

HM

Hall Morrice

Chartered Accountants



December 2024
The Scottish Budget

Introduction

2024 was the third consecutive year in which the Scottish government was forced to undertake an emergency budget review. In a statement on 3 September, the Cabinet Secretary for Finance, Shona Robison, announced “support [for] the 2024/25 Budget totalling almost £1 billion, of which up to £500 million are direct savings”.

Subsequently the first Budget of her Westminster counterpart, Chancellor Rachel Reeves, provided a boost to the Scottish government's receipts. Unfortunately the announcement of the fresh inflow arrived four weeks after a formal Autumn Budget Revision (ABR) had been presented to the Scottish Parliament.

Although Ms Robison's budget planning was eased by the Chancellor's changed economic policy, she was still left with “limited room for manoeuvre” according to the Fraser of Allander Institute (FAI). Nevertheless, the Budget contained some surprises, including a stated intention not to increase income tax rates or introduce any new bands for the remainder of the Parliament.

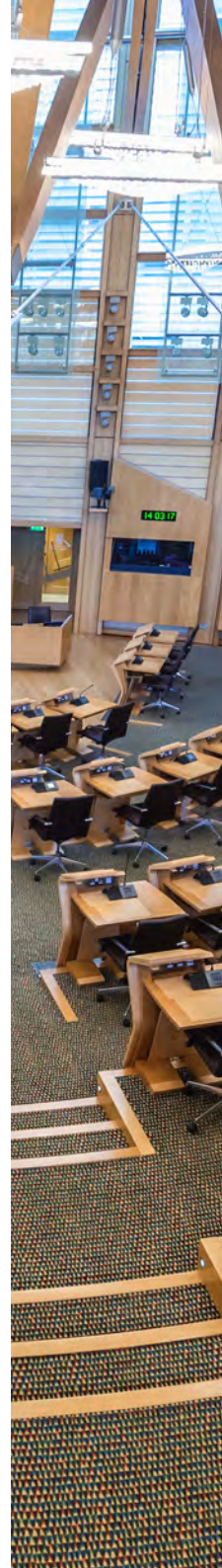
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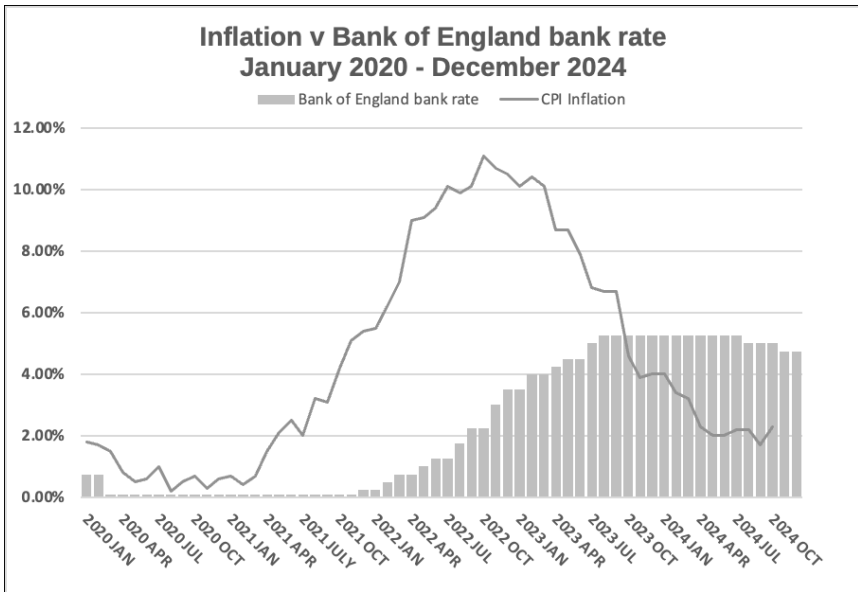
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Economic update

The Scottish Budget arrived against a backdrop of recent disappointing UK economic news and the fall-out from Rachel Reeves' UK Budget:

- The initial estimate of third quarter economic growth from the Office for National Statistics (ONS) released in mid-November was just 0.1%, down from 0.5% in the second quarter and 0.7% in the first three months of 2024. While the Office for Budget Responsibility (OBR) is projecting 2.0% growth for 2025, other forecasters are less optimistic. For example, the November edition of HM Treasury's own comparison of independent forecasts revealed an average of 1.3% and the same month saw a Bank of England forecast of 1.7%.
- October's CPI inflation was 2.3%, up 0.6% on the previous month, mainly due to the October increase in the Ofgem utility price cap. Inflation is now expected to rise marginally in 2025, with the OBR projecting an average rate of 2.6% and the Bank of England anticipating a fourth quarter rate of 2.7%. Some of that increase is attributable to the measures in the UK Budget.
- The Bank of England has made two 0.25% cuts in its Bank rate from the 5.25% peak reached in August 2023 and held for a year. In evidence on 19 November to the House of Commons Treasury Committee, the Bank's Governor, Andrew Bailey, emphasised that the Bank's approach to further rate cuts would be gradual as it waits to see how the UK Budget's "increase in the cost of employment ... plays through". Market projections now suggest that Bank Rate will plateau at around 4% by the end of 2025, a more pessimistic view than existed before the UK Budget.
- The November ONS labour market overview showed little change in the UK unemployment rate at 4.3% and, coincidentally, the same figure for growth in earnings (including bonuses). With the National Living Wage rising by 6.7% in April 2025, earnings growth will continue to be an important statistic for the Bank of England.





Source: Bank of England and ONS

In setting revised spending targets for Scotland in 2024/25, the October ABR took account of extra Barnett consequential (UK Budget devolved payments) arising from the Spring Budget of Rachel Reeves' predecessor, Jeremy Hunt. According to the FAI, the revision still left a shortfall of around £400 million because of the increased spending it introduced. This more than offset the combination of promised savings, £162 million drawdown from reserves and £224 million taken from the ScotWind proceeds (one-off income from leasing the Scottish seabed to windfarm businesses).

Shortly after the ABR emerged, the picture changed again when Rachel Reeves presented the UK's Budget, proposing substantial increases in taxes, spending and borrowing. As Reeves' measures covered the current as well as future years, an extra £1.5 billion (almost entirely in Barnett consequential) flowed through to Scotland for 2024/25, enough to make the ABR's contents largely superfluous. For 2025/26, Reeves' Budget proposals will see Scotland receive an additional £3.4 billion in Barnett consequential.

Reeves' main revenue raisers were a combination of an increased employer's rate of national insurance contributions (NICs) and a 45% reduction in the secondary threshold at which these start to be paid. NICs are not a devolved tax, which is one reason why the Scottish Government has focused on income tax as its source of increased revenue.

However, the scope for further rises in income tax may be reaching the end of the road. In mid-November a paper from the Institute for Fiscal Studies suggested that, “Overall, evidence from Scotland, the rest of the UK and overseas suggests that behavioural responses to Scotland’s higher taxes will have offset a significant part of the revenue that would otherwise have been raised – and indeed potentially more than offset the revenues for the top rate of tax.”

At the end of November the FAI calculated that central and local government pay pressures, and the recently announced reinstatement of winter heating payments for 2025, meant that most of the extra 2025/26 funding generated by the UK’s Budget was already committed. To quote the FAI, “If pay pressures in particular turn out to be higher than planned ... and in the absence of further measures, we could very well see the Scottish Government needing to take in-year action again to rectify the fiscal position.”

Tax announcements

Income tax

The structure of Scottish income tax will be little changed in 2025/26:

- The starter rate band will increase by 22.6% and the basic rate band by 6.6%. The effect of this will be to increase the thresholds at which taxpayers pay the basic rate and intermediate rate by 3.5%.
- The higher rate, advanced rate and top rate thresholds will be frozen.

Scottish taxpayers' non-dividend, non-savings income	2025/26	2024/25
19% starter rate on taxable income up to	£2,827	£2,306
20% basic rate on next slice up to	£14,921	£13,991
21% intermediate rate on next slice up to	£31,092	£31,092
42% higher rate on next slice up to	£62,430	£62,430
45% advanced rate on next slice up to	£125,140	£125,140
48% top rate on income over	£125,140	£125,140

‘Scotland’s Tax Strategy: Building on our Tax Principles’ was published as part of the Budget documentation, setting out medium-term goals for how the tax system should develop. Notably, the Strategy states it is our intention not to introduce any new bands or increase the rates of Scottish Income Tax. It also says that the Scottish higher, advanced and top rate thresholds will be maintained at current levels in nominal terms for the remainder of the Parliament.

Land and buildings transaction tax (LBTT)

The Additional Dwelling Supplement (ADS) will increase from 6% to 8% with effect from 5 December 2024, matching the two percentage point increase announced in the UK Budget. The First Time Buyers relief will be maintained with a nil rate band of £175,000.

Land and buildings transaction tax (LBTT) on slices of value from 5 December 2024			
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 8% to rates

A review of LBTT will be undertaken, starting in Spring 2025. Around the same time, the government will publish a consultation on draft legislation to provide relief from LBTT on the exchange of units within Co-ownership Authorised Contractual Schemes (CoACS) investing in Scottish property. The aim will be to provide for consistency with existing arrangements in the rest of the UK.

Scottish non-domestic rates (NDR)

The next revaluation will take effect from 1 April 2026, based on property values as at 1 April 2025. For 2025/26 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) at 49.8p, while the poundage for the intermediate and higher property rates will rise in line with inflation to 55.4p and 56.8p respectively.

100% relief will continue to apply in 2025/26 for hospitality businesses located on islands as defined by the Islands (Scotland) Act 2018 and in three prescribed remote areas (capped at £110,000 per business). In the remainder of Scotland, 40% relief will be available to properties in the hospitality sector (including Grassroots Music Venues with a capacity of up to 1,500) which are liable for the basic property rate (those with a rateable value up to and including £51,000), capped at £110,000 per business.

Other NDR measures included:

- General revaluation transitional relief will cap (relative to 2024/25) annual NDR increases due to the 2023 revaluation at 37.5% for small properties with rateable values up to and including £20,000, 75% for those with rateable values from £20,001 up to and including £100,000 and 112.5% for those over £100,000.
- Small business transitional relief will ensure that for those properties that lost or saw a reduction in small business bonus scheme relief, or rural rates relief eligibility, due to the 2023 revaluation, the maximum increase in the rates liability per property relative to 31 March 2023 will be capped at £1,800.
- All other existing NDR reliefs will continue in 2025/26, including the multi-year transitional relief schemes announced in the 2023 Budget.

Scottish landfill tax

The standard rate of Scottish landfill tax will increase from £103.70 a tonne to £126.15 a tonne and the lower rate from £3.30 a tonne to £4.05 a tonne from 1 April 2025, ahead of the legislative ban on the landfilling of all biodegradable municipal waste coming into force on 31 December 2025.



Other announcements

- The Government will commit to matching the UK Government by raising the earnings threshold for Carer Support Payment and Carer's Allowance by £45 a week to £196 a week.
- Winter heating payments of at least £100 per pensioner household will be introduced in winter 2025 for those ineligible to claim the existing means-tested payments.
- The Government will "develop the capability to mitigate", as far as possible, the impacts of the two child benefit limit from 2026/27.
- The Government intends to introduce legislation in 2025/26 to establish a Building Safety Levy, equivalent to a levy that the UK Government intends to introduce in England.
- Overall Health and Social Care spending will rise by just over £2 billion to £21.7 billion in 2025/26. This figure includes an extra £139 million for capital investment.
- The culture budget will receive an uplift of £34 million in 2025/26.
- The social security benefits budget will increase by almost £800m.
- The Budget provides £768 million for affordable homes, enabling an estimated 8,000 plus new properties for social rent, mid-market rent and low-cost home ownership to be built.



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