Scottish Tax Ready Reckoners: Direct effects of illustrative tax changes for 2024-25

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Scottish Government
Riaghaltas na h-Alba

Summary

This note presents a set of ready reckoners which show the estimated revenue impact of illustrative changes to Scottish Tax policy in 2024-25, including Income Tax, Land and Buildings Transaction Tax (LBTT) and Non-Domestic Rates (NDR), relative to the policies announced for 2024-25. These have been produced by the Scottish Government but are in line with the latest December 2023 forecasts of the independent Scottish Fiscal Commission (SFC). Official policy costings are produced by the SFC and therefore these ready reckoners are for illustration only.

Introduction

A core tax principle of the Scottish Government is to engage with citizens and taxpayers and increase the understanding of tax policy in Scotland.[1] As part of this approach, the Scottish Government has published Income Tax 'ready reckoners' annually since March 2021. This is in line with similar publications by HMRC and the Welsh Government.[2] Since May 2023, the ready reckoners have been expanded to cover a broader range of devolved taxes. The purpose of the ready reckoners is to assist researchers and policymakers in considering the revenue impacts of illustrative policy changes in order to improve transparency and facilitate public understanding in this area.

The ready reckoners in Table 1 provide an order of magnitude of how much revenue could be raised, or foregone, over and above the policies announced for 2024-25. They are not intended to be exhaustive but can be used to understand the impacts of tax policy proposals on the Scottish Budget.

The ready reckoners have been produced by Scottish Government analysts using in-house economic models that are in line with the SFC's general framework and assumptions for policy costings, as set out in detail by the SFC in May 2021.[3] In practice, the SFC costs policies on a case-by-case basis, considering the details of each individual policy and the wider economic context. The ready reckoners should therefore be used to provide only an indication of the revenue impacts, as the SFC's final policy costings may differ.

The ready reckoners only show the direct impact on Scottish tax liabilities and receipts and do not include any wider effects on the Scottish economy, other devolved or local receipts, or UK Government revenues. Some behavioural responses are captured for Income Tax and residential and non-residential LBTT, but not for NDR; for example, decisions on whether to work or not, whether to re-locate to or from other parts of the UK or the world, or on buying a different property.

All ready reckoners assume that any tax changes will be implemented within a sufficiently short space of time so that there is no opportunity for forestalling behaviour. Forestalling refers to a situation where taxpayers move income, or transactions, across time for the specific purpose of minimising their tax burden (i.e. bring forward income, or a transaction, to avoid a future tax rate increase, or delay income, or a transaction, to benefit from a future tax rate decrease).

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[1] Please see the following link: Framework for Tax 2021
[2] See for example HMRC's Ready Reckoners and Welsh rates of income tax ready-reckoner 2023 to 2024.
[3] See Scottish Fiscal Commission, How We Forecast Income Tax and How we forecast devolved taxes, May 2021

Table 1: Scottish Tax Ready Reckoners, 2024-25

Illustrative tax change	Estimated revenue impact, 2024-2025, £ million
Income Tax Rate Changes[4]	
Increase Starter rate by 1p	65
Increase Basic rate by 1p	239
Increase Intermediate rate by 1p	172
Increase Higher rate by 1p	80
Increase Advanced rate by 1p	21
Increase Top rate by 1p	6
Decrease Top rate by 1p	-8
Income Tax Threshold or Band Changes	
Increase the Starter rate band by £100	-3
Reduce the Starter rate band by £100	3
Increase the Basic rate band by £1,000	-15
Reduce the Basic rate band by £1,000	16
Increase the Higher rate threshold by £1,000	-114
Reduce the Higher rate threshold by £1,000	129
Increase the Advanced rate threshold by £1,000	-3
Decrease the Advanced rate threshold by £1,000	3
Residential LBTT policy rate changes	
Increase rate applicable to £145,001-250,000 band by 1% point[5]	30
Increase rate applicable to £250,001-325,000 band by 1% point	10
Increase rate applicable to £325,001-750,000 band by 1% point	10
Increase rate applicable to above £750,000 band by 1% point	1
Decrease rate applicable to £145,001-250,000 band by 1% point[5]	-31
Decrease rate applicable to £250,001-325,000 band by 1% point	-11
Decrease rate applicable to £325,001-750,000 band by 1% point	-11
Decrease rate applicable to above £750,000 band by 1% point	-1
Additional Dwelling Supplement (ADS) policy changes[6]	
Increase ADS rate by 1% point	11
Decrease ADS rate by 1% point	-13
Non-residential LBTT policy changes	
Increase rate applicable to £150,001-250,000 band by 1% point	2
Increase rate applicable to the above £250,000 band by 1% point	16
Decrease rate applicable to £150,001-250,000 band by 1% point	-2
Decrease rate applicable to the above £250,000 band by 1% point	-23
Non-Domestic Rates policy changes	
Increase the Basic Property Rate by 1p	11.3
Increase the Intermediate Property Rate by 1p	6.4
Increase the Higher Property Rate by 1p	42.6

[4] For Income Tax rate changes, the impacts of tax increases and tax decreases are broadly symmetric. This means a 1p increase in any rate will raise broadly the same amount as a 1p decrease in that same rate would cost.
[5] The zero-rate threshold for home movers is equal to £145,000. For first-time buyers the threshold is £175,000.
[6] Estimated revenue impacts of a change in the ADS rate are based on those transactions which are liable for ADS and where no claim for repayment is expected to be made in the future (the share of such transactions is estimated taking into account historic trends). See commentary on this in main text.

Income Tax

The Scottish Parliament has the power to set Income Tax rates and bands for the non-savings non-dividend (NSND) income of Scottish taxpayers. The Scottish Parliament must pass a Scottish Rate Resolution before the start of the tax year setting Income Tax policy for the year ahead. It is not possible to make any in-year changes to Income Tax policy. The responsibility for defining the Income Tax base, which includes the setting or changing of Income Tax reliefs and exemptions, and the tax-free Personal Allowance, remains reserved to the UK Parliament. Income Tax on savings and dividends is also reserved. Table 2 sets out the rates and bands under the announced policy for 2024-25 which forms the counterfactual for the policy costings.

Table 2: Scottish Income Tax Policy, 2024-25

Rate Name	Income Range	Rate
Starter rate	£12,571 - £14,876	19%
Basic rate	£14,877 - £26,561	20%
Intermediate rate	£26,562 - £43,662	21%
Higher rate	£43,663 - £75,000	42%
Advanced rate	£75,001 - £125,140	45%
Top rate	Over £125,140	48%

The Income Tax policy choices available to the Scottish Parliament include: the number of tax bands; the tax rates that apply to these bands; and the thresholds where bands begin and end. The ready reckoners in Table 1 can be used to show the additional revenue raised (or foregone) from individual components as well as any combination of these, for example:

- The revenue implications of any combination of policies can be broadly estimated by summing the impact of each individual change. For example, a policy which adds 1p to each rate would raise around £583 million in estimated revenue (over and above the changes announced for 2024-25). However, if thresholds are changed substantially, and combined with rate changes, there might be interactions which mean that the policy effects are not purely additive.
- The estimates can also be scaled up or down to some extent, in that a 2p rise in a tax rate will broadly raise twice as much as a 1p increase. This approach is reasonable for changes of up to a few percentage points. However, caution should be applied when assessing larger changes, particularly to the Top rate, as top earners are much more likely to be responsive to tax changes.
- For rate changes, the impacts of tax increases and tax decreases are also broadly symmetric so that a 1p cut in the Intermediate rate would cost around £172 million. However, caution needs to be applied for threshold changes where the effects of increases and decreases are not fully symmetric.
- Threshold changes cannot be scaled up or down as easily, as any change in the band, or threshold, would affect the tax base itself, i.e. the number of taxpayers affected by the policy.
- The table illustrates increases to the bands and thresholds of +/-£100 and +/-£1,000 respectively. To put this into context, inflationary uprating at 6.7% (the September 2023

Consumer Price Index typically used for uprating) would be equivalent to a £2,905 increase in the Higher rate threshold.

- No further policy changes to the Top rate threshold have been assessed at this stage. This is because the Scottish Government cannot make changes to the Personal Allowance taper rate or taper thresholds. The UK-wide Personal Allowance is withdrawn for taxpayers who earn more than £100,000 at a rate of £1 for every £2 earned over £100,000. Taxpayers earning more than £125,140 do not benefit from the Personal Allowance. These taxpayers face a marginal rate of Income taxation of 67.5% on earnings between £100,000 and £125,140. Reducing the Top rate threshold below £125,140 would increase this marginal rate further.
- In the case of the Top rate, revenue effects are particularly uncertain as there is a risk that behavioural responses might significantly reduce the additional yield, or costs, from a rate change. Based on the SFC's current behavioural framework, these policies would have a relatively modest impact on tax revenues. However, as illustrated in the Scottish Government's evaluation of the 2018-19 policy changes, there is also a risk that any increase in the Top rate might lose revenue[7] and this risk could increase the greater the divergence with the highest marginal rate in the rest of the UK.
- The ready reckoners do not include any potential effects of forestalling which might occur when taxpayers move income across years to minimise their tax liabilities. This is particularly relevant where tax policy changes are known well in advance of the beginning of the tax year.

Areas of uncertainty

There are a number of uncertainties when it comes to producing ready reckoners. The first is in the scale of the behavioural response. Evidence on behavioural responses is an essential consideration for tax policy decisions. For example, analysis published by HMRC in December 2021[8] highlighted a high degree of uncertainty regarding top earners' responsiveness and a potentially stronger than expected response amongst Higher rate taxpayers. Building on this, over the last year the Scottish Government has worked with HMRC to develop new, and robust, data sources and evidence to help better understand potential behavioural responses, including taxpayer movements across the UK over time. The SFC regularly review their behavioural assumptions, and the ready reckoners set out above are based on their latest behavioural parameters.

The second area of uncertainty relates to the economic assumptions underpinning the costings. As the SFC notes in their latest report, the uncertainty about the outlook for inflation, and its impact on nominal earnings growth, lead to uncertainty in their Income tax forecasts.[9] How fast nominal earnings grow ultimately determines the extent to which people are pulled into higher tax bands, also known as fiscal drag. This effect is even more pronounced as UK-wide allowances and some Scottish bands and thresholds are frozen in 2024-25.

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[7] Scottish Government, Scottish Income Tax: 2018-19 Policy Evaluation, December 2021
[8] HMRC, Estimating Scottish taxpayer behaviour in response to Scottish Income Tax changes introduced in 2018 to 2019, December 2021
[9] Scottish Government Budget 2024-25

Finally, COVID-19 is likely to have reshaped the structure of the labour market and therefore the Income Tax base, however, detailed Income Tax data is only available with a significant lag. The Income Tax model continues to be based on pre-COVID microdata, yet aligned to 2021-22 Income Tax outturn. As noted by the SFC, this introduces uncertainty as this approach may not fully capture changes in the income distribution in response to economic developments or policy changes since 2021-22. For example, should the strength of the 2021-22 outturn data not be persistent, the ready reckoners might overstate the impact of some policies, especially those targeted at the top end of the income distribution.

Land and Buildings Transaction Tax

Land and Buildings Transaction Tax (LBTT) is a fully devolved tax which came into effect from 1 April 2015. It applies to residential and non-residential land and buildings transactions (including commercial leases) where a chargeable interest is acquired.

The tax applies a progressive rates and bands structure, with the marginal tax rate increasing as the value of the transaction increases. The current rates and bands for residential and non-residential LBTT conveyances are set out in Tables 3 and 4 below.[10]

For certain transactions, the Additional Dwelling Supplement may also apply at a flat 6% rate.

The Scottish Government has full powers to vary rates, bands, reliefs and any other elements of tax policy.

Table 3: Residential Rates and Bands, 2024-25

Proportion of consideration in each band	Rate
£0-£145,000*	0%
£145,001-£250,000	2%
£250,001-£325,000	5%
£325,001-£750,000	10%
Above £750,000	12%

*For first-time buyers the nil rate band ceiling is £175,000 due to the availability of a relief.

[10] For non-residential leases, the tax payable is based on any lease premia and the net present value of the rent payable i.e. a different basis to non-residential conveyances. For simplicity, we have excluded non-residential leases from the ready reckoner.

Table 4: Non-Residential Rates and Bands, 2024-25

Proportion of consideration in each band	Rate
Up to £150,000	0%
£150,001 to £250,000	1%
Above £250,000	5%

Table 1 illustrates the estimated revenue gains and losses when these marginal LBTT tax rates are increased, or decreased, in isolation for each tax band. The cumulative revenue impact of changing the tax rate in all bands by one percentage point is not equal to the sum of changing the tax rate in each tax band by one percentage point due to the way in which behavioural elasticities are calculated. However, for small changes in tax rates, summing the impacts of changes in individual tax bands will give a reasonable approximation of the overall tax impact.

Annual estimates of ADS revenue are complicated by the need to consider the potential for repayments to occur during later years. For example, although an increase in the ADS rate in 2024-25 would result in relevant transactions paying the higher ADS rate in that year, some repayments claimed in 2024-25 would relate to transactions from previous years that were paid at a lower rate. Without an adjustment to take account of this, the estimated revenue impact for 2024-25 would tend to overstate the long-run position, in which payments and repayments would be based on the same rate. The reverse would be true for a reduction in the ADS rate. To avoid this, the estimated revenue impact presented in Table 1 is based on the change in revenue from those transactions where no claim for repayment is expected to be made.

Areas of uncertainty

Some key types of uncertainty which affect costings of changes to property taxes are set out below.

- Forecasts involving the residential or the non-residential property markets involve estimating the path of both transactions and property market prices. These are inherently difficult to predict as they are influenced by many factors, including interest rates, earnings and employment, and wider economic growth.
- For any transaction tax, forecasting the number of transactions is complex as households and businesses generally have more discretion about when to purchase long-term assets such as property than they do about other types of more day-to-day spending. Since a relatively small share of higher-value residential, and particularly non-residential, transactions account for a large share of revenue, uncertainty around transaction levels at the top end of the market can have a significant impact on revenues.
- As a result, when taxes change there will be an associated behavioural change (transactions may be initiated, postponed or cancelled). Measuring the extent of these behavioural changes relies on accurately predicting the tax elasticities (the responsiveness) associated with that change. Data from which such elasticities can be derived is sometimes limited, and the policy costing therefore relies on judgement from

the SFC on which elasticities to use. We have replicated the SFC's elasticities and approach to behaviour in our costings.
- The property markets had largely stabilised after the significant volatility experienced due to the impacts of the COVID-19 pandemic, and the main source of uncertainty now relates to the cost of living crisis – in particular the impact of future interest rates, as well as trends in overall economic activity and living standards.

Scottish Landfill Tax

Ready reckoners for Scottish Landfill Tax (SLfT) are not included in this exercise. This is on the basis that SLfT is principally designed to influence behaviour rather than to raise revenue and due to the relatively small and declining amount of revenue raised.

For reference, the 2024-25 SLfT rates, forecasts and policy context are set out in the Scottish Budget.[11] The SFC forecasts show that in the context of other fully or partially devolved taxes, relatively small amounts will be raised from the tax in 2024-25 and that revenues will continue to fall in the period prior to the introduction on 31 December 2025 of the ban on landfilling biodegradable municipal waste (BMW) in Scotland.

Non-Domestic Rates

Non-Domestic Rates (NDR), sometimes referred to as business rates, are a form of property tax paid by businesses, charities and public sector organisations, which help pay for local services. The amount of NDR paid is determined by applying the relevant tax rate to a property's rateable value (RV), less any reliefs that have been awarded. The Scottish Government is responsible for setting NDR policy, whilst local councils are responsible for the administration of NDR.

The NDR ready reckoners provide an order of magnitude estimate of NDR revenue that could hypothetically be raised in addition to existing policy for 2024-2025, by varying key policies of the NDR tax system: the Basic Property Rate (BPR, often referred to as poundage), the Intermediate Property Rate (IPR) and the Higher Property Rate (HPR). Tax rates cannot be amended in-year.

As set out in table 5, there are around 260,000[12] non-domestic properties that are liable to pay NDR in 2024-2025, although properties that receive a relief will receive a reduced or nil net NDR liability[13]. Any changes to the Basic Property Rate (poundage) would change the gross NDR bills (before reliefs) for around 240,000 properties with RV up to and including £51,000. The Intermediate Property Rate is applied to around 10,500 properties, and the Higher Property Rate is applied to around 11,500 properties.

[11] Scottish Government Budget 2024-25
[12] As at 1st April 2023, see Table 1.1 of the publication Non-domestic rates revaluation 2023 in Scotland.
[13] As at 1st July 2022, 145,370 (57% of all non-domestic properties) received 100% rates relief. Any property receiving 100% rates relief would not pay more in NDR as a result of a change to the Basic Property Rate. Statistics for 2023 are not yet available.

Table 5: Non-Domestic Rates Thresholds, 2024-25

Band of Rateable Value	Rate	Number and proportion of NDR properties
RV under £51,000	49.8p	238,500 (92%)
RV over £51,000 and up to £100,000	54.5p	10,500 (4%)
RV over £100,000	55.9p	11,500 (4%)

The NDR ready reckoners in Table 1 relate to the Contributable Amount of NDR, which is forecast by the Scottish Fiscal Commission (SFC). The Contributable Amount is the revenue collected by local councils and transferred to Scottish Government. The Contributable Amount is pooled in the NDR rating account and is then redistributed to councils as the Distributable Amount, as part of the Local Government Finance Settlement. The Distributable Amount is set in the Budget and remains unchanged during the financial year. Differences between the Distributable and Contributable Amounts are managed through the Non-Domestic Rating Account (the 'NDR pool')[14].

Table 1 shows the additional benefit to the Scottish Budget of increases to NDR tax rates:

- A 1p increase to the Basic Property Rate (or poundage) would increase NDR revenues by around £11m in 2024-2025.
- A 1p increase to the IPR would increase NDR revenues by around £6m in 2024-2025.
- A 1p increase to the HPR would increase NDR revenues by around £43m in 2024-2025.

The Basic, Intermediate, and Higher Rates are separate rates that do not affect each other. For example, increasing the BPR by 1p would not change the amount paid by ratepayers liable for IPR or HPR. In the previous iteration of the NDR ready reckoner, this was presented differently, with an implicit assumption that a 1p increase in BPR would also increase rates for IPR and HPR payers by 1p.

Any combination of NDR policies in Table 1 can be broadly estimated by summing the impact of each individual change. For example, a policy which adds 1p to the Basic, Intermediate, and Higher Property Rates would raise around £60 million. The estimates for rate changes can also be scaled up or down to some extent, in that a 0.5p rise in any rate would raise half as much as a 1p increase. In addition, for any rate change, the impacts of rate increases and rate cuts are also broadly symmetric so that a 1p cut in the Basic Property Rate would reduce revenue by around £11 million.

Areas of uncertainty

The main area of uncertainty relates to assumptions made with respect to revaluation appeals following the 2023 revaluation. Once resolved, a successful revaluation appeal will have the

[14] For more information on the operation of the NDR pool, please see Non Domestic Rating Account: year ended 31 March 2023 - gov.scot (www.gov.scot)

effect of reducing total RV and therefore NDR revenues, as ratepayers are re-billed on the basis of a lower RV for their property. A new appeals system has taken effect for this current appeals cycle. The Scottish Government does not have any data to suggest how the changes to the appeals system will affect the lodging or processing of appeals in practice. In line with the SFC forecast, the ready reckoners are produced on the assumption that appeals losses will happen earlier than in the previous revaluation cycle because of the shorter cycles and changes in appeals processing.[15]

A further area of uncertainty relates to new NDR policies introduced from 1 April 2023, and in Budget 2024-25. These include hospitality relief for islands, changes to the thresholds in the Small Business Bonus Scheme, as well as the introduction of a general transitional relief, and specific transitional reliefs for small businesses, and for new entries to the valuation roll located in park land that were exempt from rating prior to 1 April 2023. The effect of a change in Basic Property Rate, Intermediate Property Rate or Higher Property Rate on these policies does not scale in a linear or symmetric fashion and has not been costed as part of the ready reckoner exercise.

[15] For more information on the NDR appeals process from 1st April, see Non-domestic rates appeals - mygov.scot

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