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@TheIFS

# Income tax performance



Economic  
and Social  
Research Council

# Introduction

- Power over income tax devolved to Scottish Govt in 2017-18
  - Block Grant funding adjusted to compensate
- Adjustment grows in line with
  - % growth in income tax revenues per person in rUK
  - % change in the Scottish population
- Net position positive when revenues per person grow more quickly in Scotland than rUK

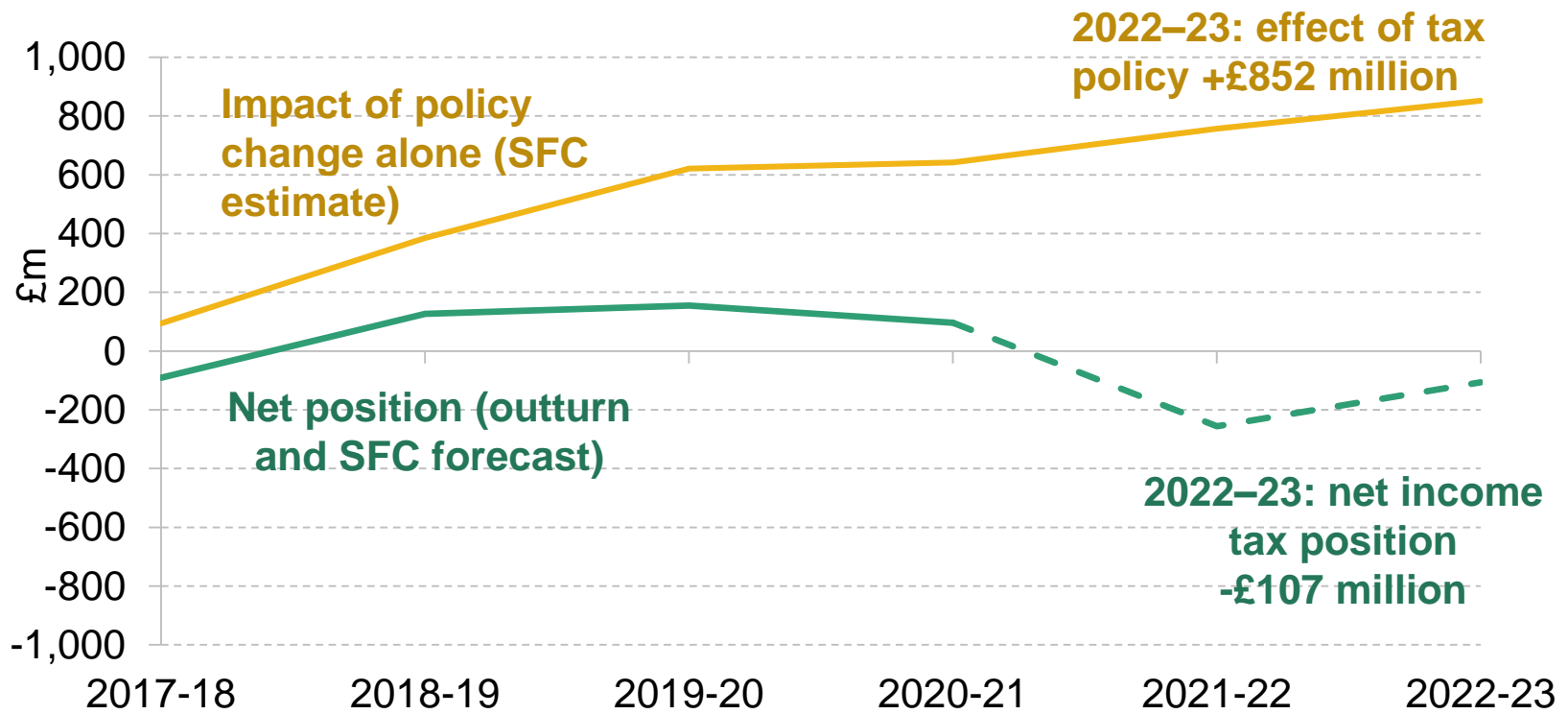
# Income tax performance to 2022–23



- SG has made revenue-raising changes to income tax policy relative to rUK since devolution
  - Reduction in higher rate tax threshold relative to rUK
  - Introduction of a five-band system of income tax
  - Increase in the higher and additional rate of tax
- But slow growth in underlying tax base has offset this

# Slow tax base growth has offset revenues from policy changes

Net income tax revenue position and SFC estimates of policy-only differences



# Income tax performance to 2022–23



- SG has made revenue-raising changes to income tax policy relative to rUK since devolution
- A small part of the lower net position will be the result of behavioural responses to Scottish tax policy changes
- More important are other underlying differences in economic performance:
  - Employment in Scotland has grown less quickly than in rUK
    - Declining age-specific participation rates
  - Scottish earnings growth has been weaker than in rUK
    - Earnings grew 2.6 percentage points more in rUK between 2016-17 and 2021-22 compared to Scotland

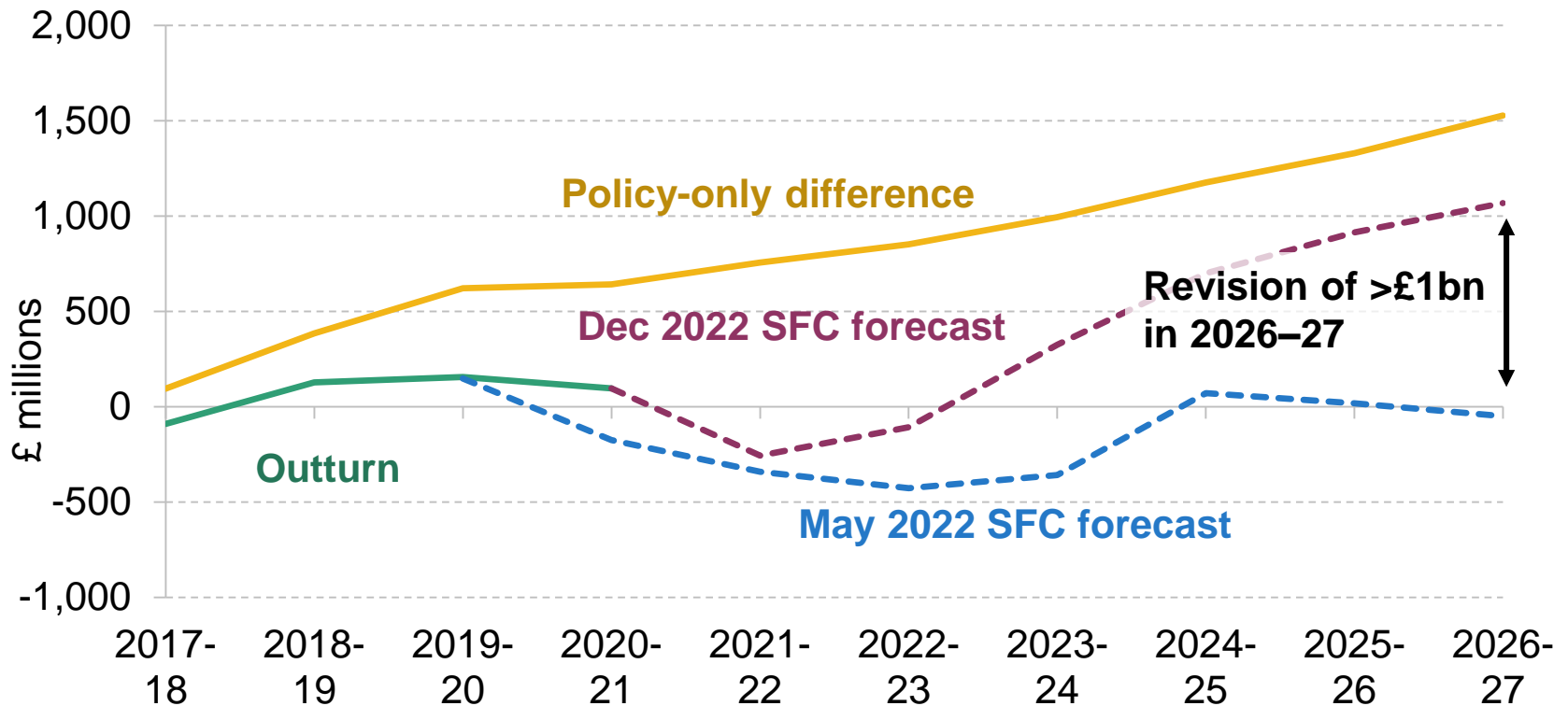
# Forecasts for 2023–24 to 2027–28



- SFC expected slower growth in underlying tax base to continue to 2026–27 in May 2022
- In December 2022, forecasted revenues revised upwards and BGA forecasts downwards

# Forecasts for 2023–24 to 2027–28

## Net income tax revenue position and SFC estimates of policy-only differences



# Forecasts for 2023–24 to 2027–28



- Revision to net position:
  - Changes in income tax announced in December 2022 Scottish Budget
  - Changes in employment forecasts
  - Changes in earnings forecasts
- Reflects Scotland-specific factors to some extent
- Could reflect different judgments about the UK as a whole → downside risk



# Conclusion

- Since devolution of income tax, revenues have disappointed
  - Despite revenue-raising policy choices from the Scottish Government
  - Tax base growth in Scotland has been weaker than in rUK
- Forecasts for future Scottish revenues look more promising
  - There is some downside risk associated with these forecasts, however

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