

The Scottish Budget – 19 December 2023

INTRODUCTION

The Deputy First Minister and Cabinet Secretary for Finance, Shona Robison, faced some difficult decisions in drawing up her first Budget.

Faced with such difficult considerations, Ms Robison reached for the income tax lever to raise more revenue. She unveiled a new 45% advanced rate tax band, applying to income between £75,000 and the start of the top rate band of £125,140. The top rate was itself increased by 1% to 48%, meaning that those earnings above that level will be subject to a marginal combined income tax and national insurance rate of 50%.

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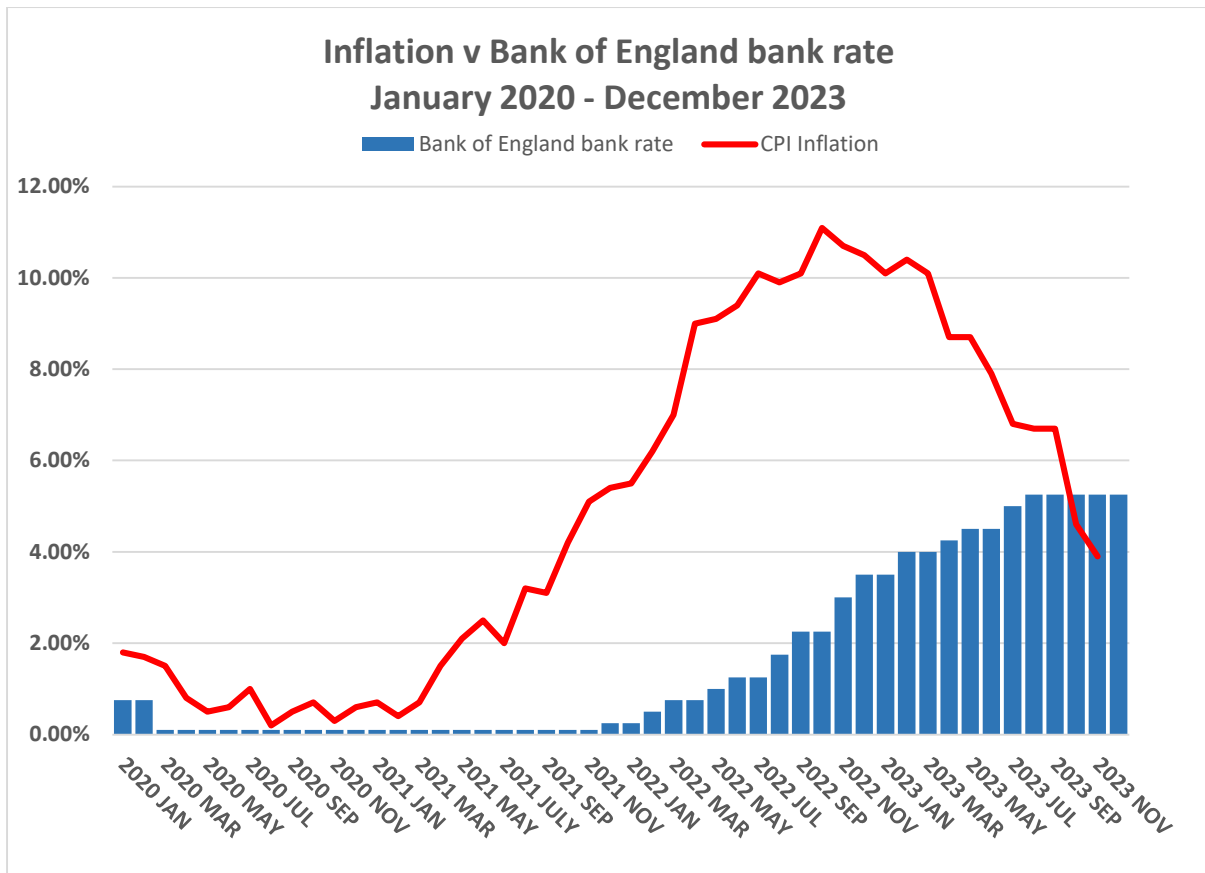
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ECONOMIC UPDATE

The Scottish Budget arrived against a backdrop of mixed UK economic news in the previous week:

- On the Thursday the Bank of England had [announced](#) its third consecutive interest rate freeze. The day before the US Federal Reserve had also frozen its main interest rate. However, whereas the US central bank had indicated there could be three cuts to rates in 2024, the Bank of England painted a gloomier picture, suggesting that “Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures”.
- The [estimate](#) of monthly economic growth from the Office for National Statistics (ONS) released on 13 December showed UK GDP falling by 0.3% in October, with all three sectors – services, production and construction – posting declines. That left the economy the same size as at the start of the year. In the minutes accompanying its interest rate decision, the Bank of England said that it expected growth “to be broadly flat in 2023 Q4 and over coming quarters”.
- The day before, the ONS labour [market overview](#) revealed little change in the unemployment rate at 4.2% and a 0.8% fall in the annual growth in regular pay (including bonuses) to 7.2% in August–October 2023. Earnings growth is a continued concern for the Bank of England which said on Thursday “There remain upside risks to the outlook for wage growth”.

The November CPI annual inflation rate, published on the day following the Budget, was 3.9%. Looking further out, the Bank of England forecast that figure would fall to 2.2% by the end of 2025.



Source: Bank of England and ONS

To the previous week’s economic news can be added the forecasts made by the Office for Budget Responsibility (OBR) that appeared alongside November’s Autumn Statement – once again close to a UK Budget in all but name. The OBR cut its growth projections by 1.1% for both 2024 and 2025 but raised its inflation assumptions. The latter gave the Chancellor enough wiggle room to cut two national insurance rates, make full expensing of business investment permanent and still leave the UK tax burden rising in each of the next five years to a post-war record level.

The measures in Jeremy Hunt’s Autumn Statement meant that the Scottish Government will receive additional block grant funding of £223 million in 2023/24 and £321 million extra in 2024/25 according to calculations in a [post-Autumn Statement note](#) published by the Fraser of Allander Institute (FAI).

Nevertheless, ahead of the Scottish Budget the outlook for spending by the Scottish government in 2024/25 was heavily constrained. In the six months between the publication of the Scottish government’s [Medium Term Financial Strategy](#) in May, and its [Autumn Budget Revision](#), spending had increased by an estimated £930 million, prompting the Cabinet Secretary for Finance to announce “savings and funding prioritisation” of £680 million on the day before Jeremy Hunt’s Autumn Statement.

By mid-December the FAI calculated that increased spending pressures and new government announcements, such as next year’s council tax freeze, implied that Ms Robison was facing a £1.5 billion funding shortfall in 2024/25. To quote the [Institute](#), the potential deficit “represents one of the most challenging fiscal backdrops in the history of Scottish devolution”.

TAX ANNOUNCEMENTS

Income tax

The structure of Scottish income tax will change in 2024/25:

- The starting levels for basic and intermediate rate tax were increased in line with inflation (6.7% to September 2023).
- The higher rate threshold will be frozen and the size of the band will contract.
- A new advanced rate band, at a rate of 45%, will be introduced on income between £75,000 (£62,430 + £12,570 personal allowance) and the starting point of the top rate of tax, which remains at £125,140.
- The top rate of tax will be increased from 47% to 48%.

| Scottish taxpayers – non-dividend, non-savings income | 2024/25 | | 2023/24 | |
|---|----------|----------|----------|----------|
| | Tax Rate | | Tax Rate | |
| Starter rate on taxable income up to | 19% | £2,306 | 19% | £2,162 |
| Basic rate on next slice up to | 20% | £13,991 | 20% | £13,118 |
| Intermediate rate on next slice up to | 21% | £31,092 | 21% | £31,092 |
| Higher rate on next slice up to | 42% | £62,430 | 42% | £125,140 |
| Advanced rate on next slice up to | 45% | £125,140 | N/A | N/A |
| Top rate on income over | 48% | £125,140 | 47% | £125,140 |

Land and buildings transaction tax (LBTT)

There will be no changes to the LBTT bands.

| Land and buildings transaction tax (LBTT) on slices of value | | | |
|---|----------|----------------------------|----------|
| Residential property | % | Commercial property | % |
| Up to £145,000 | 0 | Up to £150,000 | 0 |
| £145,001 – £250,000 | 2 | £150,001 – £250,000 | 1 |
| £250,001 – £325,000 | 5 | Over £250,000 | 5 |
| £325,001 – £750,000 | 10 | | |
| Over £750,000 | 12 | | |

First-time buyers: 0% on first £175,000

Additional residential and all corporate residential properties £40,000 or more: add 6% to rates

Scottish council tax rates

As previously announced, for 2024/25 the Scottish Government will freeze council tax rates.

Scottish non-domestic rates

New rateable values were introduced from April 2023, based on property values as at 1 April 2022. However, the poundage for 2023/24 was frozen at 2022/23 levels. For 2024/25 the poundage rate will be frozen again for businesses subject to the Basic Property Rate (those with rateable values of up to and including £51,000), while the poundage for the Intermediate and Higher Property Rates will rise in line with inflation to 54.5p and 55.9p respectively.

100% relief will apply in 2024/25 for hospitality businesses located on islands as defined by the Islands (Scotland) Act 2018 (capped at £110,000 per business). The Cabinet Secretary for Finance said that work with the hospitality sector, in the New Deal for Business Non-Domestic Rates sub-group, would continue on the sector's long-term issues.

Other non-domestic rate measures included:

- Extending 90% renewables District Heating relief until 31 March 2027, and expanding it to include all district heating networks, where at least 80% of the thermal energy generated derives from renewables.
- Replacing the planned end of Enterprise Areas relief on 31 March 2024 with a phasing out over the following two years.

| Rateable Value | 2023/24 | 2024/25 | 2025/26 |
|--------------------------|----------------|----------------|----------------|
| £120,000 or less | 100% | 66.7% | 33.3% |
| £120,001 to £240,000 | 50% | 33.3% | 16.7% |
| £240,001 to £480,000 | 25% | 16.7% | 8.3% |
| £480,001 to £1,200,000 | 10% | 6.7% | 3.3% |
| £1,200,001 to £2,400,000 | 5% | 3.3% | 1.7% |
| Over £2,400,000 | 2.5% | 1.7% | 0.8% |

- All other existing reliefs will continue in 2024/25, including the multi-year transitional relief schemes announced in last year's Budget.

Scottish landfill tax

The standard rate of Scottish landfill tax will increase from £102.10 a tonne to £103.70 a tonne and the lower rate from £3.25 a tonne to £3.30 a tonne from 1 April 2024 to maintain consistency across the UK.

OTHER ANNOUNCEMENTS

- Social security benefits and payments will rise in line with inflation, taking the Scottish Child Payment to £26.70 a week.
- NHS frontline Boards will receive an increase of over £550 million, a 4.3% funding rise.
- £556 million will be invested in the Affordable Housing Supply Programme, and over £90 million in Discretionary Housing Payments.
- £358 million will be provided to accelerate energy efficiency upgrades and installation of clean heating systems.
- Investment in digital connectivity will rise from £93 million to £140 million.
- Workers in all sectors of social care, early learning and childcare will receive a wage rise to at least £12 per hour from April 2024.
- The Scottish Police Authority's resource budget will be increased by £75.7 million (5.6%).
- The Scottish Prison Service resource budget will receive an additional £38.6 million (10%) and there will be £167 million of capital funding to progress replacements for HMPs Inverness and Barlinnie.
- Scottish Fire and Rescue Service (SFRS) will receive an extra £13.6 million and capital investment will rise by £10.3 million (32%).