

A solid orange right-angled triangle pointing downwards and to the right.

Daniel Johnson MSP
Constituency Office,
134 Comiston Road,
Edinburgh,
EH10 5QN

17 January 2023

Income Tax rates forecasts

Dear Mr. Johnson,

Thank you for your inquiry concerning our recent forecasts for income tax in Scotland. You asked why our official policy costing differed from those in a recent IPPR report “Funding a Social Renewal: Scottish budget briefing paper” ([link](#)).

We think that there are a number of underlying and structural differences between the IPPR’s approach and ours that may explain the different estimates. However, it is difficult to quantify these without in depth knowledge of the models the IPPR used.

We noted these differences in the approaches:

- IPPR calculate how much the policies will raise against a counterfactual of raising all income tax thresholds by inflation, where we used a counterfactual of the higher rate threshold being frozen, as explained in detail in our May 2022 and December 2022 SEFF reports.
- They estimate that the number of higher rate tax-payers is 560,000 and top rate tax-payers around 40,000. We estimate the respective figures to be 509,000 and 20,000, as shown in our supplementary table S4.3. A smaller tax-base would mean a lower costing.
- The IPPR figures are similar in magnitude to our costings before accounting for behaviour. It is possible that IPPR have produced static costings that do not take account of behavioural effects. We think these effects could be large particularly for changes in the additional rate.

The difference between the counterfactuals could alone account for the variance when inflation is at high levels, but any or all of the factors above could play a part, and there may be others which we have not identified.

There is no single correct way to produce policy costings. Our approach is explained in detail in our report [Approach to Policy Costings](#) and is designed to ensure consistency between our underlying forecasts and the wider Scottish Budget.

Yours sincerely,

A handwritten signature in black ink that reads "Graeme Roy".

Professor Graeme Roy