



19 December 2023

SCOTTISH BUDGET UNDER PRESSURE DESPITE HIGHER TAX REVENUES

The Scottish Fiscal Commission today said that the Scottish Government's budget next year is set to increase by £1.3 billion from the latest figure for 2023-24. This is a rise of 2.6 per cent in cash terms or 0.9 percent after accounting for inflation.

Most of this increase in funding comes from income tax. A combination of the Scottish Government's policy choices, high inflation, fixed tax thresholds in cash terms (i.e. fiscal drag) and relatively strong earnings growth in Scotland have all contributed to a sharp increase in income tax funding.

However, the ongoing consequences of Scottish Government changes to social security and the linking of payment rates to inflation have increased spending commitments. Other Scottish Government policies such as the Council Tax freeze and increasing public sector pay have further added to the Scottish Government's commitments.

Capital spending is set to fall by 4 per cent in real terms between 2023-24 and 2024-25.

The Commission forecasts that economic growth will remain fragile in the near term with living standards set to fall between 2021-22 and 2023-24 by the largest recorded amount and not returning to their 2021-22 level until 2026-27.

The Scottish Government has introduced a new 45 per cent income tax band starting at £75,000 and also increased the top rate of income tax by 1 percentage point. These policies affect the top 5 per cent of taxpayers in Scotland. After taking account of behavioural changes, the Commission estimates that these policies will raise an extra £82 million in 2024-25.

Scottish Government changes to income tax policy since 2017 mean someone in Scotland earning £100,000 will now pay £3,346 more in income tax than they would in the rest of the UK.

The Commission's chair, Professor Graeme Roy, said:

"Whilst resource funding will increase next year, and by more than we predicted in May, spending commitments including social security, public sector pay and the council tax freeze will mean individual Cabinet Secretaries will face some difficult choices.

“The Scottish Government has introduced a new tax band in Scotland further increasing the tax differential with the rest of the UK on high earners. This policy, along with the effects of fiscal drag, is forecast to boost income tax revenues in Scotland.”

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Notes for Editors

1. The Commission's Report, Scotland's Economic and Fiscal Forecasts – December 2023 is available now, along with a one page graphic of key figures and a summary document. Background information is also available including spreadsheets with data for tables and charts.
2. The main report contains our official economic, tax and social security forecasts along with policy costings for the changes in tax proposed in the 2024-25 Scottish Budget. Our forecasts are just one component of the Scottish Budget; the report also gives an overview of public funding over the next five years and provides our assessment of the reasonableness of the Government's borrowing plans.
3. The Commission's report compares the 2024-25 Scottish Budget to the latest estimated funding position in 2023-24. The latest estimate is that total Scottish Government resource and capital funding in 2023-24 is £52.4 billion, compared to £51.4 billion when the Scottish Budget was introduced in December 2022.
4. The Commission forecasts the effect on revenues of changes in Government policy, including changes in taxpayer behaviour. This is done in line with the published approach here. We estimate behavioural changes reduce the yield from these income tax policies by £118 million in 2024-25.
5. Detailed information on the number of taxpayers in each income tax band can be found in our supplementary tax table S4.4 .
6. The Scottish Fiscal Commission is the independent fiscal institution for Scotland, established by the Scottish Fiscal Commission (2016) Act. Our statutory duty is to provide the independent and official forecasts of Scottish GDP, devolved tax revenue and devolved social security spending for the Scottish Government to use in its budget and financial planning. The Commission's forecasts will also assist the Parliament's scrutiny of the Scottish Budget and Budget Bill.
7. The Commission's forecasting remit is specified by the Act and in secondary legislation. A full list of what we forecast is given in the 'explainers' section of our website.
8. Our forecasts represent the collective view of the Scottish Fiscal Commission, comprising the Commissioners: Professor Francis Breedon, Dr Domenico Lombardi, Professor David Ulph, and the Chair, Professor Graeme Roy.
9. We hope our forecast report provides all the information you were looking for today. To help us improve please share your experience of our report with us here. We'll be holding a public webinar on our forecasts on 17 January 2024 at 10am. We'll give a presentation followed by a Q & A session. You can register for this online event here.

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