

### **Excerpt from An update of the Scottish Government's Income Tax Forecasts**

- **We calculate the behavioural response using the same assumptions and elasticities as in the Draft budget forecast.** There is no reason to believe that the revised HRT would affect the standard TIEs for those taxpayers affected at the margin which are based on a wide range of evidence. Compared to the counterfactual of Statutory Indexation, only a small number of taxpayers would move into the higher rate band. As illustrated in Annex 1, even if we were to double their TIEs (from currently 0.015 to 0.03), the headline income tax forecasts would remain unchanged.

As discussed in our submission to the SFC in early November, a further adjustment is applied to the static income tax forecasts to reflect the fact that taxpayers may change their behaviour in response to a change in tax policy. This can have an impact on revenues. However, with the tax parameters above, the scale of behavioural change is small and the same standard TIEs were applied as in our Draft Budget forecast. There have been three further off-model adjustments to align the forecasts with the income tax measures introduced in the Autumn Statement:

- an adjustment has been made to the income tax liabilities forecast to account for an increase in the number of people expected to incorporate, and therefore pay tax on dividends or profits rather than employment income. This reduces non savings non dividend (NSND) income.
- an adjustment has been made to deduct the basic rate element of Gift Aid that charities claim from HMRC.
- an adjustment has been made to take into account the following income tax policies announced at the Autumn Statement which apply in Scotland: the removal of tax and NICs advantages in salary sacrifice schemes; the reduction in the money purchase annual allowance; and the extension of disguised remuneration targeting the self-employed. The revenue implications of these tax policies is taken directly from the relevant OBR policy costings.