

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
EH99 1SP

24 June 2025

Dear Convener,

Thank you for the opportunity to provide evidence on our Scotland's Economic and Fiscal Forecasts (SEFF) May 2025 report on 10 June 2025.

During our session, I said I would follow-up on three points: the share of income tax growth due to fiscal drag, breakdown of net inward migration into income tax bands, and our forecasts for the cost of mitigating the two-child limit in Universal Credit.

Fiscal drag

In our May 2025 SEFF we provided an estimate of the additional revenue generated in Scotland due to fiscal drag relative to UK tax rates and bands. We estimate that a 1 per cent increase in average earnings generates approximately £17 to £19 million more in income tax revenue in Scotland than would be the case under UK income tax rates and thresholds.¹

This additional revenue reflects the greater degree of fiscal drag in Scotland, which largely arises from the higher rate threshold being fixed in cash terms at a lower level than in the rest of the UK. As earnings increase, more income will be above this threshold and taxed at higher marginal rates, resulting in a relatively larger revenue gain. Our forecast of 3.7 per cent average earnings growth in 2025–26 implies additional revenue of around £60 to £70 million per year from fiscal drag relative to the UK system.

Fiscal drag is also reflected in our forecasts of the number of taxpayers by band. We expect the proportion of Scottish taxpayers paying the higher rate of tax and above to increase from around 24 per cent in 2025-26 to 27 per cent by 2030-31.

¹ Scottish Fiscal Commission (2025) [Scotland's Economic and Fiscal Forecasts – Supplementary figure S4.14](#)



We will continue to explore this issue and will consider publishing more in depth analysis as part of our upcoming August 2025 Fiscal Update.

Net migration

In April 2024, HMRC published a research paper which discussed intra-UK migration.² In relation to net migration into Scotland, the paper stated that since Income Tax has been devolved, net migration has been positive and has increased each year, reaching around 8,000 in 2022.

The HMRC publication grouped taxpayers by rUK tax bands (i.e. Basic, Higher and Additional rate taxpayers). Its research indicates that basic rate taxpayers are the group who are coming to Scotland in the greatest and most consistent numbers. Overall in 2022, basic rate taxpayers represent around 68 per cent of the total, with higher rate taxpayers representing 4 per cent and additional/top rate taxpayers representing 3 per cent. The remaining number earn less than the personal allowance.

Cost of mitigating the two-child limit in Universal Credit

We forecast that the cost of the two-child limit mitigation policy will rise from £156 million in 2026-27 to £199 million in 2029-30. This 28 per cent increase can be broken down into three factors. Firstly we expect the number of children receiving a payment to increase by 18 per cent, from 43,000 to 50,000. This increase in numbers includes a small behavioural effect, but is mainly due to the number of children affected by the two-child limit rising over time. The limit is applied only to children born from April 2017 onwards, so will apply to children aged under nine at the start of 2026-27, with the scope widening to cover children under thirteen by the end of 2029-30. Our assumptions on the numbers of families and children involved, and on the behavioural effects are all set out in our January 2025 costing publication: [Mitigating the two-child limit and the Scottish Budget | Scottish Fiscal Commission](#)

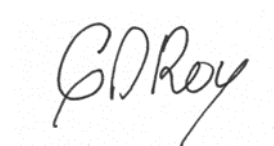
Secondly, we expect the payment to be uprated in line with inflation to match the value of the Universal Credit child element, which accounts for around a 6 per cent increase.

Thirdly, we assume that the behavioural response will also lead to slightly higher spending on Scottish Child Payment. This increases the forecast costs by 2 per cent between 2026-27 and 2029-30.

I hope this additional information is useful.

² HMRC (2024) [Intra-UK migration of individuals: movements in numbers and income](#)

Yours sincerely

A handwritten signature in black ink, appearing to read "G Roy".

Professor Graeme Roy