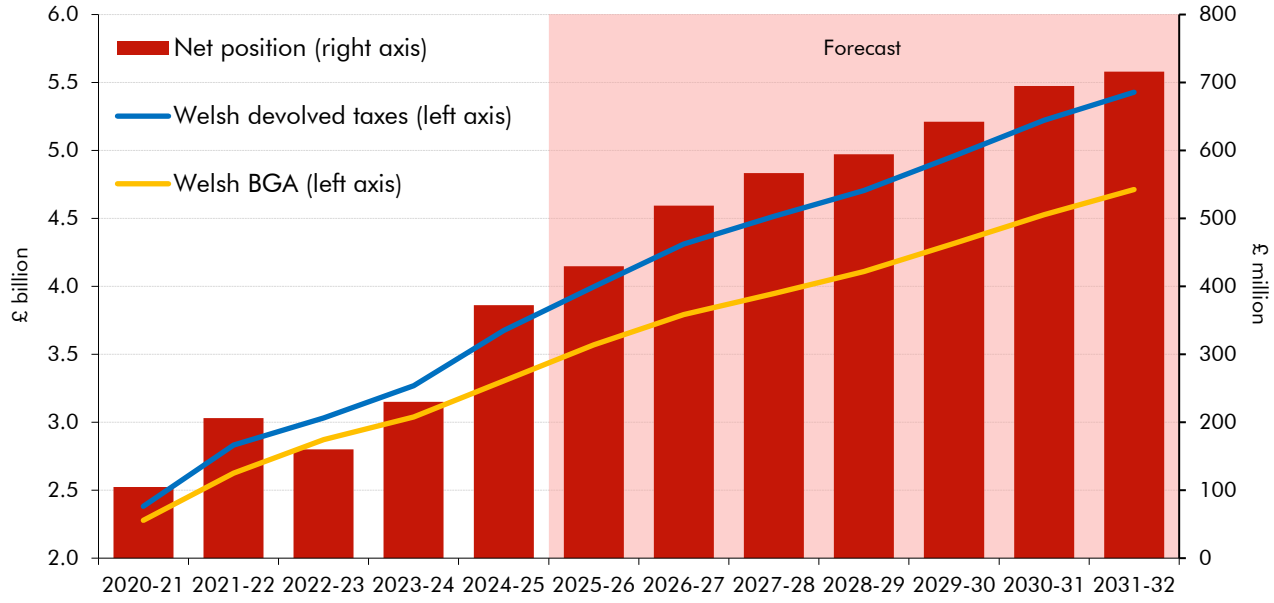
[a] This is based on data from HMRC and WRA for transactions recorded by SDLT and LTT respectively, from April 2005 to August 2026.
[b] We explore the reasons for this further on the 'In-depth' pages of our website and the Latest Developments section of Chapter 3.

[c] Based on the HPI from HM Land Registry.
[d] Commercial property prices are assumed to follow residential property price trends and therefore incorporate the same differential. The scenarios capture only the effect of differences in property price growth, with transaction volumes unchanged given the limited evidence of divergence.
[e] Specifically, this scenario uses the same transactions and prices forecasts as our October 2026 forecast (detailed in paragraph 3.4), but from 2027-28 onwards implicitly assumes a relationship between the property market and our SDLT forecast that is consistent with our March 2026 forecast by removing changes we have made since then to our in-year estimate. For more detail on how we construct our SDLT forecast, see the *Forecast methodology* section of the *Property transaction taxes* entry in the *In-depth* area of our website.

Welsh net tax position

5.13 Chart 5.3 shows the latest projections for the net tax position, reflecting the BGA projections calculated by HM Treasury and the Welsh devolved tax forecasts outlined in previous chapters. The net tax position is projected to increase by 92 per cent over the forecast from £372 million in 2024-25 to £716 million in 2031-32.

Chart 5.3: Latest projection of the net tax position



Source: HM Treasury, OBR

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

- **Welsh rates of income tax**, which accounts for almost all of the increase in the net position, rising from £299 million in 2024-25 to £646 million in 2031-32. Of this increase 54 per cent is from the basic rate, 35 per cent is from the higher rate and 10 per cent is from the additional rate. This is largely a result of freezes to personal tax thresholds which interact with the Welsh separate by band BGAs, and the distribution of the Welsh tax base, to significantly increase the net tax position, as explored in Box 5.1 of the January 2026 *Welsh Taxes Outlook*. Our latest estimate is that the UK Government threshold freezes since 2021-22 will have boosted the Welsh rates of income tax net position by around £450 million by 2031-32.

- **Land transaction tax**, which averages £57 million over the forecast. The net tax position is positive as Welsh LTT receipts have generally increased relative to ENI SDLT since devolution in 2018-19. There are multiple drivers for this, such as strength in the Welsh property market and policy differences between LTT and SDLT.

- **Landfill disposal tax**, which remains broadly constant over the forecast period averaging £14 million a year over the forecast. This reflects ENI landfill tonnage having declined faster since devolution than landfill tonnage in Wales.

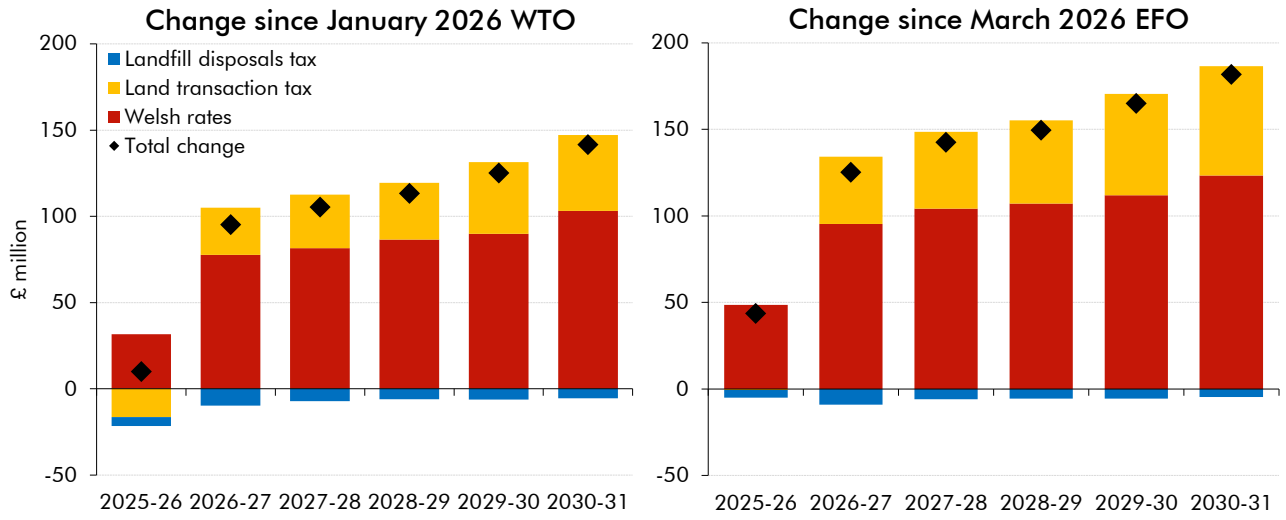
Table 5.4: Projection of the Welsh net position by tax

	£ million							
	Outturn	Forecast						
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Total Welsh devolved taxes	3,675	3,997	4,309	4,514	4,703	4,957	5,221	5,426
Welsh tax BGA	3,303	3,567	3,791	3,947	4,109	4,315	4,527	4,710
Net tax position	**372**	**429**	**518**	**567**	**594**	**642**	**694**	**716**
of which:								
Welsh rates	**299**	**366**	**438**	**491**	**532**	**575**	**625**	**646**
of which:								
Basic rate	186	224	270	299	320	340	363	375
Higher rate	83	107	128	147	163	181	202	206
Additional rate	30	35	40	45	50	55	60	66
Land transaction tax	**58**	**55**	**69**	**60**	**48**	**52**	**55**	**56**
Landfill disposals tax	**15**	**8**	**12**	**16**	**13**	**15**	**14**	**13**

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 2025-26.
Source: HMRC, OBR

5.15 Chart 5.4 shows that relative to our January and March 2026 forecasts the net tax position has increased in every year. Most of this growth is due to the increase in the Welsh rates net position, reflecting the fact that Welsh rates receipts have been revised up by more proportionately than the equivalent ENI receipts used for calculating the BGA. This reflects a higher Welsh share in recent RTI outturn which we assume will persist through the forecast, as well as an updated assumption for the distribution of carried interest receipts within ENI across tax bands, with a greater proportion now assumed to accrue to the additional rate band than in our previous forecast (see paragraph 5.11 for more detail). The rest of the growth is due to LTT, with LTT receipts performing better in early 2026-27 than SDLT receipts, which is discussed further in paragraph 5.10. Compared to the January 2026 *WTO*, the net tax position is higher in every year, with the revision averaging £116 million from 2026-27 onwards.

Chart 5.4: Change in the net tax position projection since March and January



Source: HM Treasury, OBR

Box 5.2: Risks to the Welsh rates of income tax (WRIT) net position

We project that the devolution of WRIT will increase Welsh Government funding by £646 million in 2031-32 relative to a scenario in which income tax had not been devolved. This is largely because the UK government's personal tax threshold freezes increase WRIT by relatively more than income tax revenues in England and Northern Ireland (ENI), as we explored in Box 5.1 of our January 2026 *Welsh Taxes Outlook*.

A key assumption underpinning this forecast is that earnings and employment grow at a similar rate in Wales as in ENI. The fiscal framework provides protection to the Welsh funding position from UK-wide shocks because any change in WRIT revenue will be partly offset by a change in the block grant adjustment (BGA). Therefore, risks to the net position arise primarily when shocks to income differ between Wales and ENI. Since the devolution of WRIT in April 2019, Welsh aggregate real-time information (RTI) pay growth has been similar to the rest of the UK, while Welsh taxable income has grown faster than ENI in almost every year due to the impact of threshold freezes. However, historical data suggests that Welsh and ENI total pay growth have not always moved together. Between 2014-15 and 2018-19, tax data shows stronger income growth in ENI than in Wales, with HMRC RTI pay growth on average 0.7 percentage points a year stronger and Survey of Personal Incomes (SPI) data[a] total income growth on average 0.9 percentage points a year stronger.

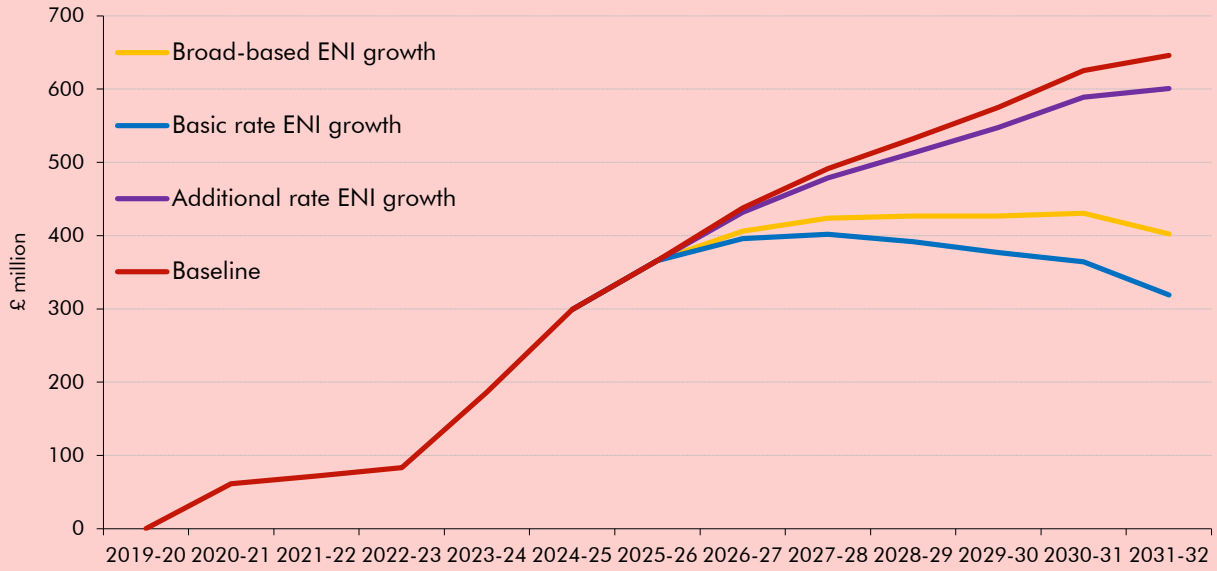
In this box, we explore the implications for the WRIT net position were income growth to diverge between Wales and ENI. To illustrate the downside risk to the net position, we model scenarios where ENI taxable income grows 1 percentage point faster than in the baseline outlined in Table 5.4 from 2026-27 onwards. This would imply a similar magnitude of divergence in taxable income growth between Wales and ENI in the forecast to that seen between 2014-15 and 2018-19. It could result from government policy changes or from Wales- or England-specific growth factors. We also show that it is not just differences in aggregate pay growth to the rest of the UK,

but also how pay growth is distributed between the tax bands, which are important for the Welsh rates net tax position.

Chart C shows how the Welsh rates net tax position would be affected if taxable incomes in ENI were to grow 1 percentage point faster per year than in our central forecast under different distributional assumptions:

- In the **broad-based growth scenario**, we assume that faster growth in ENI taxable income is equally distributed across tax bands in England. In this scenario the net position in 2031-32 is £402 million, 38 per cent lower than in the baseline.
- In the **additional rate scenario**, we assume the same increase in taxable income as in the broad-based scenario but assume that all the additional ENI income growth accumulates to the additional rate tax band only. In this scenario we project that the net position in 2031-32 would be £601 million, only 7 per cent lower than the baseline. This reflects the small contribution of the additional rate to the WRIT BGA, due to Wales retaining only 22[b] per cent of additional rate incomes and having a low comparability factor (11 per cent). This could occur either because of stronger relative income growth among higher earners in England or because of policy measures that exclusively affect higher earners. An example of the latter can be found in the reclassification of carried interest, which we explore the implications of in more detail in Box 2.1 of our October 2026 *Devolved tax and spending* forecasts.
- In the **basic rate scenario**, all additional ENI income growth accumulates to the basic rate. This scenario has the largest impact on the net position which we project would be £319 million in 2031-32, or 51 per cent lower than assumed in our baseline. This is because Wales is more exposed to changes in the basic rate, as it keeps a higher proportion of basic rate income tax (50 per cent)[c] and has a much higher comparability factor of 82 per cent. There have been periods of faster growth in basic rate incomes in the past. SPI data shows that between April 2010 and April 2019 weak performance in Welsh taxable earnings relative to ENI was particularly focussed on those earning below £50,000. This is likely to have been driven by the increases to the personal allowance during this period which disproportionately lowered Welsh basic rate receipts due to the distribution of the Welsh tax base.

Chart C: Impact of stronger ENI income growth on the Welsh net position



Source: OBR

While these scenarios are illustrative, they demonstrate the sensitivity of the Welsh funding position to differences in the distribution of taxable income growth between Wales and ENI. This is one reason why we have recently developed our forecasting methodology to make greater use of RTI distributional data when forecasting Welsh rates and the equivalent ENI revenues as discussed in Box 2.1 of our January 2026 *WTO*.

[a] This is based on RTI aggregate pay and SPI total pay. RTI data only includes employees employed in at least one job through pay as you earn (PAYE). SPI data only includes aggregated information for those who earn over the personal allowance. For the SPI, the Wales income tax liability was calculated based on the tax regime applicable to the individual. Prior to this, in the SPI the income tax for an individual was calculated with reference to their residential postcode.
[b] As explained in Box 2.1, this is 20 per cent for property income.
[c] As explained in Box 2.1, this is 42 per cent for property income.

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