Scottish Tax Ready Reckoners: Direct effects of illustrative tax changes for 2023-24

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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 2023-24, including Income Tax, Land and Buildings Transaction Tax (LBTT) and Non-Domestic rates (NDR), relative to current policy. These have been produced by the Scottish Government and are in line with the latest May 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.

Table 1: Scottish Tax Ready Reckoners, 2023-24

Illustrative tax change	Estimated revenue impact, 2023-2024, £ million
Income Tax Rate Changes	
Increase Starter Rate by 1p	58
Increase Basic Rate by 1p	213
Increase Intermediate Rate by 1p	164
Increase Higher Rate by 1p	88
Increase Top Rate by 1p	5
Decrease Top Rate by 1p	-7
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	-14
Reduce the Basic Rate Band by £1,000	15
Increase the Higher Rate Threshold by £1,000	-94
Reduce the Higher Rate Threshold by £1,000	108
Residential LBTT policy rate changes	
Increase rate applicable to £145,001-250,000 band by 1% point[1]	28
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	9
Increase rate applicable to above £750,000 band by 1% point	Negligible[2]
Decrease rate applicable to £145,001-250,000 band by 1% point[1]	-30
Decrease rate applicable to £250,001-325,000 band by 1% point	-10
Decrease rate applicable to £325,001-750,000 band by 1% point	-10
Decrease rate applicable to above £750,000 band by 1% point	-1
Additional Dwelling Supplement (ADS) policy changes[3]	
Increase ADS rate by 1% point	13
Decrease ADS rate by 1% point	-16
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	-22
Non-Domestic Rates policy changes	
Increase the Basic Property Rate (poundage) by 1p	61
Increase the Intermediate Property Rate by 1p	6
Increase the Higher Property Rate by 1p	45

[1] The zero-rate threshold for home movers is equal to £145,000. For first-time buyers the threshold is £175,000.
[2] 'Negligible' represents values that would round to a zero estimated revenue change.
[3] Estimates are based on 2025-26 figures to reflect the current 18-month repayment window.

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.[4] As part of this approach, the Scottish Government has published Income Tax 'ready reckoners' annually since March 2021, in line with similar publications by HMRC and the Welsh Government[5]. These are intended to assist researchers and policymakers, to improve transparency and further facilitate public understanding in this area. This year, the Scottish Government has expanded the publication to cover a broader set of ready reckoners, including information on Residential and Non-Residential LBTT, and Non-Domestic Rates.

The ready reckoners in Table 1 provide an order of magnitude of how much revenue could be raised, or foregone, over and above the policy changes already made for 2023-24. They are not intended to be exhaustive but can be used to understand the impacts of tax policy proposals on the Scottish Budget.

They 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[6]. 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 in the table should therefore be used to provide only an indication of the revenue impacts, as the SFC's final policy costings could be different.

The ready reckoners also 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, such as decisions whether to work or not; whether to re-locate to or from other parts of the UK or the world or buying a different property, for example, are captured for Income Tax, and residential and non-residential LBTT but not for NDR.

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 existing policy for 2023-24 which forms the counterfactual for the policy costings.

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[4] Please see the following link: Framework for Tax 2021
[5] See for example HMRC's Ready Reckoners and Welsh Income Tax Ready Reckoners (Annex 1).
[6] See Scottish Fiscal Commission, *How We Forecast Income Tax*, May 2021.

Table 2: Scottish Income Tax Policy, 2023-24

Rate Name	Income Range	Rate
Starter Rate	£12,571 - £14,732	19%
Basic Rate	£14,733 - £25,688	20%
Intermediate Rate	£25,689 - £43,662	21%
Higher Rate	£43,663 - £125,140	42%
Top Rate	Above £125,140	47%

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 £529 million. 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 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 of Income Tax, as top earners are much more 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 £164 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 cost 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 10.1% (the applicable September CPI figure) would be equivalent to an £219 increase in the Starter Rate Band, a £1,325 increase in the Basic Rate Band and a £4,410 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 taxation of 63% 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]
- 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.
- It should be noted that the Scottish Government's policy costings in relation to the Higher and Top Rate differ from the figures presented in the SFC's May report (£93 million and £3 million respectively). This is because the Scottish Government's counterfactual is different, i.e. it assumes that the Top Rate Threshold sits at £125,140 rather than £150,000.

Areas of uncertainty

There are a number of uncertainties when it comes to producing ready reckoners. 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. The Scottish Government and HMRC are developing 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 major area of uncertainty relates to the economic assumptions underpinning the costings. As the SFC notes in their latest report, the outlook for inflation remains one of the key sources of uncertainty and, together with a relatively tight labour market, continues to put upward pressure on nominal earnings growth.[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 Scottish bands and thresholds are frozen in 2023-24.

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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 Fiscal Commission May 2023 Forecasts, May 2023

COVID-19 is likely to have reshaped the structure of the labour market and therefore the Income Tax base. Since the Income Tax model remains based on pre-Covid tax data, this is not fully reflected in the ready reckoners. While detailed Income Tax micro data for 2020-21 will become available over the summer, it is likely to take a number of years until the full implications of Covid-19 on the tax base, and whether these effects are temporary or permanent, will be understood.

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

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

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

Table 3: Residential Rates and Bands, 2023-24

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.

Table 4: Non-Residential Rates and Bands, 2023-24

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

Aside from a temporary change to the nil rate band, in place from 15 July 2020 to 31 March 2021 in response to the pandemic, 'core' residential rates and bands have remained unchanged since LBTT was introduced. The non-residential rates and bands for conveyances have been

[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.

adjusted once, with a change made in 2019 that affected all transactions above £150,000. There is therefore limited experience or data on the impact of policy changes to rates or bands.

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.

For the ADS tax rate changes in Table 1, the estimated revenue impact is based on the increase, or decrease, applying to the entire value of the relevant chargeable consideration assuming that value lies above £40,000. The estimated revenue impact for changes to the rate of the ADS are calculated for 2025-26 due to the current 18-month ADS repayment period. If it is assumed that the policy is implemented at the start of 2023-24, looking at the revenue impact in the same year would over (under) estimate the longer-run revenue impact because gross ADS receipts will be paid at the higher (lower) ADS rate while a portion of repayments will continue to be made at the previous lower (higher) rate. Therefore, looking at the impact in a fiscal year more than 18 months after the implementation of the change will give a better illustration of the long-run revenue impact. The ADS rate has been increased twice since its introduction in April 2016 – from 3 per cent to 4 per cent in January 2019 and then from 4 per cent to 6 per cent in December 2022

All ready reckoners assume that tax changes are implemented within a short space of time that does not allow for taxpayers to e.g. bring forward transactions in order to avoid a tax increase (behaviour known as ‘forestalling’).

Areas of uncertainty

There are many general uncertainties to policy costings based on forecasts which involve property transaction taxes.

- 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, e.g. cost of living, labour market, mortgage rates etc.
- For any transaction tax, forecasting the number of transactions is complex as many of the transactions are voluntary, i.e. many people/organisations choose to buy properties. A property transaction tax forecast therefore involves making judgments about consumer behaviour.
- When taxes change there will be an associated behavioural change (transactions may be initiated, postponed or cancelled) and measuring the extent of these things relies on accurately predicting the tax elasticities (the responsiveness) associated with that change. Data is not always available and the policy costing must therefore rely on judgement from the SFC on which standard elasticities to use. Currently, the elasticities used by the SFC draw on evidence from across the UK, where though market characteristics may differ. We have replicated the SFC’s elasticities and approach to

behaviour in our costings.

- Property markets have largely returned to their pre-Covid activity levels but they have changed considerably both during the early and later phases of the pandemic. Thus, 2023-24 markets follow a period of unprecedented market turbulence and may still be re-adjusting to new parameters. For example, urban, suburban and rural property markets are now different than they once were given different working patterns and consumer tastes.

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 2023-24 SLfT rates and policy context are set out in the Scottish Budget.[11] The SFC forecast that less than £100m will be raised from the tax in 2023-24 and that revenues will continue to fall in the lead up to the ban on landfilling biodegradable municipal waste (BMW) in Scotland coming into force from 31 December 2025.

Non-Domestic Rates

Non-Domestic Rates (NDR), sometimes erroneously referred to as business rates, are a form of property tax which help pay for local services. The Scottish Government is responsible for setting NDR policy.

The NDR ready reckoners provide an order of magnitude estimate of NDR revenue that could hypothetically be raised in addition to existing policy for 2023-24, by varying key components of the NDR tax system: the Basic Property Rate (also called poundage), the Intermediate Property Rate (IPR) and the Higher Property Rate (HPR). Tax rates cannot be amended in-year by subordinate legislation.

As set out in table 5, there are around 258,550[12] non-domestic properties that are liable to pay NDR in 2023-24, 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 increase Gross NDR bills (before reliefs) for all NDR properties. The Intermediate Property Rate is applied to around 10,500 properties and the Higher Property Rate is applied to around 11,650 properties.

Table 5: Non-Domestic Rates Thresholds, 2023-24

Band of Rateable Value	Rate	Number and proportion of NDR properties
RV under 51,000	49.8p	236,450 (91.5%)
RV over 51,000 and up to 100,000	51.1p	10,450 (4%)
RV over 100,000	52.4p	11,650 (4.5%)

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

[11] Scottish Budget: 2023-24 - gov.scot (www.gov.scot)
[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.

collected by Scottish local authorities and transferred to Scottish Government. The Contributable Amount is pooled in the NDR rating account and is then redistributed to local authorities 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 Rates 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 £61m. A 1p increase to the IPR would increase NDR revenues by around £6m in 2023-24. A 1p increase to the HPR would increase NDR revenues by around £45m in 2023-24.

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 £112 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 £61 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 effect of reducing total RV and therefore NDR revenues, as ratepayers are re-billed on the basis of a lower rateable value 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 April 1st 2023. These include 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 new entries to the valuation roll located in park land that were exempt from rating prior to 1st April 2023. The effect of a change in poundage, Intermediate Property Rate or Higher Property Rate increases on these policies has not been costed as part of the ready reckoner exercise.

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[14] For more information on the operation of the NDR pool, please see [The Scottish Government Non-Domestic Rating Account for the year ended 31 March 2022 - gov.scot (www.gov.scot)]

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

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