



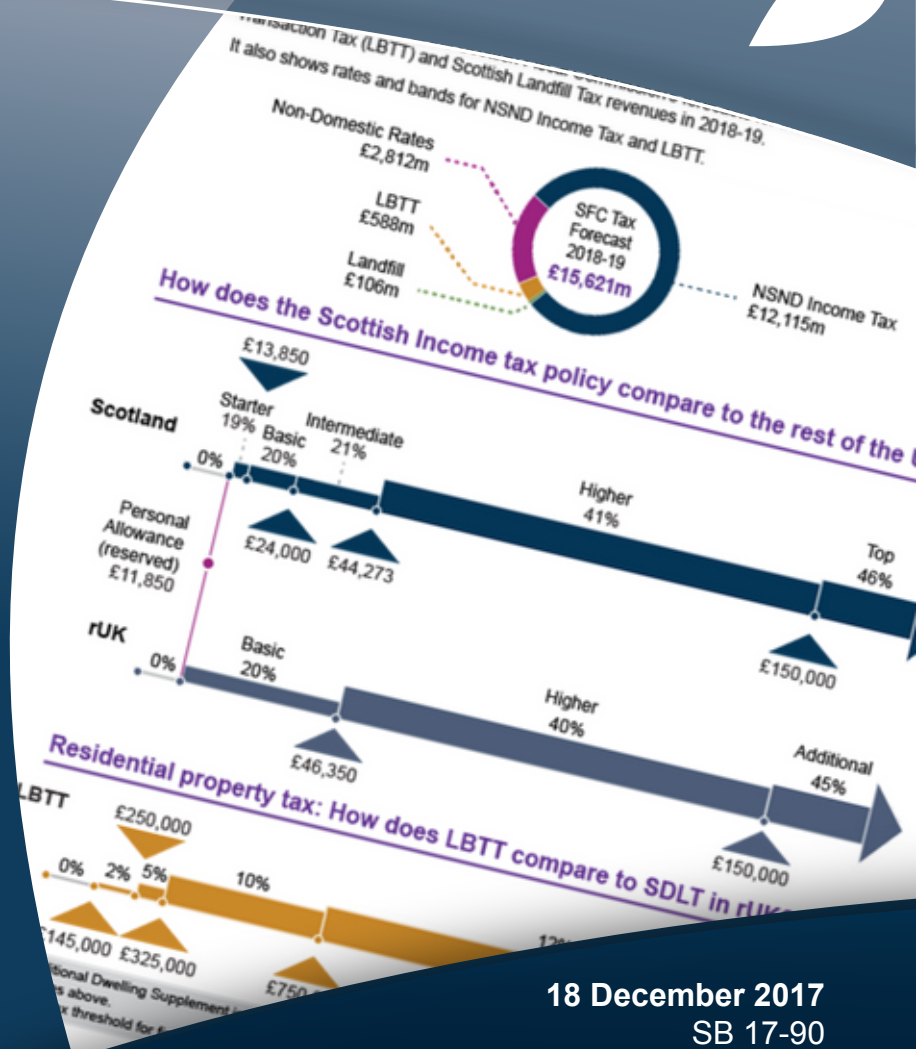
SPICe Briefing

Pàipear-ullachaidh SPICe

Draft Budget 2018-19: Taxes

Anouk Berthier and Nicola Hudson

This briefing looks at the Scottish Government's tax proposals in Draft Budget 2018-19. Two other briefings have been published by SPICe - one summarising the Scottish Government's spending and tax plans and one on the local government settlement. More detailed presentation of the budget figures can be found in our Draft Budget spreadsheets.



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Executive Summary

The Scottish Government currently has power over:

- Rates and bands for Non-savings non-dividend (NSND) income tax.
- Land and buildings transaction tax (LBTT).
- Scottish landfill tax (SLfT).
- Local taxes (council tax and non-domestic rates).

The devolution of air passenger duty (APD) had been planned for 2018-19, but has been deferred pending the resolution of issues in relation to the exemption of flights departing from the Highlands and Islands.

In 2018-19, the Scottish Government's block grant will be adjusted downwards by £12,472m to reflect the powers devolved by the Scotland Act 2016 in respect of income tax, LBTT and SLfT.

The Scottish Fiscal Commission (SFC) estimates that NSND income tax, LBTT and SLfT will generate a total of £12,809m in 2018-19. If actual tax receipts are in line with the SFC forecasts, the Scottish Government's budget will be £366m higher than it would otherwise have been.

SFC tax revenue forecasts, 2018-19

Tax	Estimated revenue (£m)
Income tax (NSND)	12,115
LBTT	588
SLfT	106
Total	12,809

Draft Budget 2018-19 set out proposals for a new five-band structure for income tax in Scotland. The SFC estimate that the proposed changes to the income tax policy will generate an additional £164m in 2018-19 relative to the current policy.

Annual income (£)	Band name	Rate (%)
11,850 - 13,850	Starter	19
13,851 - 24,000	Basic	20
24,001 - 44,273	Intermediate	21
44,274 - 150,000	Higher	41
Above 150,000	Top	46

The proposals include an increase to the personal allowance (which is set by the UK Government) and an increase in the higher rate threshold (from £43,000 in 2017-18). The proposals mean that all those earning less than £33,000 will pay less income tax in 2018-19 than they did in 2017-18. However, the increase in the higher rate threshold also means that those earning between £43,525 and £58,500 will see a reduction in their income tax in 2018-19.

When national insurance contributions (NICs) are taken into account, those earning between £44,273 and £46,350 will face a tax rate of 53% on earnings in this range. This is because the NIC thresholds are set at UK level and are in line with the UK higher rate tax threshold. As a result, Scottish taxpayers pay the higher rate of tax (41%) and the higher rate of NICs (12%). Once earnings exceed £46,350, the rate of NICs falls to 2%.

LBTT rates and bands for residential and non-residential transactions are proposed to remain at 2017-18 levels. However, the zero tax threshold for first-time buyers is proposed to increase from £145,000 to £175,000, saving first-time buyers up to £600. A consultation is to be launched on this policy proposal.

SLfT rates are proposed to increase in 2018-19 in line with planned increases in rUK.

Background

In 2018-19 the Scottish Government has power over the following taxes:

- Non-savings non-dividend (NSND) income tax.
- Land and Buildings Transaction Tax (LBTT).
- Scottish Landfill Tax (SLfT).
- Local taxes (Council Tax and non-domestic rates).

This is the third year the Scottish Government has been able to set NSND income rates: the Scotland Act 2012 gave power over 10p in the pound at each rate to be changed in lock-step from 6 April 2016. The Scottish Government set the rate at 10p in 2016-17, leaving income tax the same as in the rest of the UK (rUK). From 6 April 2017, the Scotland Act 2016 extended powers over income tax, and allowed the Scottish Government to set its own rates and bands. The only difference with rUK in 2017-18 was the higher rate threshold: £43,000 in Scotland compared to £45,000 in rUK. For 2018-19, the Government is proposing 5 different rates.

LBTT and SLfT were devolved on 1 April 2015. LBTT has always had different rates and bands to UK Stamp Duty land Tax (SDLT), while SLfT rates have been maintained at the same level as rUK Landfill Tax. The Draft Budget 2018-19 states that this is in order to avoid "waste tourism" or the potential for waste to be moved across the Scottish/English border.

Air Passenger Duty was to be switched off and replaced by Air Departure Tax (ADT) in 2018-19, but this has been postponed. In a letter to the Finance and Constitution Committee on 22 November 2017, the Cabinet Secretary for Finance and Constitution Derek Mackay explained:

“ We have now agreed that the introduction of ADT in Scotland will be deferred until the issues raised in relation the [Highlands and Islands exemption] have been resolved (...) The UK Government will maintain the application of APD in Scotland in the interim. I have agreed to delay the commencement of ADT and the UK Government will not make a Block Grant Adjustment in respect of ADT or lay the order to "switch off" APD in Scotland. ”

Block grant adjustments (BGAs)

How do block grant adjustments (BGAs) work?

Changes to the Scottish Government's block grant will still be determined by the Barnett formula. The block grant is then adjusted to reflect the retention of Scottish tax revenues in Scotland, and the devolution of new social security powers.

The details of the block grant adjustments (BGA) are set out in [The agreement between the Scottish government and the United Kingdom government on the Scottish Government's fiscal framework](#).¹ For each tax, the calculation consists of:

- An initial baseline adjustment equal to the tax revenue in Scotland the year before devolution of the tax
- An annual indexation is applied to the BGA for future years. For the first BGA (the year a tax is devolved, "Year 1"), the indexation is to the initial baseline adjustment representing tax revenue the year before devolution ("Year 0"). For the following years ("Year 2" onwards), the indexation is to the previous year's BGA.

Table 1 shows the baseline adjustments for NSND income tax and the devolved taxes.

Table 1: Baseline adjustments for BGA calculations

	Baseline adjustment	Comment
NSND income tax (2016-17)	11,214	SFC forecast of total NSND income tax receipts in Scotland in 2016-17.*
LBTT (2014-15)	468	HM Revenue and Custom's estimate of Landfill Tax revenues in Scotland in 2014-15 combined with a £20 million reduction to account for forestalling which caused a one-off increase in 2014-15 revenues.
Landfill (2014-15)	149	Average of GERS and HMRC methodologies for estimating revenues in Scotland in 2014-15.

* The baseline adjustment was initially based on a forecast produced by the OBR.² It forecast this amount at £11,525m in 2016-17, or £311m higher than the SFC's subsequent estimate. However, HM Treasury have now agreed to use the SFC's forecast for 2016-17 revenues, stating:

“ This is a consequence of different methodological approach taken by the SFC and the OBR which, without this change in approach, would have meant that the 2016-17 baseline adjustment was not fiscally neutral as anticipated in the Fiscal Framework. ”

Table 2 shows what the BGA (IPC method) would have been if the baseline adjustment for NSND income tax had not been changed.

Table 2: Difference in NSND income tax baseline adjustment using OBR/SFC forecast and BGA (IPC) to 2021-22

	2016-17 (initial baseline adjustment)	2017-18	2018-19	2019-20	2020-21	2021-22
BGA (IPC) based on OBR's previous 2016-17 adjustment	11,525	11,750	12,159	12,672	13,233	13,898
BGA (IPC) based on SFC's 2016-17 adjustment	11,214	11,523	11,749	12,056	12,477	12,936
Difference	-311	-227	-410	-616	-756	-962

2016-17 marked the first time Scottish taxpayers were identified in their tax code, making it possible to identify exactly how much was paid by Scottish taxpayers. Previously Scottish taxpayers were not distinguished from rUK taxpayers by HM Revenue and Customs. Once out-turn data is available for 2016-17, it will be possible to reconcile the baseline adjustment with receipts.

Over the period to 2020-21 at which point the system will be reviewed, the indexation mechanism for the devolved taxes will be based on the 'Comparable Method' (CM), but then reconciled to the 'Indexed Per Capita' (IPC) method. The main difference between the two methods is the way they account for relative population growth between Scotland and rUK. The IPC method indexes the BGA to the growth in tax revenues per capita in rUK and the rate of population growth in Scotland. For example, if rUK revenues per capita grow by 5% and the Scottish population grows by 1%, the BGA grows by approximately 6%. The precise rate of growth of the BGA is 6.05%, calculated as $(1.01) \times (1.05) \times 100 - 100$.³

The OBR provides a forecast for NSND income tax, LBTT and SflT (though it is the SFC's forecasts that provide the amount available to the Scottish Government to draw down in that year). It also forecasts UK NSND income tax in order to provide a figure for rUK NSND income tax. This is used by HM Treasury to calculate BGAs. To do this, the annual rUK NSND income tax growth rate is multiplied by the growth rate of the Scottish population relative to rUK, and by the previous year's BGA. For more detail, see SPICe Briefing 16/88 [The Fiscal Framework](#).⁴

Table 3 shows the BGAs calculated using the two methodologies. The IPC methodology will result in a smaller total BGA (NSND income tax + LBTT + SflT) than would have been the case under the CM methodology. The gap increases over time so that, by 2021-22, the total BGA is expected to be £165m lower using the IPC method than the CM method.

Table 3: Block grant adjustments using alternative methodologies, £m

	2018-19	2019-20	2020-21	2021-22
IPC	12,443	12,764	13,206	13,693
CM	12,509	12,862	13,336	13,858
Difference	-66	-98	-130	-165

Both the Scottish and UK Government have a statutory obligation to lay annual implementation reports in their respective Parliaments on the financial provisions of the Scotland Acts 2012 and 2016. The fiscal framework agreement also requires them to provide annual updates to their respective Parliaments on the results of calculating the BGAs.

In April 2017, the Scottish Government published its [Fifth Annual Report on the implementation of the Financial Provisions in the Scotland Act 2012](#) and the UK

Government published its [Fifth Annual Report on the implementation of part 3 \(Financial Provisions\) of the Scotland Act 2012](#), [First Annual report on the implementation of the Scotland Act 2016](#).⁵

Block grant adjustment (BGA) for income tax

HMRC pay Scottish income tax revenues into the UK Consolidated Fund. These revenues are then transferred to the Scottish Government and the Scottish block grant is reduced accordingly.

As stated in the section [How do block grant adjustments \(BGAs\) work?](#), each year, both the BGA for income tax, and Scottish NSND income tax revenue will both initially be based on forecasts. Both will be reconciled to actual receipts once these are available: the BGA will be recalculated based on rUK NSND income tax receipts while the Scottish forecast will be reconciled to Scottish NSND income tax receipts.

Income tax receipts become known around 15 months after the end of the financial year in question. The actual reconciliation will take place at the closest Autumn Budget once receipts become available, and they will impact the following tax year (ordinarily).

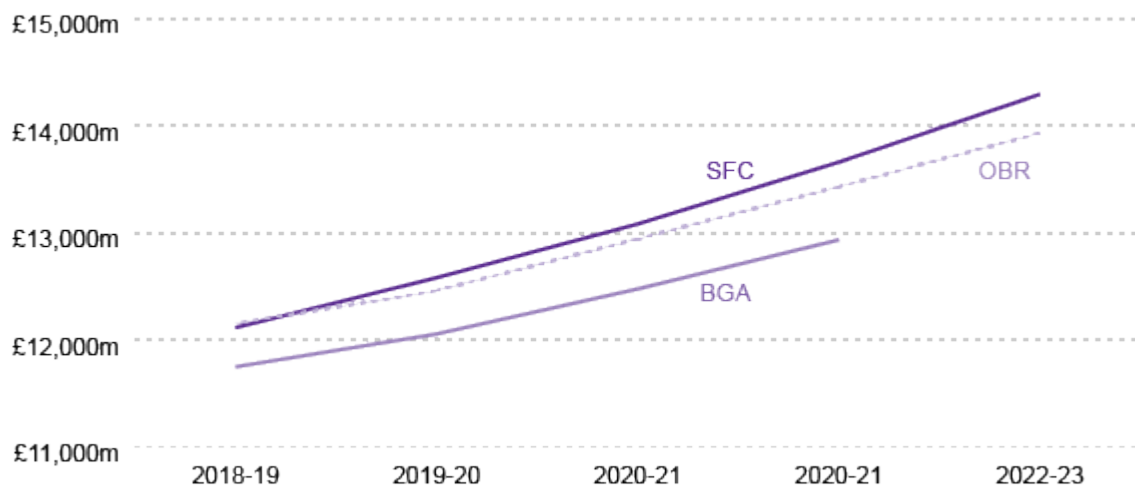
In-year estimates of income tax receipts are imprecise due to:

- HMRC's end-of-year reconciliation in the pay-as-you-earn (PAYE) process to see whether people have paid too much/too little.
- The timing of self-assessment returns which, in some cases, are provided to HMRC up to 10 months after the end of the tax year to which they relate.

The SFC forecast determines the amount of revenue the Scottish Government can draw down in-year, and then the reconciliation takes place at the Autumn Budget (usually) after outturn data becomes available.

Figure 1 compares Scottish NSND income tax SFC and OBR forecasts from 2018-19 to 2022-23 as well as BGAs up to 2020-21. Note the OBR have not produced a forecast on the new, 5-band Scottish Government proposal – the OBR forecast in Figure 1 in November 2017 was based on Budget 2017-18 Scottish Government policy (3 bands) with a higher rate threshold uprated with inflation (£44,273).

Figure 1: NSND income tax forecast (SFC and OBR) and BGA (IPC method), 2018-19 to 2022-23

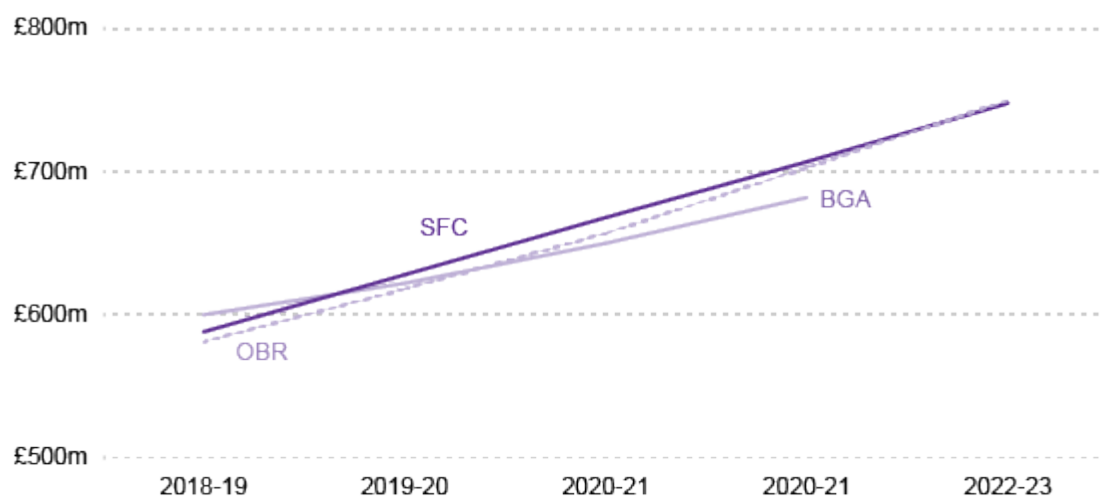


While the SFC's forecast is £38 million lower than the OBR's in 2018-19, its subsequent forecasts are much more optimistic: £120 million higher in 2019-20, and up to £361 million higher in 2022-23.

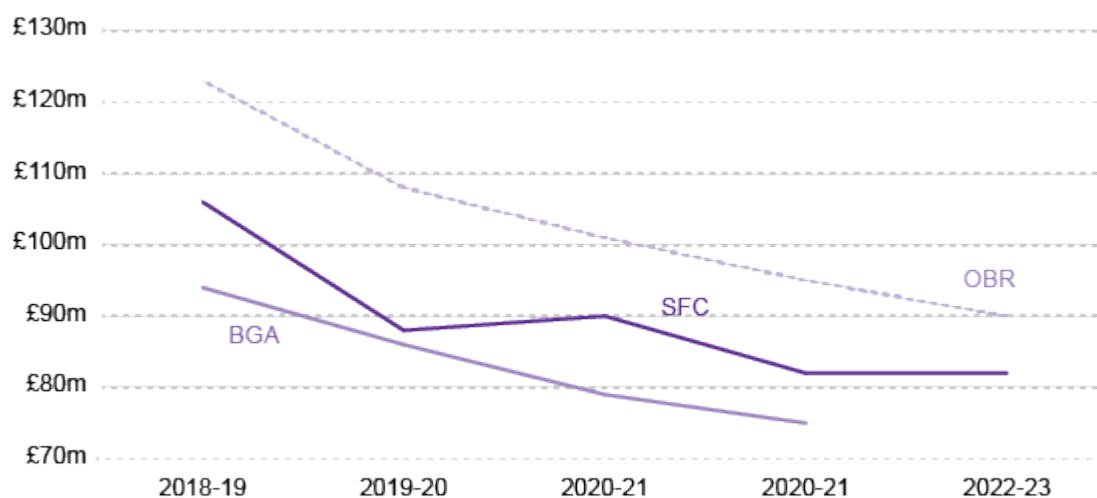
Block grant adjustment (BGA) for Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SfLT)

As stated in the section [How do block grant adjustments \(BGAs\) work?](#), each year, the BGAs for LBTT and SLfT will initially be based on a forecast and then reconciled to actual receipts. The BGAs will be recalculated based on UK SDLT and Landfill Tax receipts while the Scottish forecasts will be reconciled to LBTT and SLfT tax receipts.

Figures 2 and 3 compare the BGA with the forecasts for LBTT and SfLT provided by the OBR and the SFC. Note the OBR and the SFC forecasts are not directly comparable as the OBR forecast produced in November 2017 does not include the proposed first-time relief for residential property purchases which was set out in Draft Budget 2018-19. See section [Land and Buildings Transaction Tax \(LBTT\)](#) for more detail.

Figure 2: LBTT forecast (SFC and OBR) and BGA (IPC), 2018-19 to 2022-23

The SFC's forecasts are slightly more optimistic than the OBR's for LBTT: £7 million higher in 2018-19, but £2 million lower by 2022-23.

Figure 3: SLfT forecast (SFC and OBR) and BGA, 2018-19 to 2022-23

The SFC's forecasts for SLfT are more cautious than the OBR's: £17 million lower in 2018-19, and £8 million lower in 2022-23.

Scottish Fiscal Commission (SFC)

From April 2017 the Scottish Fiscal Commission (SFC) became responsible for producing independent economic and fiscal forecasts for the Scottish Budget.

On the same day as the Draft Budget 2018-19, the SFC published its first five-year forecast of:

- Revenue from fully devolved taxes (LBTT and SLfT) and Non-Domestic Rates
- NSND income tax receipts
- Onshore Gross Domestic Product (GDP) in Scotland
- Devolved demand-led social security expenditure

The OBR also forecasts Scottish NSND income tax, LBTT and SLfT (but not NDR). As stated in the section [Block grant adjustments](#), it also forecasts UK NSND income tax.

Note that SFC and OBR forecasts are not directly comparable, because of:

- Differences in the methodologies they use: the SFC's being a more "bottom-up" approach in that for instance the SFC forecasts changes to income for different age groups in Scotland.
- Differences in publication timing.
- Differences in the tax policies that are forecast. The OBR have not produced a forecast on the new, 5-band Scottish Government proposal – the OBR forecast in November 2017 was based on Budget 2017-18 Scottish Government policy (3 bands) with a higher rate threshold of £44,273.

The SFC's tax forecast is the amount available to the Scottish Government to draw down from HM Treasury throughout the year.

Table 4 shows the difference between the BGA (IPC method) and the SFC's forecasts for 2018-19.

Table 4: Block grant adjustments and the SFC forecasts, 2018-19, £m

	BGA (IPC)	SFC forecast	Difference between SFC forecast and BGA
Income tax (NSND)	11,749	12,115	366
LBTT	600	588	-12
SLfT	94	106	12
Total	12,443	12,809	366

See the sections [Block grant adjustment \(BGA\) for income tax](#) and [Block grant adjustment \(BGA\) for Land and Buildings Transaction Tax \(LBTT\) and Scottish Landfill Tax \(SLfT\)](#) for a longer term comparison.

Income Tax

Background

The Scotland Act 2016 introduced new income tax powers for the Scottish Government. These came into effect from 6 April 2017. The new powers allow the Scottish Government to set rates and bands for NSND income tax. However, the definition of taxable income, the level of allowances (including the personal allowance) and the setting of reliefs remain reserved to the UK Government. NSND income tax continues to be set by the UK Government in England, Wales and Northern Ireland. Note that from April 2019, the UK government will reduce each of the 3 rates of income tax – basic, higher and additional rate – paid by Welsh taxpayers by 10p. The National Assembly for Wales will then decide the 3 Welsh rates of income tax, which will be added to the reduced UK rates.⁶

NSND income tax rates and bands in Scotland are proposed in the Draft Budget document and passed by Scottish rate resolution. Rule 9.16.7 of the Standing Orders means that Stage 3 of the Budget Bill cannot begin until the Scottish Rate Resolution motion is agreed by Parliament. Last year the rate resolution was passed on 21 February 2017.⁷ Rule 8.10 of the Standing Orders (Motions for Scottish rate resolutions) states:⁸

“ 1. A motion for a Scottish rate resolution under section 80C or for the cancellation of such a resolution may be moved, and notice of such a motion may be given, only by a member of the Scottish Government. Such a motion may not be amended. 2. A motion for a Scottish rate resolution— (a) must not be moved more than 12 months before the start of the tax year to which it relates; (b) must be moved before the start of that tax year; and (c) must be moved before the commencement of Stage 3 proceedings on any associated Budget Bill.”

Draft Budget 2018-19 income tax proposals

Tables 5 and 6 compare the proposed Scottish income tax rates and bands for 2018-19 with those for rUK. In Draft Budget 2018-19 the Scottish Government proposed to move from the three-band structure that exists across rUK, to a five-band structure, with a new starter and intermediate rate. The higher rate threshold, which was £43,000, is proposed to increase in line with the September 2017 CPI annual inflation rate (3.0%) to £44,273. The name of the additional rate has been changed to the top rate. On 14 December 2017 First Minister Nicola Sturgeon announced before the publication of the Draft Budget 2018-19:⁹

“ I can tell members that 70 per cent of taxpayers in Scotland and 83 per cent of all adults in Scotland will pay no more income tax after today’s budget than they do now.”

As an indication, in 2017-18 there are an estimated 2,570,000 taxpayers in Scotland.¹⁰ 30% of this is equal to 771,000.

Table 5: Scottish 2018-19 proposed tax bands and thresholds

Annual income (£)	Band name	Rate (%)
11,850 - 13,850	Starter	19
13,851 - 24,000	Basic	20
24,001 - 44,273	Intermediate	21
44,274 - 150,000	Higher	41
Above 150,000	Top	46

Table 6: rUK 2018-19 income tax bands and thresholds

Annual income (£)	Band name	Rate (%)
11,850 - 46,350	Basic	20
46,351 - 150,000	Higher	40
Above 150,000	Additional	45

Table 7 shows NSND income tax forecast for 2016-17 to 2022-23.

Table 7: NSND income tax forecast, 2016-17 to 2022-23

	2016-17	2017-18	2018-19	2019-20	2020-21	2020-21	2022-23
NSND income tax	11,214	11,584	12,115	12,582	13,084	13,662	14,296

Table 8 shows the SFC's estimate of what the 5-band policy will raise over the next five years. The SFC estimates that, when taking into account behavioural responses, the 2018-19 income tax proposals are expected to raise an additional £164 million in 2018-19, rising to £199 million in 2022-23. This compares to a baseline where the rates stay the same (20%, 40% and 45%) and the personal allowance and higher rate threshold increase in line with the OBR September CPI inflation forecast (respectively £11,850 and £44,273).

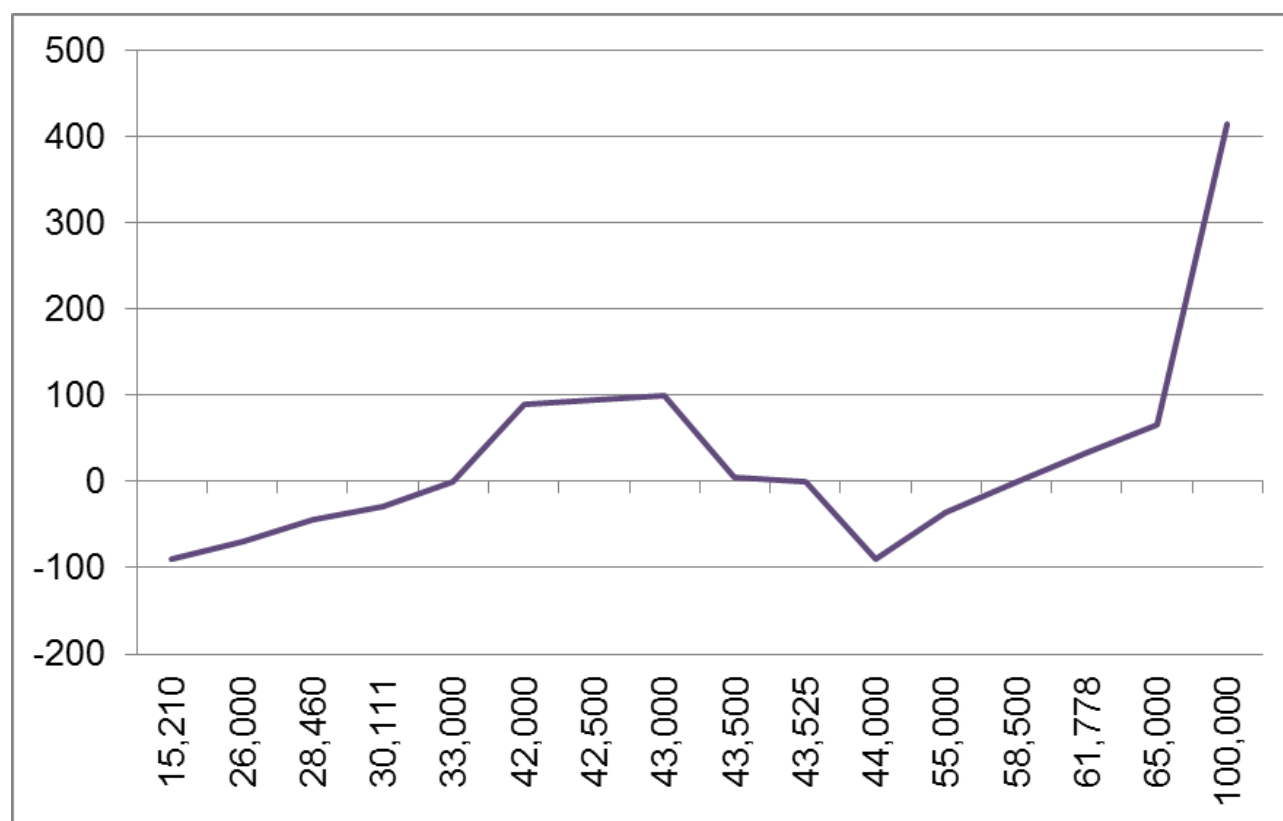
Table 8: SFC's estimate of what 5-band policy will raise, 2018-19 to 2022-23

	2018-19	2019-20	2020-21	2021-22	2022-23
Static	215	224	235	249	264
Behavioural effect	-51	-54	-57	-61	-65
Post-behavioural costing	164	170	178	188	199

Impact of income tax proposals on individuals

Figure 4 compares the tax liability for individuals on selected levels of earnings in 2018-19.

Figure 4: Change in individual tax liability per year at selected illustrative income levels, Scotland: 2017-18 compared to 2018-19



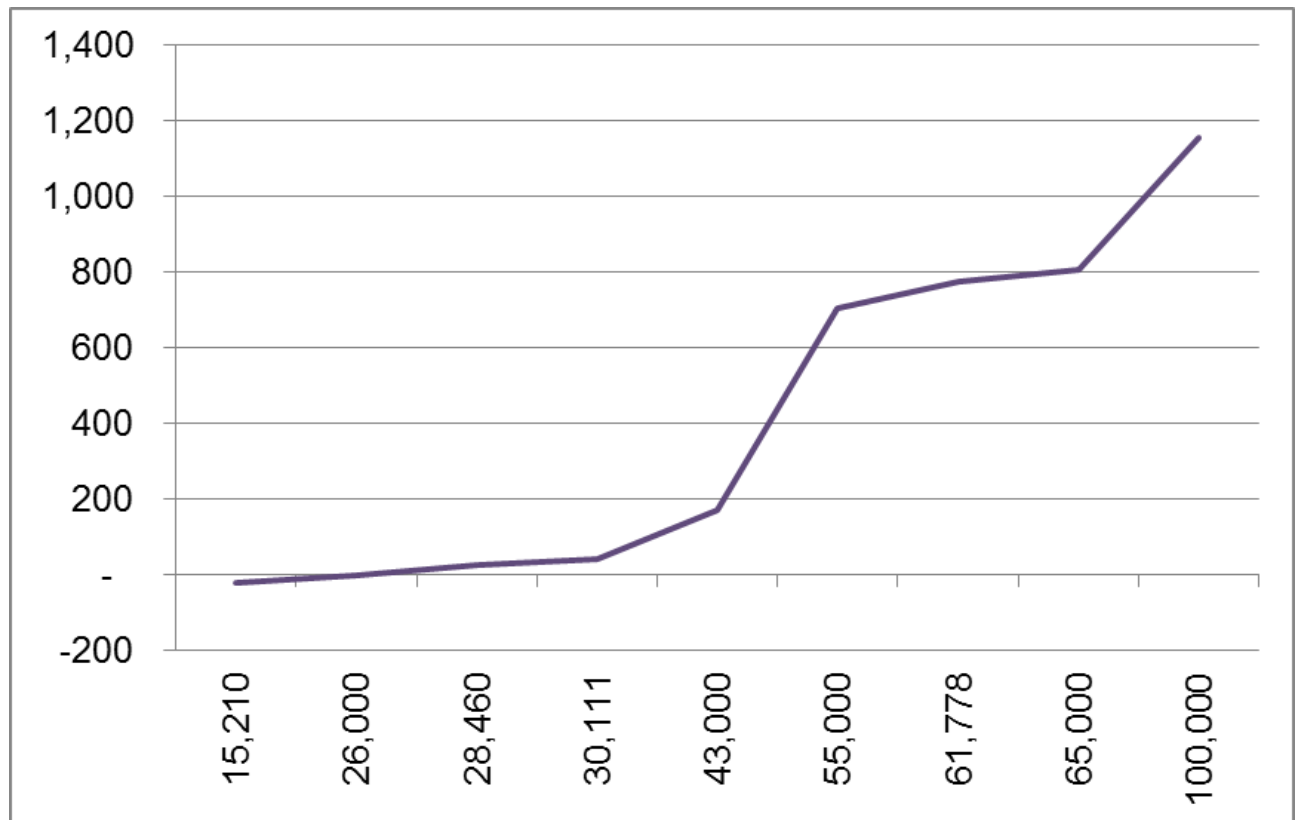
See the Annex for detailed figures.

Figure 4 shows that those earning £33,000 will pay the same in 2017-18 and 2018-19. Those earning less than £33,000 will pay less than they did in 2017-18. It is not the case however that all those earning above that will pay more tax. Indeed:

- Those earning between £33,000 and £43,525 will pay more tax than in 2017-18
- Those earning over £43,525 and up to £58,500 will pay less tax than in 2017-18
- Those earning £58,500 will pay the same tax as in 2017-18
- Those earning over £58,500 will pay more tax than in 2017-18

A lot of the reductions in income tax seen in Figure 4 at the middle are due to the personal allowance moving from £11,500 to £11,850 in 2018-19 combined with the proposed increase in the higher rate threshold.

Figure 5 compares NSND income tax in rUK and Scotland in 2018-19 at selected illustrative income levels. For detailed figures see the Annex.

Figure 5: Individual tax liability per year, Scotland compared to rUK, 2018-19

As shown in Table 8, someone earning £26,000 will pay the same tax in Scotland as rUK in 2018-19. Those earning less than £26,000 will pay less tax and those earning over £26,000 will pay more than in the rest of the UK.

The progressivity test

The Draft Budget 2018-19 states:

“Progressivity test - the policy improves the progressivity of the tax system by increasing the number of bands, lowering the rate on income up to £13,850 and asking the highest earning 30 per cent of taxpayers to contribute more for an unchanged income than they do this year.”

The Institute for Fiscal Studies defined tax progressivity as follows: ¹¹

“There is a strict economic definition of progressivity. A tax is said to be progressive when the average tax rate rises as the tax base rises. So an income tax is progressive when the average tax rate rises as income rises. (We usually think in terms of annual income, though lifetime income may be the better base against which to assess progressivity.) This is the case when the marginal tax rate (the proportion of an additional pound of income paid in tax) is higher than the average tax rate (the proportion of total income paid in tax). In effect, the higher marginal tax rate pulls the average rate up towards it. The simplest way to achieve progressivity in an income tax is to have a tax-free allowance before tax starts being payable.”

Note however that for those earning over £43,525 and under £58,500 their income tax as a share of their earnings will decrease rather than increase (Figure 4).

National insurance contributions

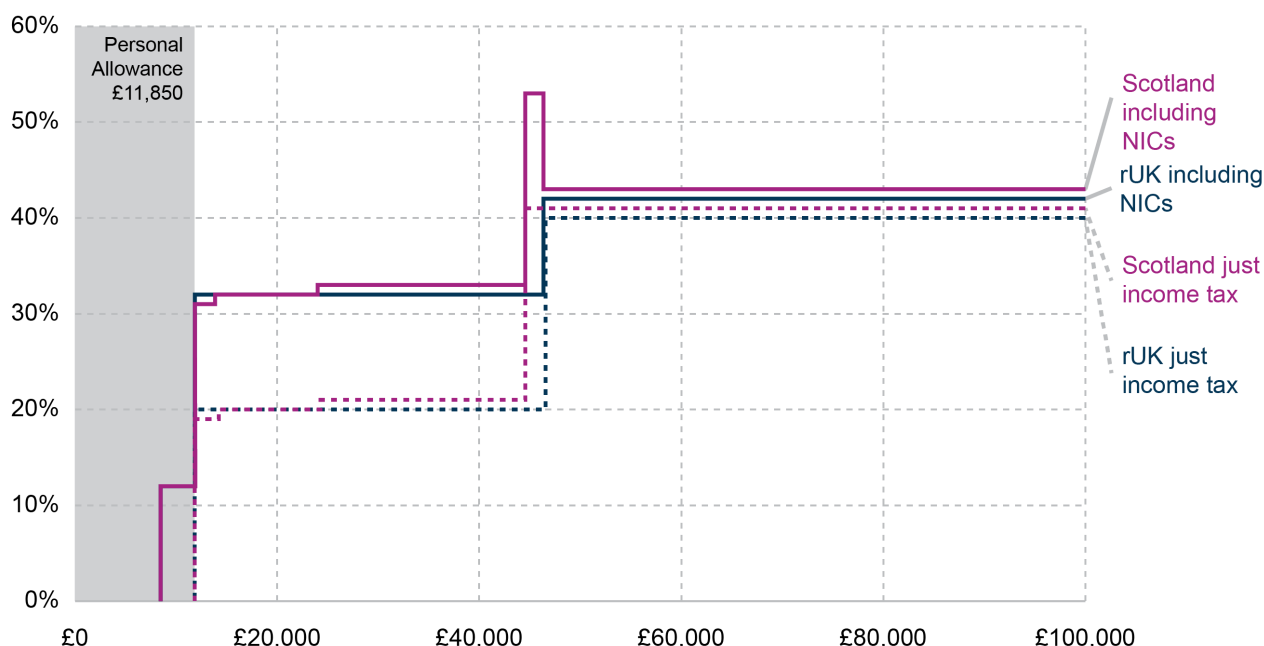
Decisions on national insurance contributions (NICs) are reserved to the UK Government, but will interact with the Scottish Government's decisions on NSND income tax to determine overall tax rates. Table 9 shows marginal income tax rates in rUK and Scotland in 2018-19 with and without NICs for selected incomes up to £100,000.

Table 9: Income tax and NICs, 2018-19

	Up to 8,453	8,453 to 11,850	11,850 to 13,850	13,851 to 24,000	24,001 to 44,273	44,274 to 46,350	46,351 to 100,000
Scotland: income tax	0%	0%	19%	20%	21%	41%	41%
rUK: income tax	0%	0%	20%	20%	20%	20%	40%
NICs	0%	12%	12%	12%	12%	12%	2%
Scotland : income tax + NICs	0%	12%	31%	32%	33%	53%	43%
rUK: income tax + NICs	0%	12%	32%	32%	32%	32%	42%

When NICs are taken into account, those earning between £11,850 and £13,850 in Scotland have a lower tax rate than rUK. However those earning above £24,000 have a higher combined tax rate than rUK. For those earning between 44,274 and 46,350 there is a difference of 21 percentage points. This is because the NIC thresholds are set at UK level and are in line with the UK higher rate tax threshold. As a result, Scottish taxpayers pay the higher rate of tax (41%) and the higher rate of NICs (12%). Once earnings exceed £46,350, the rate of NICs falls to 2% - see Figure 6.

Figure 6: Income tax and NICs, 2018-19



Land and Buildings Transaction Tax (LBTT)

LBTT is a tax applied to residential and commercial land and buildings transactions. LBTT policies are proposed in the Budget document. Different residential rates apply to first time buyers, those changing their main residence or those acquiring a second property.

LBTT replaced UK Stamp Duty Land Tax (SDLT) from 1 April 2015. [Land and Buildings Transaction Tax \(Scotland\) Act 2013](#) states that Scottish Ministers must, by order, specify the tax bands and the percentage tax rates for each band. LBTT is administered by Revenue Scotland. SDLT applies in England, Wales and Northern Ireland. Note SDLT will be devolved in Wales for 1 April 2018.

Table 10 shows LBTT rates and bands for 2018-19.

Table 10: LBTT rates and bands, 2018-19

Residential transactions		Non-residential transactions		Non-residential leases	
Band	Rate	Band	Rate	Band	Rate
Up to £145,000	Nil	Up to £150,000	0	Up to £150,000	0
£145,001 to £250,000	2%	£150,001 to £350,000	3%	Over £150,000	1%
£250,001 to £325,000	5%	Over £350,000	4.50%		
£325,001 to £750,000	10%				
Over £750,000	12%				

Tables 11 and Figure 7 shows the SFC's LBTT forecast by type for 2018-19 to 2022-23. It also shows the OBR's LBTT estimate published in November 2017. Note the OBR's forecast does not take into account the first-time relief proposed in Draft Budget 2018-19. Other aspects of LBTT are the same in 2017-18 as 2018-19.

Figure 7: LBTT forecast, 2018-19 to 2022-23**Table 11: LBTT SFC forecast, 2018-19 to 2022-23**

	2018-19	2019-20	2020-21	2020-21	2022-23
LBTT of which:	588	628	668	707	748
Residential	305	336	366	395	426
ADS	93	98	102	106	110
Non-residential	190	194	200	206	212

Table 12 compares LBTT and SDLT residential rates and bands for 2018-19 when changing homes.

Table 12 SDLT and LBTT rates (changing homes), 2018-19

Rate	SDLT	LBTT
0.0%	Up to 125,000	Up to 145,000
2.0%	125,001 to 250,000	145,001 to 250,000
5.0%	250,000 to 925,000	250,001 to 325,000
10.0%	925,000 to 1,500,000	325,001 to 750,000
12.0%	Over 1,500,000	Over 750,000

Table 13 compares residential LBTT and SDLT rates for selected property size for people changing their main residence.

Table 13: SDLT compared to LBTT - changing homes, 2018-19

Changing homes	rUK	Scotland	Difference (£)	Difference (%)
100,000	0	0	0	0
200,000	1,500	1,100	- 400	-26.7%
300,000	5,000	4,600	- 400	-8.0%
400,000	10,000	13,350	3,350	33.5%
500,000	15,000	23,350	8,350	55.7%
600,000	20,000	33,350	13,350	66.8%
700,000	25,000	43,350	18,350	73.4%
800,000	30,000	54,350	24,350	81.2%
900,000	35,000	66,350	31,350	89.6%
1,000,000	43,750	78,350	34,600	79.1%
1,600,000	105,750	150,350	44,600	42.2%
2,000,000	153,750	198,350	44,600	29.0%

Draft Budget 2018-19 proposed a relief for first time buyers. Table 14 shows how this compares to a similar policy proposed at the UK Autumn Budget for rUK.

Table 14: Relief for first-time buyers, LBTT and SDLT

Tax	Policy
SDLT	Full relief for first-time buyers for properties up to £300,000. This will not apply for purchases of properties worth over £500,000. Where the purchase price is over £300,000 but does not exceed £500,000 they will pay 5% on the amount above £300,000. ¹² First-time buyers purchasing property for more than £500,000 will not be entitled to any relief and will pay SDLT at the normal rate. This is effective from 22 November 2017.
LBTT	Full relief for first-time buyers for properties up to £175,000. The Government will launch a consultation on the policy before introducing it in 2018-19.

The SFC estimates that the relief for first-time buyers up to £175,000 will cause revenues to be £6 million lower in 2018-19, and £7 million less annually thereafter.

Table 15 shows, for illustrative property values, how this affects first time buyers in Scotland and rUK.

Table 15: SDLT compared to LBTT - first-time buyers, 2018-19

Buying a new home	rUK	Scotland	Difference (£)	Difference (%)
100,000	-	-	-	0
200,000	-	500	500	0
300,000	-	4,000	4,000	0
400,000	5,000	12,750	7,750	155.0%
500,000	10,000	22,750	12,750	127.5%
600,000	20,000	32,750	12,750	63.8%
700,000	25,000	32,750	7,750	31.0%
800,000	30,000	53,750	23,750	79.2%
900,000	35,000	65,750	30,750	87.9%
1,000,000	43,750	77,750	34,000	77.7%
1,600,000	105,750	149,750	44,000	41.6%
2,000,000	153,750	197,750	44,000	28.6%

Scottish Landfill Tax (SLfT)

Scottish Landfill Tax (SLfT) is a tax on the disposal of waste to landfill was introduced on 1 April 2015, replacing UK Landfill Tax. [Landfill Tax \(Scotland\) Act 2014](#) states that tax bands and rates are to be set by Scottish Ministers by order. SLfT is charged by weight on the basis of two rates: a Standard Rate, and a Lower Rate for less-polluting materials. SLfT is administered by Revenue Scotland. From 1 April 2017 the standard rate of SLfT is £86.10 per tonne and the lower rate is £2.70 per tonne. This is the same as rUK. Landfill tax (set by the UK Government) applies in England, Wales and Northern Ireland. Note it will be devolved to Wales from 1 April 2018.

Table 16 shows SLfT forecast from 2016-17 to 2022-23.

Table 16: SLfT forecast, 2016-17 to 2022-23

	2016-17	2017-18	2018-19	2019-20	2020-21	2020-21	2022-23
SLfT	148	137	106	88	90	82	82

Non-domestic rates

Background

Non-domestic rates (NDR) are collected by individual councils and pooled by the Scottish Government who then redistribute it to councils as part of the overall annual local government funding settlement. The Government guarantees the level of NDR + General Revenue Grant (GRG) to each local authority.

The Scottish Government sets out each year in the Draft Budget the amount to be redistributed to councils (the "distributable amount"). This is a policy decision. This amount is then redistributed to councils in proportion to their prior-year estimates of what they will raise. For example, Aberdeen City Council's estimate of their 2016-17 NDR income accounted for 7.7% of all councils' estimated contributions and they were allocated 7.7% of the 2017-18 distributable amount determined by the Scottish Government.

Table 17 and Figure 8 show the forecast of NDR contributable amounts from 2018-19 to 2022-23. As the distributable amount is a policy decision the SFC has stated that it will not forecast the distributable amount.

Figure 8: SFC NDR forecasts of contributable amounts, 2018-19 to 2022-23, £m

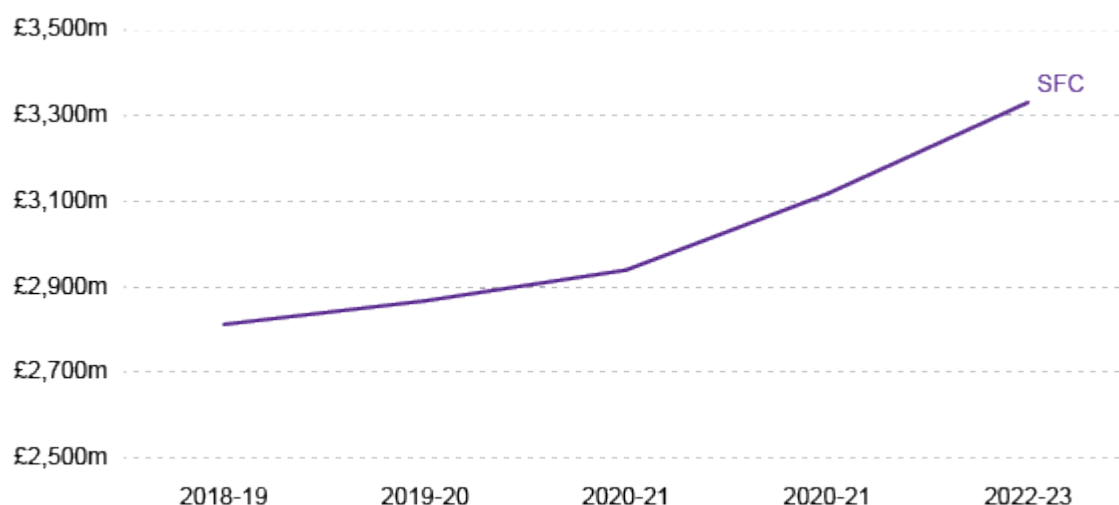


Table 17: SFC NDR contributable amount forecast, 2016-17 to 2022-23

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Contributable Amount	2,731	2,810	2,812	2,867	2,939	3,117	3,331

On 7 December 2017 the Scottish Government published [The Scottish Government Non Domestic Rating Account for the year ended 31 March 2017](#) ¹³ which states:

“ In 2016-17 Scottish Ministers received £2,799.2 million of non domestic rates and £2,807.3 million was paid to authorities. The deficit of £8.0 million was credited to the account for 2016-17 and debited from the account for 2017-18. ”

Policies in 2018-19

Table 18 shows the changes being made to NDR in 2018-19 and their estimated impact on the budget.

Table 18: Policy change to NDR, impact in 2018-19 and 2022-23

	Impact 2018-19	Impact 2022-23
Switch to CPI to uprate poundage	-24	-25
Business Growth Accelerator	-42	-51
Continuation of transitional relief	-15	
Hydro relief	-6	-6
Day nurseries	-6	-6
Expansion of Fresh Start relief	-2	-2
Delaying entry on the roll for unoccupied new builds	-1	-2
Total	-96	-92

In 2018-19, policy changes will cause revenue to be £96 million lower than they otherwise would be.

NDR Account

The NDR system is managed in the NDR account. Because of timing differences in terms of collection and redistribution, the NDR account is either in surplus i.e. more money was paid in by councils, than paid to councils; or in deficit i.e. more money was paid to councils than was paid in by councils. In 2016-17 the Scottish Government received £2,799 million from councils and redistributed £2,807 million back, leaving a deficit balance of £8 million for 2016-17. This takes 2016-17 the cumulative deficit balance of the pool in 2016-17 to £297 million. This means that the Government has distributed £297m more to councils over time than councils have collected in NDR receipts.

In the Draft Budget 2017-18 the Government set the distributable amount at £2,606 million. This would have significantly reduced the total deficit of the NDR account to £8 million. In February 2017 however, it announced that it would take an additional £60 million from the pool for local authorities, leaving an anticipated cumulative deficit balance of £68 million at the end of 2017-18. The pool has been in deficit since 2013-14, and it has had a cumulative deficit since 2014-15.

In December 2017 Audit Scotland produced The 2016/17 audit of the Scottish Government's Non-Domestic Rating Account under section 22 of the Public Finance and Accountability (Scotland) Act 2000.¹⁴ Table 19 shows Audit Scotland summary of NDR contributions and distributions from 2011-12 to 2017-18 published on 7 December 2017. Figure for 2017-18 were based on the Scottish Government's estimate of contribution levels being £2,895m in 2017/18. Note the SFC forecast the contributable amount for 2017-18 to be £2,810 million for Draft Budget 2018-19.

Table 19: Audit Scotland contributions and distributions, 2011-12 to 2017-18

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18*
Collected amount	2,259	2,442	2,501	2,554	2,628	2,799	2,895
Change in collected amounts (%)		183	59	53	74	171	96
Distributed amount	2,238	2,311	2,513	2,781	2,843	2,807	2,666
Change in distributed amount (%)		73	202	268	62	- 36	- 141
Surplus/deficit	21	131	-12	-227	-215	-8	229
Cumulative surplus/deficit	34	165	153	-74	-289	-297	-68

Table 20 shows that at the end of 2016-17 the NDR account had a deficit balance of £297 million and would have had a deficit balance of £68 million in 2017-18 using the Scottish Government's estimate of £2,895. This has since been updated by the SFC to £2,810 (see Table 10.17 of the Draft Budget 2018-19).

Audit Scotland called for greater clarity on the management of the NDR Account, and recommended that the Scottish Government:

- Develop a strategic plan of how it plans to manage the NDR account balance in the future.
- Improve the information it publishes to make it easier to see how NDR are budgeted for and reflected in annual accounts.
- Publish detail of how the distributable amount is calculated and set.
- Publish details of future distributions and how it expects the NDR account balance to change over time.

In February 2017 the Government stated its intention to bring the account into balance over time, and set out a plan in Draft Budget 2018-19 (Table 10.17) to do so by the end of 2019-20 (Table 20).

Table 20: Scottish Government plans to get NDR Account back into balance, 2017-18 to 2021-22

	2017-18	2018-19	2019-20	2020-21	2021-22
Contributable Amount	2,810	2,812	2,867	2,939	3,117
Distributable Amount	2,666	2,636	2,867	2,939	3,117
Prior Year Adjustments	-23	-34			
Yearly Balance	155	142			
Cumulative Balance	-142	0			

The Scottish Government also published details (Table 10.18 of the Draft Budget 2018-19) of how it calculated the 2018-19 NDR distributable amount (Table 21 below).

Table 21: Scottish Government calculation of the 2018-19 NDR distributable amount

2016-17 Non Domestic Rate Account Closing Balance	-296.6
2016-17 Prior Year adjustments	-22.7
2017-18 Prior Year adjustments	143.2
Forecast NDRI	2,812.0
Estimated movement on the Account 2018-19	2,636.0
2018-19 Distributable Amount	2,626.0
Estimated Balance at 31 March 2019	0

Annex

Table A1 shows the change in income tax between 2017-18 and 2018-19 under the 5-rate band proposals for selected illustrative income levels.

Table A1: Individual tax liability per year, Scotland: 2017-18 compared to 2018-19

Income	2017-18	2018-19	Difference (£)	Difference (%)	Tax as a share of earnings (2017-18)	Tax as a share of earnings (2018-19)	Percentage point difference in tax as a share of earnings
15,210	742	652	-90	-12.1%	4.88%	4.29%	-0.59%
26,000	2,900	2,830	-70	-2.4%	11.15%	10.88%	-0.27%
28,460	3,392	3,347	-45	-1.3%	11.92%	11.76%	-0.16%
30,111	3,722	3,693	-29	-0.8%	12.36%	12.26%	-0.10%
33,000	4,300	4,300	0	0.0%	13.03%	13.03%	0.00%
42,000	6,100	6,190	90	1.5%	14.52%	14.74%	0.21%
42,500	6,200	6,295	95	1.5%	14.59%	14.81%	0.22%
43,000	6,300	6,400	100	1.6%	14.65%	14.88%	0.23%
43,500	6,500	6,505	5	0.1%	14.94%	14.95%	0.01%
43,525	6,510	6,510	0	0.0%	14.96%	14.96%	0.00%
44,000	6,700	6,610	-90	-1.3%	15.23%	15.02%	-0.20%
55,000	11,100	11,065	-35	-0.3%	20.18%	20.12%	-0.06%
58,500	12,500	12,500	0	0.0%	21.37%	21.37%	0.00%
61,778	13,811	13,844	33	0.2%	22.36%	22.41%	0.05%
65,000	15,100	15,165	65	0.4%	23.23%	23.33%	0.10%
100,000	29,100	29,515	415	1.4%	29.10%	29.52%	0.42%
200,000	76,200	77,874	1,674	2.2%	38.10%	38.94%	0.84%
1,000,000	436,200	445,874	9,674	2.2%	43.62%	44.59%	0.97%

Table A2 shows the difference in income tax in 2018-19 between rUK and Scotland under the 5-rate band proposals for selected illustrative income levels.

Table A2: Individual tax liability per year, Scotland compared to rUK, 2018-19

	rUK (2018-19)	Scotland (2018-19)	Difference (£)	Difference (%)	Tax as a share of earnings (rUK)	Tax as a share of earnings (Scotland)	Percentage point difference in tax as a share of earnings
15,210	672	652	- 20	-3.0%	4.42%	4.29%	-0.13%
26,000	2,830	2,830	-	0.0%	10.88%	10.88%	0.00%
28,460	3,322	3,347	25	0.8%	11.67%	11.76%	0.09%
30,111	3,652	3,693	41	1.1%	12.13%	12.26%	0.14%
43,000	6,230	6,400	170	2.7%	14.49%	14.88%	0.40%
55,000	10,360	11,065	705	6.8%	18.84%	20.12%	1.28%
61,778	13,071	13,844	773	5.9%	21.16%	22.41%	1.25%
65,000	14,360	15,165	805	5.6%	22.09%	23.33%	1.24%
100,000	28,360	29,515	1,155	4.1%	28.36%	29.52%	1.16%
200,000	75,600	77,874	2,274	3.0%	37.80%	38.94%	1.14%
1,000,000	435,600	445,874	10,274	2.4%	43.56%	44.59%	1.03%

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