Tax and spending in 2024-25 and beyond
IFS Scottish Budget Report
Outline

- The Budget for 2024-25
  - Tax decisions
  - Overall funding
  - Spending plans
- The medium-term outlook
  - Scottish Government and SFC projections
  - Upside and downside risks
  - Trade-offs between services
Further increase in income tax on high income Scots; freeze in council tax

- New 45p rate for those earning between £75,001 and £125,140
- Top rate for those earning above £125,140 increased from 47% to 48%
Income tax bills in Scotland compared to rUK

Scottish tax and spending in 2024-25 and beyond
Income tax bills in Scotland compared to rUK

- £1,000
- £0
- £1,000
- £2,000
- £3,000
- £4,000
- £5,000
- £6,000
- £7,000
- £8,000
- £9,000
- £10,000
- £11,000
- £12,000
- £13,000
- £14,000
- £15,000
- £16,000
- £17,000
- £18,000
- £19,000
- £20,000

Extra income tax in Scotland relative to rUK

Annual income

2023-24
£125k: £3,356 more

2024-25
£125k: £5,221 more

95% of taxpayers
5% of taxpayers

Scottish tax and spending in 2024-25 and beyond
Combined effects of income tax changes and council tax freeze

- New 45p income tax rate, higher 48p rate
- Council tax freeze
- Higher-rate threshold (HRT) freeze
- Total

Scottish tax and spending in 2024-25 and beyond
The Budget for 2024-25

- Further increase in income tax on high income Scots; freeze in council tax
- Funding next year higher in cash terms than previously expected – inflation has eroded nearly all of this
Higher inflation has also offset boost to planned spending since RSR.

Comparison of latest forecast for funding in 2024-25 with previous forecasts.

Cash-terms change vs. Real-terms change.

December 2023 versus May 2022 Resource Spending Review.

December 2023 versus December 2022 Forecasts.

Scottish tax and spending in 2024-25 and beyond.
The Budget for 2024-25

- Further increase in income tax on high income Scots; freeze in council tax

- Funding next year higher in cash terms than previously expected – inflation has eroded nearly all of this

- Budget gives an overly optimistic impression of the change in funding available for public services next year
  - 2.2% increase compared to original 2023-24 budget, but 0.6% cut compared to latest 2023-24 plans
  - Funding for NHS currently set to fall in 2024-25
NHS Recovery, Health and Social Care portfolio spending plans

Real-terms change 2023-24 to 2024-25

- English health spending also set to fall on current plans
- Welsh Govt plans increases, but big cuts to other services
The Budget for 2024-25

- Further increase in income tax on high income Scots; freeze in council tax

- Funding next year higher in cash terms than previously expected – inflation has eroded nearly all of this

- Budget gives an overly optimistic impression of the change in funding available for public services next year
  - 2.2% increase compared to original 2023-24 budget, but 0.6% cut compared to latest 2023-24 plans
  - Funding for NHS currently set to fall in 2024-25
  - Local government increases smaller than stated
The medium-term outlook

- Under current forecasts, funding available for public services set to grow by an average of 1% a year in real terms to 2028-29
Resource funding outlook: 2024-25 to 2028-29

Scottish tax and spending in 2024-25 and beyond

- **Social security spending**: 2.2% increase
- **Public service spending**: Average 0.6% increase
The medium-term outlook

- Under current forecasts, funding available for public services set to grow by an average of 1% a year in real terms to 2028-29
  - Increases front-loaded

- Capital funding set to fall due to cash freeze in UK funding and reduction in planned Scottish Government borrowing

- Tricky trade-offs between spending on different services
Implied change in funding for other services: 2024-25 to 2028-29

Real-terms change

<table>
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<tr>
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<th>Central funding projection</th>
<th>£1 bn extra UK funding</th>
<th>£1 bn lower income tax</th>
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<tbody>
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<td></td>
<td>2.3% Health, 0% Local Government</td>
<td>3.3% Health, 1% Local Government</td>
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<tr>
<td>-0.9%</td>
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The medium-term outlook

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- Tricky trade-offs between spending on different services

- Significant uncertainty around future funding availability
  - UK govt funding more likely to be topped up than reduced
  - Devolved net tax revenues more likely to be lower than higher
Scottish tax and spending in 2024-25 and beyond

Implied change in funding for other services: 2024-25 to 2028-29

Real-terms change

-25% -20% -15% -10% -5% 0% 5% 10%

Central funding projection
-0.9% -12.3% +7.5% -3.9%

£1 bn extra UK funding

£1 bn lower income tax
-9.3% -20.6%

2.3% Health, 0% Local Government
3.3% Health, 1% Local Government

Scottish tax and spending in 2024-25 and beyond
Summary

- Further significant tax rises on top 5% of Scottish taxpayers
  - Continues a pattern of ‘progressive’ revenue-raising
- Funding next year much higher in cash terms than previously expected but inflation has eroded nearly all of this
  - Devolved tax revenues mean situation better than in rUK
- Public service spending currently planned to be lower in real-terms next year than this – including for health
  - Without top-ups, job cuts and service degradation
- Tough choices in the medium-term even if extra UK govt funding
  - Performance of devolved taxes (and economy) important too