Scottish Fiscal Commission

# Forecast Evaluation Report

August 2026

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# Foreword

The Scottish Fiscal Commission (SFC) is the independent fiscal institution for Scotland. Our statutory duty is to provide independent and official forecasts of Scottish GDP, devolved tax revenues and devolved social security spending to inform the Scottish Budget.

Our forecasts play a central role in setting the Scottish Government's Budget. It is therefore important to ensure our forecasts are as reliable as possible. To do this we routinely evaluate our previous forecasts to identify improvements we can make for future forecasts. In this report we have evaluated our December 2024 forecasts for the economy, fully devolved taxes, and social security expenditure in 2025-26, and our December 2023 forecast for Scottish Income Tax revenue in 2024-25.

We would like to thank everyone who has contributed to this report, and in particular those data providers who have worked hard to ensure we have the information we need. This includes the Scottish Government, Revenue Scotland, Social Security Scotland, the Department for Work and Pensions, HM Revenue and Customs, and the Office for Budget Responsibility.

We would like to thank the hard-working staff of the Scottish Fiscal Commission for their support in the production of this report.

We would like to give special thanks, from ourselves and on behalf of all previous Commissioners, to John Ireland. John has been an outstanding Chief Executive and has worked to establish the organisation since its very early days. He will leave soon for a very well-earned retirement, and we hope he will look back with a lot of pride on what the SFC has achieved under his leadership.

Professor Graeme Roy

Dr Eleanor Ryan

Justine Riccomini

25 August 2026

# Contents

# Summary

## Introduction

1 In this report we evaluate our December 2024 forecasts for the economy, fully devolved taxes, and social security in 2025-26. We also evaluate our December 2023 Income Tax forecast for 2024-25.

2 Given the ongoing uncertainties at the time we produced our forecasts, we are satisfied with the performance of our forecasts. We've seen a particularly small income tax budget setting forecast error with an overestimate of £209 million or 1 per cent, our smallest ever relative error for income tax. Despite this small error, funding for the Scottish Budget will be reduced by a record £720 million through a reconciliation to account for income tax forecasting errors. Alongside this report, we've published a Fiscal Update which provides commentary about the effects of outturn data on the Scottish Government's funding along with other recent developments in funding and spending, and also discusses this record reconciliation in detail.

**Figure 1: Summary of headline evaluations**

| Topic | Forecast | Outturn | Error | Relative error (per cent) |
|---|---|---|---|---|
| Economy: GDP Growth (per cent) | 1.6 | 1.0 | -0.6 | N/A |
| Taxes: Income Tax (£ million) | 18,844 | 18,635 | -209 | -1 |
| Taxes: Devolved Taxes (£ million) | 4,111 | 4,087 | -23 | -1 |
| Devolved social security (£ million) | 6,930 | 6,751 | -179 | -3 |

Source: Scottish Fiscal Commission, Scottish Government, HMRC, Revenue Scotland, Social Security Scotland.

## Income Tax forecast for 2024-25

3 We overestimated Income Tax revenues by £209 million. While average earnings growth and full year RTI data were higher than expected, the largest source of error is most likely because of lower-than-expected revenues from individuals with high incomes. Growth in income among the highest paid continues to be the greatest source of uncertainty in our Income Tax forecasts.

## Economy, fully devolved taxes and social security for 2025-26

### Economy

4 Since producing our December 2024 forecast, a number of factors have meant that Scottish GDP growth in 2025-26 of 1.0 per cent was lower than our forecast of 1.6 per cent. These include the US Government's announcement in early 2025 of a range of new import tariffs, which created volatility, and higher global energy and food prices than expected.

5 As a result, we over-forecast GDP growth by 0.6 percentage points. We judge this to be a reasonable forecast error, that is in line with to our historical average absolute error, excluding the COVID-19 period.

6 Overall, the latest outturn shows the Scottish and UK economies continue to experience low growth by historical standards, consistent with the economic outlook in our forecasts. This low growth, below the pre-2008 annual average of 2 per cent, is due to demographic challenges, weak productivity growth, and ongoing uncertainty. In recent forecasts, we expect annual growth to average around 1.4 per cent over the five-year forecast horizon, although GDP growth in a single year can be above or below this rate.

## Fully devolved taxes

7 Total revenue from fully devolved taxes was £4,087 million in 2025-26, £23 million less than our forecast of £4,111 million.

8 Overall, Land and Buildings Transaction Tax (LBTT) revenue was £66 million lower than we forecast, a relative error of 7 per cent. The largest source of this error was from the Additional Dwelling Supplement (ADS) component of LBTT. We forecast revenue of £258 million, but outturn was only £199 million. This was mainly due to not accounting for reliefs in our forecast and more repayments than expected.

9 Our more recent ADS forecasts do account for reliefs, but the value of reliefs claimed has been increasing and we are working with Revenue Scotland to understand this further. There are several factors that may have affected the level of repayments. These include the increase in the ADS rate from 6 per cent to 8 per cent, the increase of the repayment timeline from 18 to 36 months, mortgage and interest-rate conditions, and Scottish Government policies affecting second homes and the rental market.

10 Non-Domestic Rates (NDR) revenue for 2025-26 was £3,079 million, £27 million higher than our forecast, giving a relative error of less than one per cent. The overall forecast error was made up of larger offsetting errors from less revenue being lost through the proposals and appeals process than forecast and higher cost of reliefs, including backdated reliefs.

11 Scottish Landfill Tax (SLfT) had a relative forecast error of 39 per cent, with outturn of £56 million being £16 million higher than we forecast. This was because we over-estimated incineration capacity and because the Biodegradable Municipal Waste ban was not enforced at the start of 2026. Both these factors led to more waste than expected entering landfill.

## Social security

12 Total spending on devolved social security in 2025-26 was £6.8 billion. This was £179 million (3 per cent) below our £6.9 billion forecast.

13 This was mainly because of lower spending than we had expected on Adult Disability Payment and Child Disability Payment. The number of people receiving disability payments did continue to rise, but for the first time this growth was not as fast as we had forecast.

14 This lower spending on disability payments was partly offset by in-year policy changes, which added £98 million to spending, mainly because of the changes to Pension Age Winter Heating Payment that were announced in June 2025.

# Chapter 1 Introduction

## Background

1.1 This report provides an evaluation of our recent forecasts. We publish our forecast evaluation report to

- provide transparency about our forecasts
- help users to understand the limitations and likely degree of accuracy of our forecasts
- learn lessons to improve our forecasts
- aid understanding of the effect of our forecast errors on the Scottish Budget, including reconciliations

1.2 Forecast error is the difference between the outturn and the forecast for a particular variable. Relative forecast error is the forecast error as a fraction of the forecast value.

| Definition of forecast error | Definition of relative forecast error |
|---|---|
| Error = Outturn – Forecast | Relative error = (Outturn – Forecast) ÷ Forecast |

1.3 Forecast errors are inevitable and do not necessarily mean that the forecasting method was flawed. The future cannot be known with certainty and sometimes a sound method can produce a large forecast error because of unexpected changes.

1.4 To help users understand what represents a reasonable forecast error we may provide comparisons with forecasters who produce forecasts of a similar range of variables.

1.5 Our aim is to reduce our average forecast error by learning lessons from previous forecasts.

1.6 Forecasts can differ from outturn for many reasons, including:

- **Data revisions:** Sometimes, the data on which we base our forecasts is revised, or new data is released that was not previously available. This can change our understanding of historical data and our judgement on future trends.
- **Modelling errors:** We use a large number of models to create our forecasts. These generally rely on identifying trends in historical data and use a combination of the historical patterns and theory to predict how these trends will change over time. Sometimes, we may incorrectly identify historical trends, or misjudge how a trend might change in the future.
- **Unexpected events:** Some events cannot be predicted in advance, such as the COVID-19 pandemic, or the Russian invasion of Ukraine.

- **Incorrect judgements:** Forecasting relies on a number of judgements. This is often done when there is limited evidence on which to base a forecasting decision and can mean misjudgements are made.

- **Analytical mistakes and human error:** While we see simplicity as an asset in our models, some are necessarily large and complex. For example, our Income Tax model projects the tax records of thousands of individual taxpayers. Within this model some relationships can be incorrectly specified which we call analytical error. But there can also be coding mistakes and spreadsheet errors which are human error.

- **Changes in policy:** The Scottish or UK Government may make changes to policies or funding after we have produced our forecasts. We cannot predict government policy in advance.

1.7 Where possible, we have tried to understand which categories have contributed to our forecast errors. However, in many cases, errors will be a result of several overlapping reasons. We may not always be able to disentangle how different factors have contributed to our overall forecast error. Nevertheless, attempting to identify the sources of forecast error is an important first step in making improvements and understanding what actions to take. For example, if we see modelling errors, we work to develop a better model. If the error was because of analytical mistakes, we would review our internal quality assurance processes.

1.8 We also compare some of our errors to measures of our historical performance. In some areas, we do not have a long forecasting record, particularly in social security where several payments are still relatively new and have changed substantially in recent years.

1.9 Our use of the terms ‘average error’ and ‘average absolute error’ can be illustrated with an example: a forecast with errors of positive 1 per cent and negative 1 per cent over the last two years would have an average error of 0 per cent, but average absolute error of 1 per cent.

1.10 We have published comprehensive forecast performance charts providing the full forecast history of the main forecasts included in this publication compared with the outturn data. We have made these charts available in the supplementary figures published on our website to accompany each chapter.

# Chapter 2
# Economy

## Introduction

2.1 Since producing our December 2024 forecast, a number of factors have meant that Scottish GDP growth in 2025-26 of 1.0 per cent was lower than our forecast of 1.6 per cent. These include the US Government's announcement in early 2025 of a range of new import tariffs, which created volatility, and higher global energy and food prices than expected.

2.2 As a result, we over-forecast GDP growth by 0.6 percentage points. We judge this to be a reasonable forecast error, that is in line with to our historical average absolute error, excluding the COVID-19 period.

2.3 Overall, the latest outturn shows the Scottish and UK economies continue to experience low growth by historical standards, consistent with the economic outlook in our forecasts. This low growth, below the pre-2008 annual average of 2 per cent, is due to demographic challenges, weak productivity growth, and ongoing uncertainty. In recent forecasts, we expect annual growth to average around 1.4 per cent over the five-year forecast horizon, although GDP growth in a single year can be above or below this rate.

## Gross Domestic Product

### Headline forecast error

2.4 In December 2024, we forecast Scottish GDP to grow by 1.6 per cent in 2025-26 compared with the previous year. As Figure 2.1 shows, the latest outturn estimate of GDP growth is 1.0 per cent, giving a forecast error of 0.6 percentage points.

**Figure 2.1: Evaluation of December 2024 forecast of GDP growth in 2025-26**

| Forecast (per cent) | Outturn (per cent) | Error (percentage points) | SFC historical average absolute error (percentage points) [1] | SFC historical average absolute error excluding COVID-19 (percentage points) [2] |
|---|---|---|---|---|
| 1.6 | 1.0 | -0.6 | 2.3 | 0.6 |

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Fiscal Commission – Forecast Evaluation Reports, Scottish Government (2026) GDP Quarterly National Accounts: 2026 Quarter 1 (January-March).

[1] Average absolute error since 2017. It summarises our latest forecast error and all the errors reported in our previous Forecast Evaluation Reports.

[2] This excludes the two years most affected by the COVID-19 pandemic (2020 and 2021).

Figures may not sum because of rounding.

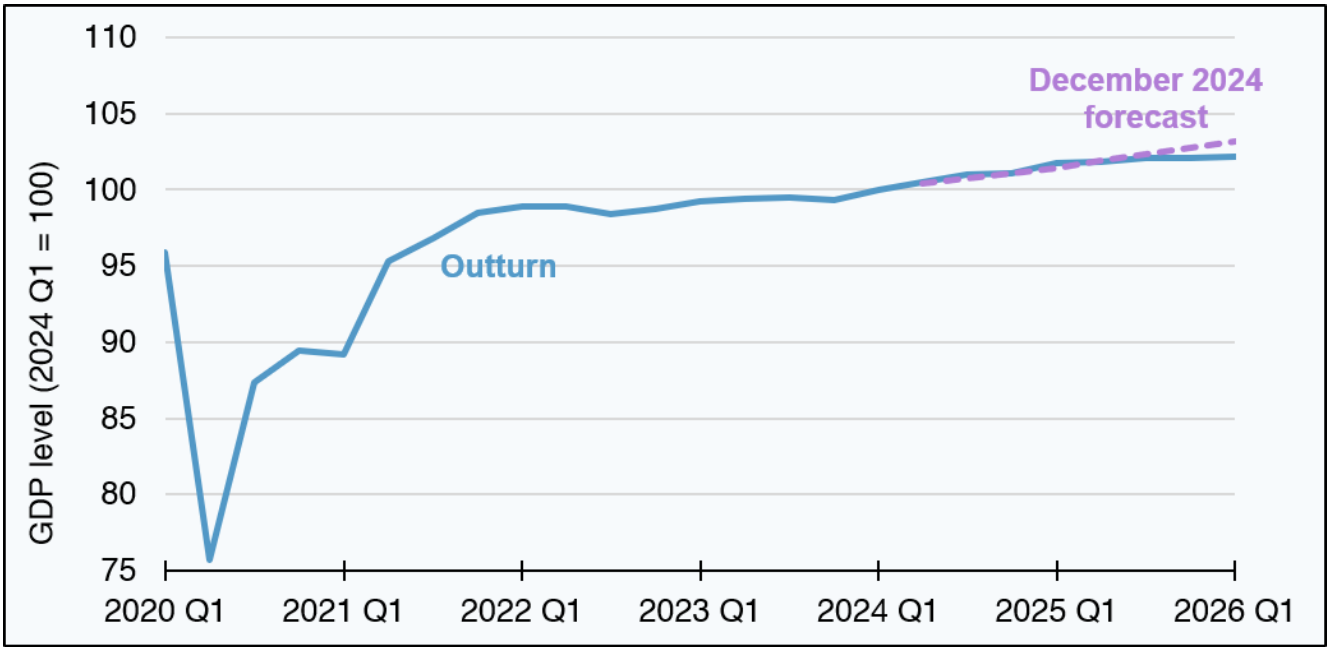
2.5 At the time of producing the December 2024 forecast, we were still seeing global uncertainty and instability including the ongoing conflict in Ukraine. However, there was evidence of improving economic conditions. For example, inflation had fallen back to the Bank of England's 2 per cent target in May 2024, mainly due to falling global energy prices. This allowed the Bank of England to cut interest rates in August 2024. Moreover, the UK Autumn Budget 2024 included a large increase in public spending which was expected to boost UK GDP in 2025-26, as reflected in the OBR's October 2024 forecast, with the effects on Scotland likely to broadly mirror those on the UK overall. Our GDP growth forecast for 2025-26 of 1.6 per cent was consistent with this evidence.

2.6 Since our December 2024 forecast, global energy and food prices have risen by more than expected, contributing to higher inflation and interest rates in the UK over 2025-26 than would otherwise have been the case. Global uncertainty rose sharply in early 2025 because of new trade tariffs in the United States and elsewhere, and remained elevated into 2026 following events in Venezuela and the escalation of the conflict in the Middle East. All of these challenges affected consumer and business confidence.[1] Despite this, GDP growth in 2025-26 remained positive and close to our forecast.

2.7 This is illustrated in Figure 2.2, which shows that our forecast of the level of GDP over 2025-26 is largely in line with outturn.

**Figure 2.2: Scottish GDP index, December 2024 forecast and outturn**

**GDP grew in 2025-26 despite higher global uncertainty, broadly in line with our forecast**




Description of Figure 2.2: Line graph showing our December 2024 forecast of GDP compared with the latest outturn, with data indexed so that 2024 Q1 equals 100. Outturn is slightly below our forecast for 2025-26.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government (2026) GDP Quarterly National Accounts: 2026 Quarter 1 (January-March).

[1] Fraser of Allander Institute (2026) Scottish Business Monitor Q1 2026.

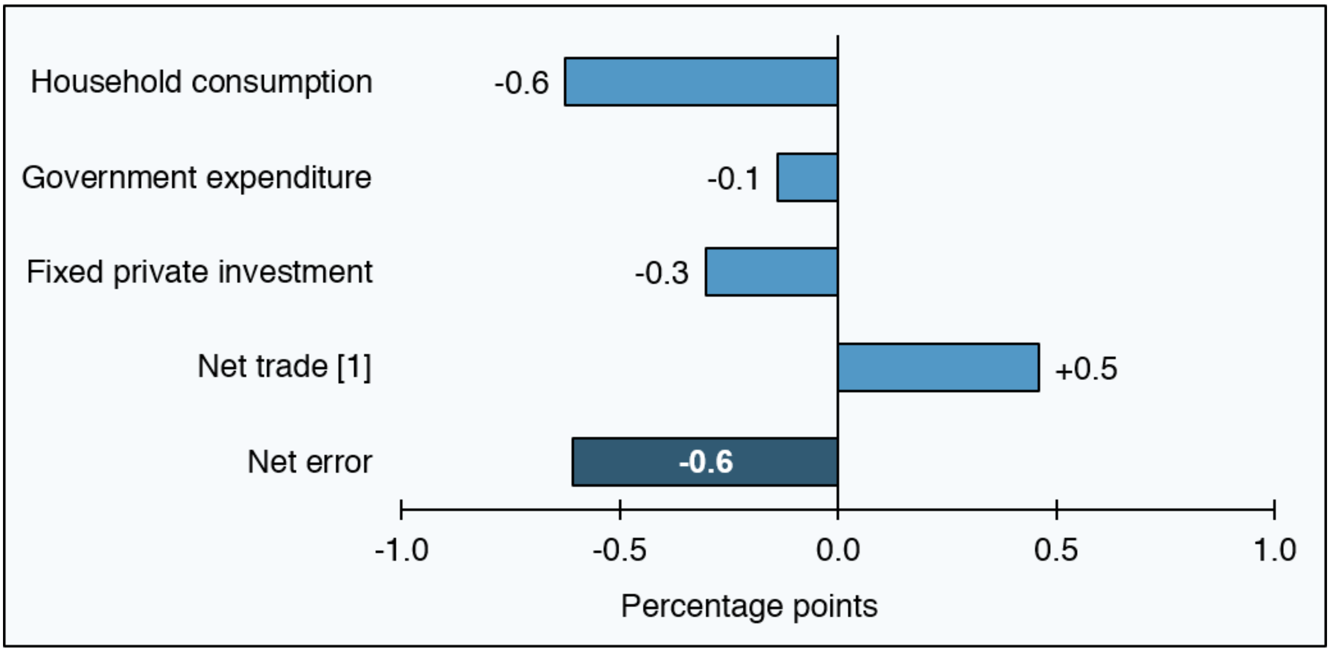
## Understanding our forecast error

2.8 Figure 2.3 shows the decomposition of our December 2024 GDP forecast error for 2025-26 by components of expenditure. Household consumption and, to a smaller extent, private sector investment and government expenditure underperformed our expectations in December 2024 resulting in over-forecasts by 0.6 percentage points, 0.3 percentage points, and 0.1 percentage points respectively. These are partly offset by an under-forecast of net trade, which is a relatively volatile component of GDP.

2.9 Household consumption accounts for almost two thirds of Scottish GDP. The main reason for our household consumption forecast error is that in December 2024 we expected real disposable household income (RDHI) in 2025-26 to grow modestly (at 0.8 per cent), after two years of strong growth in average earnings and RDHI, whereas the latest outturn shows it remained flat. This is because, while nominal disposable income growth was higher than our forecast (mainly reflecting higher-than-expected growth in nominal average earnings), this was offset by higher inflation.

**Figure 2.3: Decomposition of December 2024 GDP forecast error for 2025-26**

**Consumption and investment over-forecasts partly offset by net trade under-forecast**




Description of Figure 2.3: Bar chart showing contributions in percentage points to the GDP error from household consumption (over-forecast by 0.6 percentage points), government expenditure (over-forecast by 0.1 percentage points), fixed private investment (over-forecast by 0.3 percentage points), and net trade including residual (under-forecast by 0.5 percentage points).

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government (2026) GDP Quarterly National Accounts: 2026 Quarter 1 (January-March).

The net error is calculated as the sum of the components and so, to several decimal places, it may not exactly match the forecast error which is calculated as the difference between outturn and forecast.

[1] 'Net trade' category includes residual factors which are: changes in inventories, including balancing adjustments; and statistical discrepancy.

Figures may not sum because of rounding.

# Labour market

## Headline forecast error

2.10 Figure 2.4 shows the error in our December 2024 forecasts of employment and nominal earnings growth for 2025-26. Employment and earnings are the most important outputs from our economy forecast as they feed into our forecast of Scottish Income Tax. We expect Income Tax outturn data for 2025-26 to be published in summer 2027.

**Figure 2.4: December 2024 forecast error in employment and nominal earnings growth for 2025-26**

| Per cent, unless specified | Determinant | Forecast | Outturn [1] | Error (percentage points) |
|---|---|---|---|---|
| SFC December 2024 | Employment | 0.1 | -0.5 | -0.5 |
| SFC December 2024 | Average earnings | 3.7 | 5.1 | 1.4 |
| SFC December 2024 | Total earnings | 3.8 | 4.6 | 0.8 |

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government (2026) GDP Quarterly National Accounts: 2026 Quarter 1 (January-March), ONS (2026) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – July 2026.

Our source for total earnings (wages and salaries) is the Quarterly National Accounts for Scotland (QNAS).

Our measure of the number of employees is based on Real Time Information (RTI). This, together with an assumption about self-employment based on the Annual Population Survey, gives our measure of employment.

Average earnings are equal to QNAS total earnings divided by the number of employees. Earnings growth rates based on QNAS may differ from those based on RTI pay data.

[1] Outturn is as available at time of this publication and published in the supplementary figure S2.4.

Figures may not sum because of rounding.

## Understanding our forecast error for employment

2.11 Figure 2.4 shows that in December 2024 we over-forecast employment growth for 2025-26 by 0.5 percentage points, as our forecast was 0.1 per cent while outturn shows a fall of 0.5 per cent.[2,3,4]

2.12 At the time of producing the forecast, unemployment had been low and steady since the end of 2021-22 (at just below its assumed trend rate of 4 per cent over most of the period), consistent with tight labour market conditions.[5] Payrolled employment growth had slowed over 2024-25 in line with slower growth of the labour force. In December 2024 we expected these trends to continue into 2025-26, with employment remaining broadly flat.

2.13 Outturn based on RTI shows a small fall in employment. This slightly weaker labour market reflects a greater impact on business confidence and hiring intentions of the employer cost increases introduced in the UK Autumn Budget 2024, compared to what we assumed in our forecast. These include increases in employer National Insurance Contributions (NICs) and the National Minimum Wage, which resulted in headcount reductions or recruitment freezes. The weaker-than-expected labour market is also likely to reflect higher uncertainty following developments in international trade policy since our forecast.

## Understanding our forecast error for nominal average earnings

2.14 Figure 2.4 shows that in December 2024 we under-forecast nominal average earnings growth for 2025-26 by 1.4 percentage points, as our forecast was 3.7 per cent while outturn shows 5.1 per cent.

[2] Since the COVID-19 pandemic, because of quality issues with the Labour Force Survey (LFS), we have put more weight on Real Time Information (RTI) administrative data which has been more reliable than LFS estimates. The LFS (the official source of labour market data for the UK) is based on householders' self-reported survey data whereas RTI, which does not cover self-employment, is administrative data based on employers' payroll returns.

[3] In recent years, trends in LFS employment have diverged from trends in RTI payrolled employment. While this gap has now closed, partly reflecting improvements in the quality of the LFS, growth rates are still affected. For 2025-26, employment growth rates based on the LFS are 1.3 per cent for Scotland and 1.5 per cent for the UK, whereas those based on the RTI are -0.5 per cent for Scotland and -0.3 per cent for the UK. ONS (2026) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – July 2026, ONS (2026) HI11 Regional labour market: headline indicators for Scotland – July 2026, ONS (2026) A01: Summary of labour market statistics – July 2026.

[4] The divergence in LFS and RTI employment growth rates has implications for productivity growth rates, with ONS data for the UK showing output per hour growth in 2025-26 of 0.1 per cent based on the LFS and 2.1 per cent based on the RTI. ONS (2026) Productivity flash estimate and overview, UK: April to June 2026 and January to March 2026.

[5] A labour market is 'tight' if workers' supply of labour is low relative to firms' demand for labour. The tightness in the UK since 2021-22 has been due to factors such as: bottlenecks and mismatches in the wake of the COVID-19 pandemic following the rapid reopening of the economy; an ageing workforce, with more people leaving jobs than could be replaced in the short term; fewer EU migrants.

2.15 At the time of producing the forecast, nominal average earnings growth had been historically high since 2021-22 (above the annual average of around 3 per cent). This reflected higher inflation and labour market tightness.[6] In December 2024 we expected earnings growth to remain relatively strong in 2025-26. This is, in line with our view of the labour market remaining relatively tight, and of inflation being above the 2 per cent target (2.6 per cent in 2025-26), mainly due to persistent upward pressures from domestic factors. These factors included some ongoing labour market tightness, and also higher labour costs such as the rise in employer NICs being partly passed on to consumer prices.

2.16 Outturn shows that earnings growth was stronger than our forecast. One reason is that inflation in 2025-26 (3.4 per cent) was higher than we anticipated in December 2024, resulting in higher pay settlements. Higher inflation was triggered mainly by larger increases than expected from April 2025 in the Ofgem energy price cap and in water bills, as well as higher food prices.[7]

2.17 Another explanation relates to higher devolved public sector pay awards than expected. In our December 2024 forecast we assumed an average pay award of 3 per cent based on the Scottish Government's stated policy at the time. In its Public Sector Pay Policy as part of the 2025-26 Budget, the Scottish Government set out a 9 per cent pay increase over the three years to 2027-28, with 3 per cent allocated for the 2025-26 Budget.[8] However, the pay awards for 2025-26 proved to be higher than 3 per cent, as we reported in our January 2026 forecast publication.[9]

# Conclusions

2.18 In this report, as in recent ones, the forecast being evaluated was produced during a period of significant global uncertainty. Despite this, the performance of the Scottish economy has been broadly in line with our forecasts.

2.19 We continue to regularly review and develop our models and judgements, as well as learn lessons from our errors to improve our forecast accuracy. Given the ongoing global instability, it is also important we clearly communicate the uncertainties around our central forecast and the range of possible effects that shocks can have on the economy and public finances. This helps ensure that forecast errors are better understood, and that our forecast remains relevant and valuable in the face of rapidly changing economic conditions.

[6] When prices are higher after an inflation shock and the labour market is tight, firms are more likely to raise wages because they face greater competition in attracting or retaining workers, while workers bargain for higher nominal wages to retain real earnings. Higher labour costs can then cause firms to raise prices to retain profit margins, leading to inflation persistence.

[7] Food prices in 2025-26 rose by more than expected because of global factors such as higher commodity prices as well as domestic factors including higher labour and packaging costs in the UK. Box E in Bank of England (2025) Monetary Policy Report – August 2025.

[8] Scottish Government (2024) Scottish Budget 2025 to 2026: public sector pay policy.

[9] Paragraph 2.85 in Scottish Fiscal Commission (2026) Scotland's Economic and Fiscal Forecasts – January 2026.

# Chapter 3
# Tax

## Introduction

3.1 In this chapter we evaluate our December 2023 forecast of Scottish Income Tax (SIT) for 2024-25. We also evaluate our December 2024 forecasts of the devolved taxes for 2025-26 covering Non-Domestic Rates (NDR), Land and Buildings Transaction Tax (LBTT), and Scottish Landfill Tax (SLfT).

3.2 Figure 3.1 compares our forecasts against outturn. SIT outturn for 2024-25 was £18.6 billion which is £0.2 billion less than our forecast of £18.8 billion. For the devolved taxes, total revenue was £4.1 billion with a very small relative error.

3.3 Following publication of outturn data, we know that a negative £720 million Income Tax reconciliation will be applied in the 2027-28 Scottish Budget.[10] We discuss this reconciliation and provide further analysis on the Income Tax net position in our Fiscal update published alongside this report.[11] We will discuss the total reconciliation from all devolved taxes to be applied in the 2026-27 Scottish Budget in our next Scotland's Economic and Fiscal Forecasts publication.

**Figure 3.1: Summary of tax forecast errors**

| £ million, unless specified | Forecast | Outturn | Error | Relative error (per cent) |
|---|---|---|---|---|
| Scottish Income Tax [1] | 18,844 | 18,635 | -209 | -1 |
| Other devolved taxes, of which: [2] | 4,111 | 4,087 | -23 | -1 |
| Non-Domestic Rates | 3,052 | 3,079 | 27 | 1 |
| Land and Buildings Transaction Tax [3] | 1,019 | 952 | -67 | -7 |
| Scottish Landfill Tax [4] | 40 | 56 | 16 | 39 |

Source: Scottish Fiscal Commission Scotland's Economic and Fiscal Forecasts, HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025, Scottish Government – Non-domestic rates income statistics, Revenue Scotland (2026) Provisional Outturn Data 2025/26

[1] The Scottish Income Tax average only covers forecasts for 2018-19 to 2024-25.

[2] The 'Other devolved taxes' category shows an unweighted average of the historical average error for each individual tax.

[3] LBTT revenue is net of Additional Dwelling Supplement (ADS) repayments, and excludes penalties, interest, and revenue losses.

[4] SLfT revenue excludes penalties, interest, and revenue losses.

Figures may not sum because of rounding.

[10] This figure is provisional and may be revised before the 2027-28 Scottish Budget.

[11] Scottish Fiscal Commission (2025) Fiscal Update – August 2026.

**Figure 3.2: Average forecast error, 2018-19 to 2025-26**

| Per cent | Historical average error | Historical average absolute error |
|---|---|---|
| Scottish Income Tax [1] | 2 | 6 |
| Other devolved taxes, of which: [2] | 2 | 13 |
| Non-Domestic Rates | -5 | 5 |
| Land and Buildings Transaction Tax | 2 | 13 |
| Scottish Landfill Tax | 18 | 24 |

Source: Scottish Fiscal Commission Scotland's Economic and Fiscal Forecasts, HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025, Scottish Government – Non-domestic rates income statistics, Scottish Government (2026) Fiscal framework data annex: March 2026

[1] The Scottish Income Tax average only covers forecasts for 2018-19 to 2024-25.

[2] The 'Other devolved taxes' category shows an unweighted average of the historical average error for each individual tax.

Figures may not sum because of rounding.

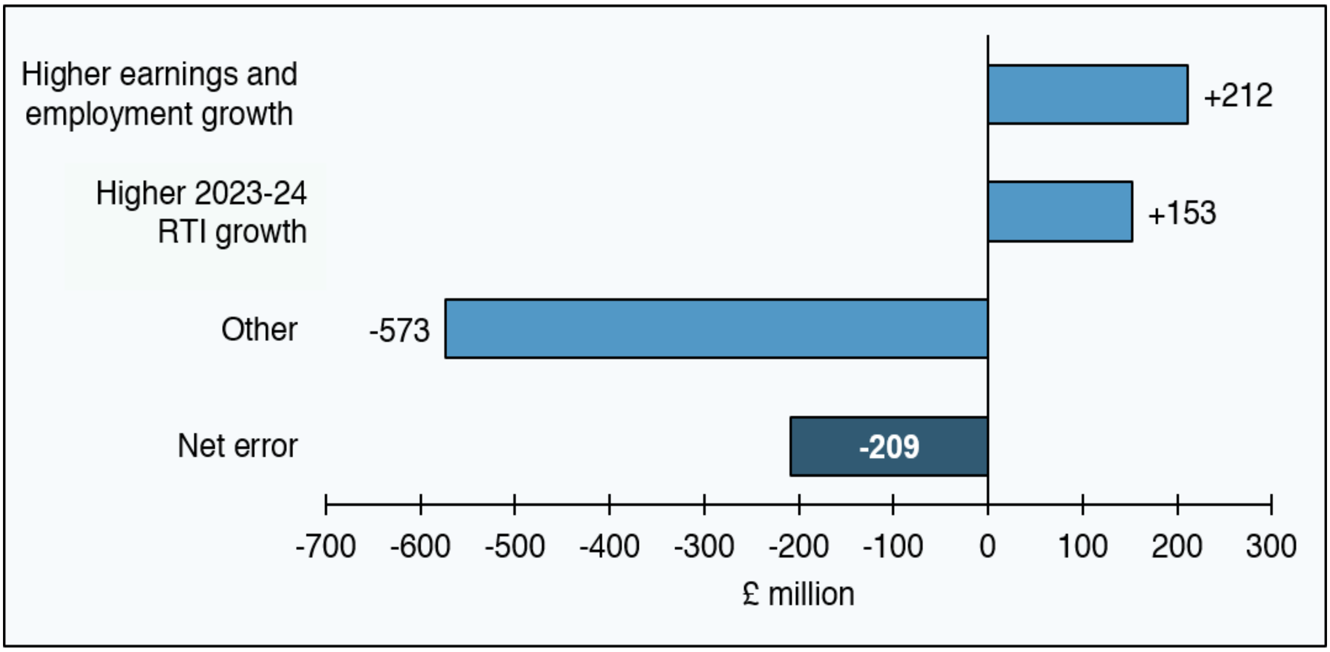
# Scottish Income Tax

3.4 In July 2026, HM Revenue and Customs (HMRC) published Scottish Income Tax outturn statistics for 2024-25.[12] In this section we evaluate the forecast we published in December 2023 which was used to set the 2024-25 Budget. Most of the error is explained by changes in the group of taxpayers that includes high earning individuals and Self Assessment taxpayers.

[12] HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025.

**Figure 3.3: Decomposition of the December 2023 SIT forecast error for 2024-25**

**The largest component of our error is Other, which is mainly caused by lower than expected income from higher earners**




Description of Figure 3.3: A bar chart showing the main factors contributing to our Scottish Income Tax forecast error. Outturn was lower than forecast with a large negative 'Other' error being partly offset by positive Economy and RTI errors.

Source: Scottish Fiscal Commission (2023) Scotlands Economic and Fiscal Forecasts - December 2023, HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025.

Figures may not sum because of rounding.

3.5 With a relative forecast error of 1.1 per cent, this is our smallest ever error for a budget setting Income Tax forecast. Our second smallest budget setting forecast error was for 2019-20. At the time of our evaluation of 2019-20 in August 2021, we found the forecast error to be 1.3 per cent. It is worth noting that more recent data revisions to Income Tax outturn data by HMRC has made our 2019-20 forecast error even smaller at 0.6 per cent. However, given these revisions also change the base data the forecasts were built on, our standard approach is not to re-evaluate forecasts based on revised data.

## Understanding the December 2023 forecast error

3.6 Our relative forecast error is small but negative showing that we over-estimated Scottish Income Tax. The error in the BGA is larger and also contributes towards a negative reconciliation. This means that a large negative reconciliation will be applied in the 2027-28 Scottish Budget. We discuss this in our Fiscal Update publication.[13]

[13] Scottish Fiscal Commission (2026) Fiscal Update – August 2026.

3.7 Figure 3.3 shows how different parts of our Income Tax forecast contributed to the overall forecast error. We calculate these figures by re-running our forecasts using more recent data. This allows us to identify the share of our error driven by these identifiable components. ‘Other’ is the remainder which captures non-identifiable components of our error such as changes in the income distribution and taxpayer behavioural response.

3.8 Our December 2023 forecasts were made at a time when both the UK and Scottish economies were affected by high inflation. As discussed in our August 2025 Forecast Evaluation Report, we underestimated inflation and nominal earnings in 2024-25, which has also affected our income tax forecast for 2024-25.[14] Using our latest economic determinants, based on outturn data, would have increased our forecasts by £212 million.

3.9 In December 2023 we forecast growth in 2023-24 RTI using partial data for the year. We used this estimate to inform the growth rate applied in our SIT forecast. Using the full year 2023-24 RTI data would have indicatively increased our forecast by £153 million.

**Other error, high income taxpayers and Self Assessment**

3.10 We do not currently have sufficient data to provide a detailed breakdown of the ‘Other’ category. In this section we discuss some factors that may have contributed.

3.11 Given the higher tax rates applied to taxpayers with higher incomes, Income Tax revenues will rise by more when growth is concentrated at the top end of the income distribution, and conversely tax revenues will grow more slowly if growth is concentrated at the lower end of the income distribution. For 2024-25, we believe slower income growth among taxpayers with higher incomes than implied by our forecast, has contributed to lower overall revenue growth. However, we do not yet have taxpayer distribution data for 2024-25, so cannot yet explore this in detail.

3.12 We receive information on the taxpayer income distribution from the Public Use Tape (PUT). In our December 2023 forecast we used PUT data for 2021-22 which we had adjusted to match the Income Tax outturn for 2022-23. This adjusted data may not have matched the actual distribution of taxpayers in 2024-25. For example, as shown in Figure 3.4, outturn tax revenues for top rate taxpayers were nearly £400 million lower than in our forecast. Tax revenues were also lower for advanced rate taxpayers. This suggests lower than expected growth in earnings among higher earners, which will have contributed to lower overall tax revenue growth.

[14] Scottish Fiscal Commission (2025) Forecast Evaluation Report – August 2025.

**Figure 3.4: Scottish Income Tax forecast and outturn by band**

| £ million | Forecast | Outturn | Difference |
|---|---|---|---|
| Starter | 59 | 53 | -6 |
| Basic | 1,750 | 1,442 | -309 |
| Intermediate | 4,046 | 4,486 | 439 |
| Higher | 5,399 | 5,536 | 137 |
| Advanced | 3,241 | 3,166 | -75 |
| Top | 4,348 | 3,953 | -395 |
| Total | 18,844 | 18,635 | -209 |

Source: Scottish Fiscal Commission (2023) Scotlands Economic and Fiscal Forecasts – December 2023, HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025.

Figures may not sum because of rounding.

3.13 In Figure 3.5 we compare forecast Scottish Income Tax taxpayer numbers with outturn by band. Increasing earnings for taxpayers in starter and basic rate bands can move them into bands which pay higher rates. This resulted in higher-than-expected revenue in the intermediate and higher bands and offsets the impact of lower-than-expected revenues in starter and basic bands. We can also see the number of advanced and top rate taxpayers was higher than expected, despite the lower-than-expected revenues. This suggests lower tax revenues are explained by lower-than-expected average incomes in this group.

**Figure 3.5: Number of Scottish Income Tax taxpayers forecast and outturn by band**

| Number of taxpayers | Forecast | Outturn | Difference |
|---|---|---|---|
| Starter | 266,100 | 258,100 | -8,000 |
| Basic | 1,156,700 | 1,059,200 | -97,500 |
| Intermediate | 917,900 | 1,045,700 | 127,800 |
| Higher | 493,600 | 516,800 | 23,100 |
| Advanced | 113,800 | 115,300 | 1,500 |
| Top | 40,200 | 41,400 | 1,200 |
| Total | 2,988,300 | 3,036,400 | 48,100 |

Source: Scottish Fiscal Commission (2023) Scotlands Economic and Fiscal Forecasts - December 2023, HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025.

Figures may not sum because of rounding.

3.14 Income Tax paid through Self Assessment is a volatile component of our forecasts. We assume Self Assessment income increases in line with private sector earnings. Self Assessment income growth can vary markedly from private and public sector earnings for which we have regularly updated data. Tax revenues paid through Self Assessment also appear to have grown more slowly than might have been expected given our forecasts.

3.15 HMRC are phasing in Making Tax Digital (MTD) across UK taxes. From April 2026 some taxpayers will be required to report quarterly income and submit an online return, which may improve the quality and frequency of data on Self Assessment. This is because taxpayers will be required to report quarterly income and expenditure and then submit an annual online return.

## Policy changes introduced in 2024-25

3.16 In the 2024-25 Scottish Budget, the Scottish Government made two changes to Income Tax policy. It introduced a new advanced tax rate of 45 per cent for taxpayers with taxable incomes between £75,000 and £125,140. Also, the top rate was increased to 48 per cent from 47 per cent.

3.17 At the time we forecast the two policies would raise £82 million. This is net of a £118 million forecast behavioural effect which is highly uncertain. Behavioural change covers a wide range of responses to tax policy, which may include:

- greater use of tax planning
- economic responses, such as increasing or reducing hours worked
- migration, both into and out of Scotland
- tax avoidance
- tax evasion

3.18 Even with the publication of outturn data for 2024-25, it is not possible to know with any certainty the scale of these behavioural responses. Income Tax revenues can rise and fall for many reasons, particularly among those with high incomes, and it is not possible to directly isolate the impact of the policy change in these outturn figures.

3.19 Our latest estimate of the revenue raised by the 2024-25 income tax policies is £78 million.[15] While behaviour responses are highly uncertain, we remain satisfied that our estimates of such effects are reasonable and robust.[16] HMRC has published studies which attempt to estimate the behavioural response to previous income tax policy changes in Scotland using the detailed taxpayer data they hold, and even these estimates are highly uncertain. We'll continue to work with HMRC to better understand taxpayer behaviour responses.

# Non-Domestic Rates

3.20 In this section we evaluate our December 2024 forecast of Non-Domestic Rates (NDR) revenue in 2025-26 against provisional outturn data from notified returns.

3.21 NDR revenue for 2025-26 was £3,079 million, £27 million higher than our forecast. This is a relative error of less than one per cent. Box 3.1 provides more detailed information on the Non-Domestic Rating Account and how forecast and outturn differences affect the balance of the NDR pool.

### Understanding our forecast error

3.22 Figure 3.6 shows the forecast error is made up of errors in both directions that mostly offset one another. The outturn showed less revenue was lost through the proposals and appeals process than forecast, increasing revenue relative to the forecast[17]. This was largely offset by a higher cost of reliefs, and bad debts and bad debts collected.

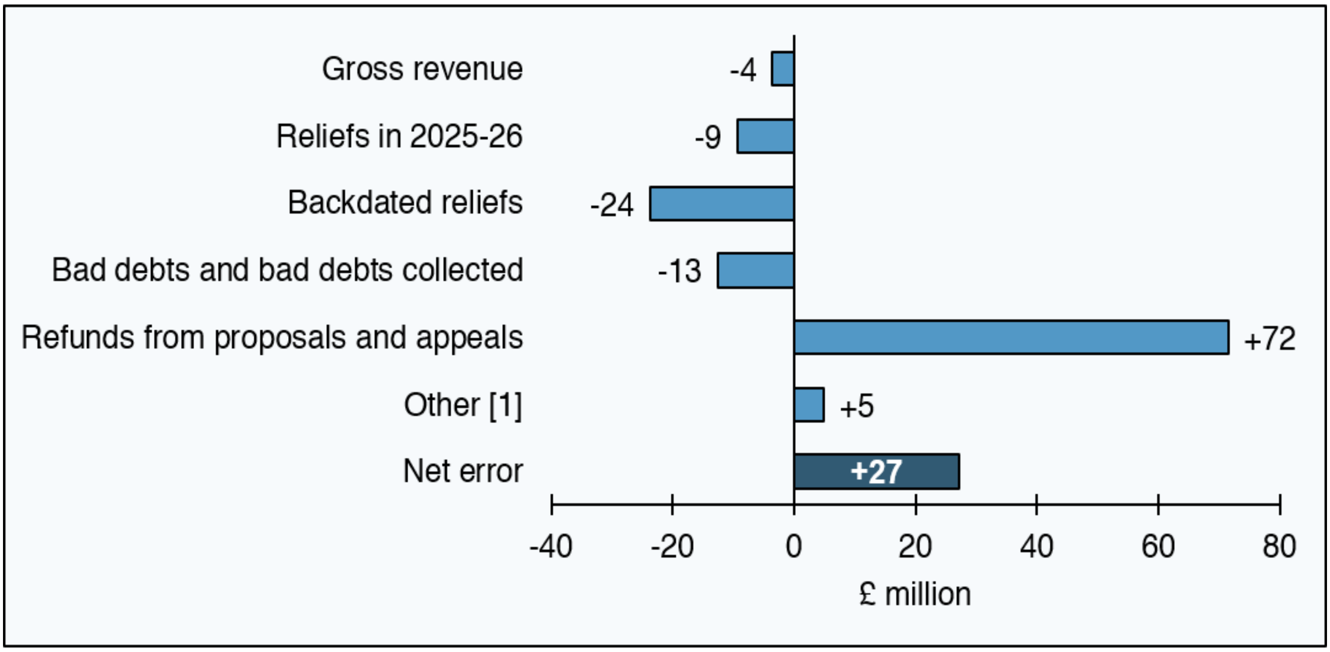
[15] Scottish Fiscal Commission (2026): Scotland's Economic and Fiscal Forecasts – January 2026.

[16] See Box 4.2 in Scottish Fiscal Commission (2023): Scotland's Economic and Fiscal Forecasts – December 2023.

[17] Taxpayers can formally challenge the rateable value of a property through the proposals and appeals process. If a challenge is successful, the rateable value of the property is reduced. Where the reduction applies to previous years, the local authority must refund rates that should not have been paid.

**Figure 3.6: Decomposition of the December 2024 NDR forecast error for 2025-26**

**The overall forecast error was small at £27 million (0.9 per cent of forecast revenue)**




Description of figure 3.6: Bar chart showing the main factors contributing to the NDR forecast error. The components present largely offset each other. The largest positive contribution was from lower-than-expected refunds arising from proposals and appeals, while higher than expected costs of reliefs and backdated reliefs reduced revenue.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government – Non-domestic rates income statistics.

[1] 'Other' category includes write-offs, late deductions and additions to the role and interest of refunds of overpayments, along with other small adjustments to NDR revenue.

Figures may not sum because of rounding.

### Refunds from proposals and appeals

3.23 Proposals and appeals are challenges to the rateable value assigned to a property at revaluation. Successful proposals and appeals can reduce the rateable value of a property. Where the reduction applies to previous years, local authorities are required to refund rates that should not have been paid. The 2023 revaluation introduced a new two-stage proposals and appeals process, replacing the previous appeals system.

3.24 The December 2024 forecast was produced during the first valuation cycle operating under the new proposal and appeals process, when there was limited evidence on how losses would emerge under the new proposals and appeals process. At that point, only limited information was available on the volume, timing and value of successful challenges under the new system.

3.25 The largest component of the forecast error was from refunds arising from the proposals and appeals process. In December 2024, we forecast that refunds from successful proposals and appeals would reduce revenue by £216 million, but the notified outturn contained a reduction of £145 million.

3.26 The forecast error shows that the level of refunds arising from successful proposals and appeals was lower than expected. Refunds from proposals and appeals are a relatively small but volatile component of the forecast, as outcomes depend on the timing, value, and resolution of individual cases.

3.27 Experience from the 2023 cycle will provide a stronger evidence base for future forecasts under the same process, although uncertainty remains around the scale of losses that may ultimately arise under the new system.

### Reliefs

3.28 Our forecast of the cost of reliefs and backdated reliefs was £33 million lower than the outturn data shows. Reliefs in 2025-26 were £9 million higher than forecast, while backdated reliefs were £24 million higher than forecast.[18]

3.29 The largest error within reliefs was in our costing of the Small Business Bonus Scheme (SBBS). This relief resulted in £14 million more in NDR revenue being foregone than we forecast. In December 2024 we expected the cost of SBBS to decrease slightly in 2025-26. However, outturn data showed that the cost of the scheme continued to increase which contributed to the error. As the most expensive relief, relatively small errors in the SBBS can have a noticeable impact on the overall reliefs forecast.

3.30 The error in SBBS was partly offset by an over-forecast of Small Business Transitional Relief (SBTR), which ended up costing £12 million less in NDR revenue foregone than forecast. As this relief is designed to ease the transition for properties that lose some or all of their SBBS entitlement following revaluation, the two errors are likely related. Evidence from the first two years of the valuation cycle suggested that our methodology was overestimating the cost of SBTR. In the 2025 Medium-Term Financial Strategy, we revised the methodology to better align our forecast with observed outturn data.

3.31 Bad debts and bad debts collected reduced revenue by around £13 million more than forecast. Bad debts are amounts that local authorities consider unlikely to be collected, while bad debts collected are amounts that are recovered after previously being written off. We forecast these components using recent outturn trends, but they can be volatile year to year, making them difficult to predict accurately.

**Box 3.1: Non-Domestic Rating Account**

We forecast the amount notionally contributed by local authorities to the NDR pool, known as the Contributable Amount of NDR. This is pooled at a national level before being redistributed to local authorities as part of the Local Government Finance Settlement. The amount redistributed to local authorities is known as the Distributable Amount.

In December 2024, we provided an illustrative projection of the cumulative balance of the Non-Domestic Rating Account (also known as the NDR pool) showing a deficit of £89 million in 2025-26. This was based on our forecast of the Contributable Amount, the Distributable Amount set by the Scottish Government for the 2025-26 Budget, and our

[18] Backdated reliefs arise when a taxpayer is subsequently found to have been eligible for relief in an earlier year and receives a refund.

estimate of adjustments from current and previous years that affect the cumulative balance. Figure 3.7 shows the difference between our forecast and the final balance. The provisional balance is based on the most recent figures.

**Figure 3.7: Provisional balance of the Non-Domestic Rating Account in 2025-26**

| £ million | SFC illustrative projection | Provisional outturn | Difference |
|---|---|---|---|
| Distributable amount (A) | 3,114 | 3,114 | 0 |
| Provisional contributable amount (B) | 3,052 | 3,271 | 219 |
| Forecast contributable amount (C) | 3,052 | 3,079 | 27 |
| In-year adjustment (D = B – A) | -62 | 157 | 219 |
| Prior year adjustment (E = prior year's C – prior year's B) | -106 | -132 | -27 |
| Total adjustment (F = D + E) | -168 | 25 | 193 |
| Cumulative balance (G = prior year's G + F) | -89 | 102 | 190 |

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government – Non-domestic rates income statistics.

Figures may not sum because of rounding.

The provisional balance is affected by several factors. Contributions are determined by local authorities' own estimates of the contributable amount for the year ahead, which are submitted to the Scottish Government early in the financial year. The Distributable Amount (A) is set at each Scottish Budget and is unchanged. The prior year adjustment (E) for 2025-26 reflects the difference between the previous year's forecast Contributable Amount (C) and Provisional Contributable Amount (B). For years where notified or audited outturn data is available, this is reflected in the Forecast Contributable Amount (C).

In the provisional outturn for 2025-26 the cumulative balance is in surplus by £102 million, compared with our projection of a deficit of £89 million. This is largely because the provisional contributable amount was £219 million higher than projected for 2025-26. The difference reflects a combination of factors affecting the NDR pool, including revisions to local authorities' estimates of NDR income and subsequent adjustments made to the amounts paid into the pool.

# Land and Buildings Transaction Tax

3.32 This section evaluates our December 2024 Budget-setting forecast of Land and Buildings Transaction Tax (LBTT) revenue in 2025-26 using provisional outturn data and management information from Revenue Scotland. We forecast three components of LBTT: residential LBTT, the Additional Dwelling Supplement (ADS), and non-residential LBTT.

3.33 Figure 3.8 shows that in December 2024 we forecast total revenue for 2025-26 of £1,019 million. The provisional outturn is £952 million, which is £67 million lower than we forecast, giving a relative error of negative 7 per cent. Outturn fell short of our forecast by 1 per cent for residential LBTT, 23 per cent for net ADS, and 2 per cent for non-residential LBTT.

3.34 The largest source of error was ADS, where outturn was £59 million lower than forecast. Residential and non-residential LBTT were both close to forecast in aggregate, although there were offsetting errors within each component. The following sections consider these errors in more detail.

**Figure 3.8: Headline evaluation – December 2024 forecast of 2025-26 LBTT revenue**

| £ million, unless specified | Forecast | Outturn | Error | Relative error (per cent) |
|---|---|---|---|---|
| Residential LBTT | 525 | 522 | -3 | -1 |
| Additional Dwelling Supplement (ADS) | 258 | 199 | -59 | -23 |
| Non-residential LBTT | 235 | 231 | -4 | -2 |
| Total | 1,019 | 952 | -67 | -7 |

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Revenue Scotland (2026) Provisional Outturn Data 2025/26.

LBTT revenue is net of ADS repayments and excludes penalties, interest, and revenue losses.

Outturn is provisional and may change once audited figures are available.

Figures may not sum because of rounding.

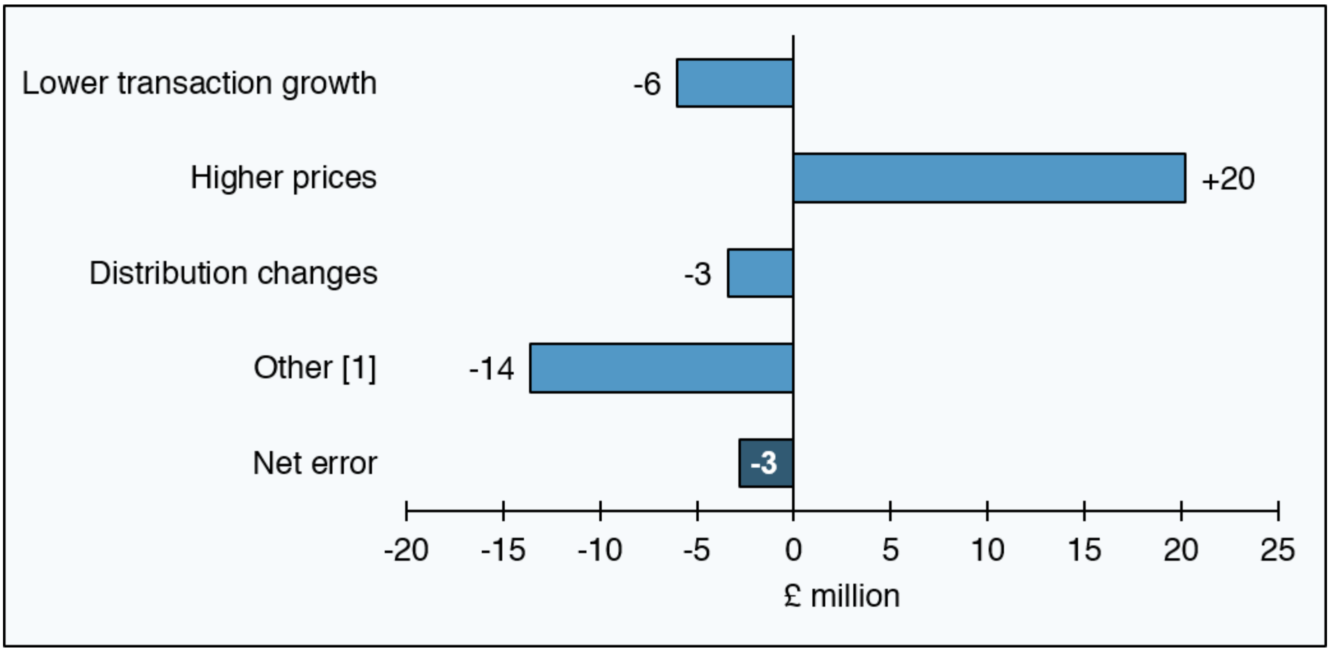
3.35 This year's forecast error was smaller in both relative and absolute terms than the error reported in the August 2025 Forecast Evaluation Report. Our December 2024 forecasts error was also smaller than our long-term average in absolute terms.

## Residential LBTT

3.36 Revenue from residential LBTT was £522 million, 1 per cent lower than our forecast of £525 million. Figure 3.9 shows the decomposition of this error. Higher-than-expected price growth increased revenue relative to forecast. However, this was more than offset by fewer transactions and a shift in the distribution of transactions towards lower-priced properties. Other sources of error include the profile of transactions through the year, which affected our in-year adjustment, and greater use of reliefs than expected.

**Figure 3.9: Decomposition of the December 2024 Residential LBTT forecast error for 2025-26**

**Lower transaction growth, and a greater share of less expensive house transactions offset the positive error caused by higher price growth**




Description of Figure 3.9: Bar chart showing the main contributions to the net LBTT forecast error. The largest negative contributions are the distribution of transactions, lower overall transactions, and other errors; Stronger than expected price growth partly offsets these effects.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Revenue Scotland – Provisional LBTT Outturn Data 2025/26, Revenue Scotland (2026) Forecasting Data – July 2026.

[1] 'Other' category includes the effect of reliefs and the residual forecast error.

Figures may not sum because of rounding.

3.37 Our residential LBTT forecast applies forecasts for growth in prices and transactions across the distribution of property sales in Scotland. In broad terms, this means the forecast changes the overall scale of the tax base while retaining assumptions about how transactions are distributed across price bands.

3.38 Our key determinants are growth in residential property prices and in the number of transactions. Errors in these determinants can interact. For example, stronger prices may affect transaction volumes, and can also move transactions into higher tax bands. We continually review our approach in forecasting the housing market and compare our assumptions with the OBR and independent forecasters, including those reported in HM Treasury's forecasts for the UK economy.

3.39 Figure 3.10 compares our December 2024 forecasts for Scottish residential price and transaction growth with the OBR's forecasts and provisional outturn from Registers of Scotland. We forecast price growth of 2.3 per cent, compared with outturn growth of 4.2 per cent, and transaction growth of 5.8 per cent, compared with outturn growth of 4.6 per cent.

**Figure 3.10: Residential LBTT Determinants – December 2024 forecast of 2025-26 LBTT revenue**

| Per cent | SFC | OBR | Outturn |
|---|---|---|---|
| Price forecast | 2.3 | 1.1 | 4.2 |
| Transactions forecast | 5.8 | 5.7 | 4.6 |

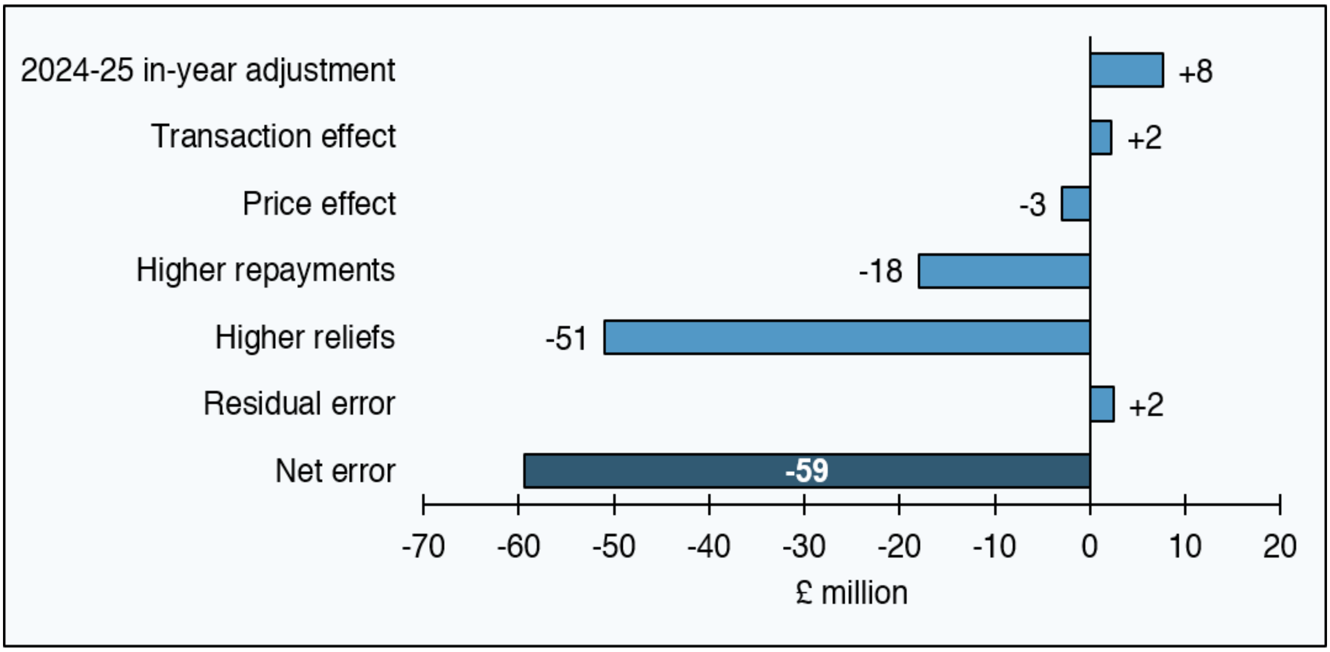
Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts - December 2024; Office for Budget Responsibility (2024) October 2024 Economic and Fiscal Outlook; Registers of Scotland (2026) Property Market Report 2025-26.

## Additional Dwelling Supplement (ADS)

3.40 Revenue from net ADS, which is revenue after reliefs and repayments, was £199 million in 2025-26. This was £59 million, or 23 per cent, lower than our forecast of £258 million. Figure 3.11 shows the decomposition of this error. The main source was reliefs not being accounted for in our forecast, followed by higher-than-expected repayments. Errors in transaction volumes and prices broadly offset one another.

**Figure 3.11: Decomposition of the December 2024 ADS forecast error for 2025-26**

**Higher than forecast ADS reliefs and repayments are the main sources of error**




Description of Figure 3.11: Bar chart showing the main contributions to the net ADS forecast error. The largest negative contributions are the reliefs and repayments; a positive in year adjustment and residual error partly offsets these effects.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Revenue Scotland Provisional LBTT Outturn Data.

Figures may not sum because of rounding.

3.41 In December 2024, we did not have data on the value of reliefs claimed on ADS transactions. Instead, we assumed that our figure for gross ADS included was net of reliefs. We have since identified this is not the case and we now receive data on gross ADS from Revenue Scotland that is presented as both net and gross of reliefs. However, this was not included in December 2024 and has led to a substantial forecast error.

3.42 Figure 3.12 shows how ADS reliefs have risen from £2 million in 2021-22 to £51 million in 2025-26. We are not clear exactly why reliefs have risen this much over the past few years and are working with Revenue Scotland to gain a greater understanding ahead of our next set of forecasts.

3.43 Our January 2026 forecast of ADS included a reliefs adjustment based on the value of relief claimed in 2024-25. This is something we will review in our forecast accompanying the 2027-28 Scottish Budget.

**Figure 3.12: Value of reliefs claimed on ADS transactions, 2021-22 to 2024-25**

| Year | ADS relief claimed (£ million) |
|---|---:|
| 2021-22 | 2 |
| 2022-23 | 8 |
| 2023-24 | 20 |
| 2024-25 | 36 |
| 2025-26 | 51 |

Source: Scottish Fiscal Commission, Revenue Scotland (2026) LBTT Forecasting Data – July 2026.

3.44 Repayments were the second-largest source of error. In April 2024 the ADS repayment window was extended from 18 to 36 months. The policy was in place when we produced our 2025-26 forecasts in December 2024. However, we only had limited data at that point to assess the effect of the change. Therefore, our profile for ADS repayments was informed by data for repayments in Welsh Land Transaction Tax Higher Rate for owners of more than one property, where a 36-month repayment window was already in operation.

3.45 In our January 2026 Scottish Economic and Fiscal Forecasts publication, we highlighted that provisional outturn data from December 2024 had suggested that ADS repayments were £12 million higher than forecast for the 2024-25 financial year. This has suggested that our previous methodology for forecasting ADS repayments was insufficient following the ADS repayment window extension. Following this, we have amended our ADS repayment assumptions, so that ADS repayments start at a higher initial reclaiming rate, before following a repayment trajectory informed by Welsh Land Transaction Tax Higher Rate repayment data.

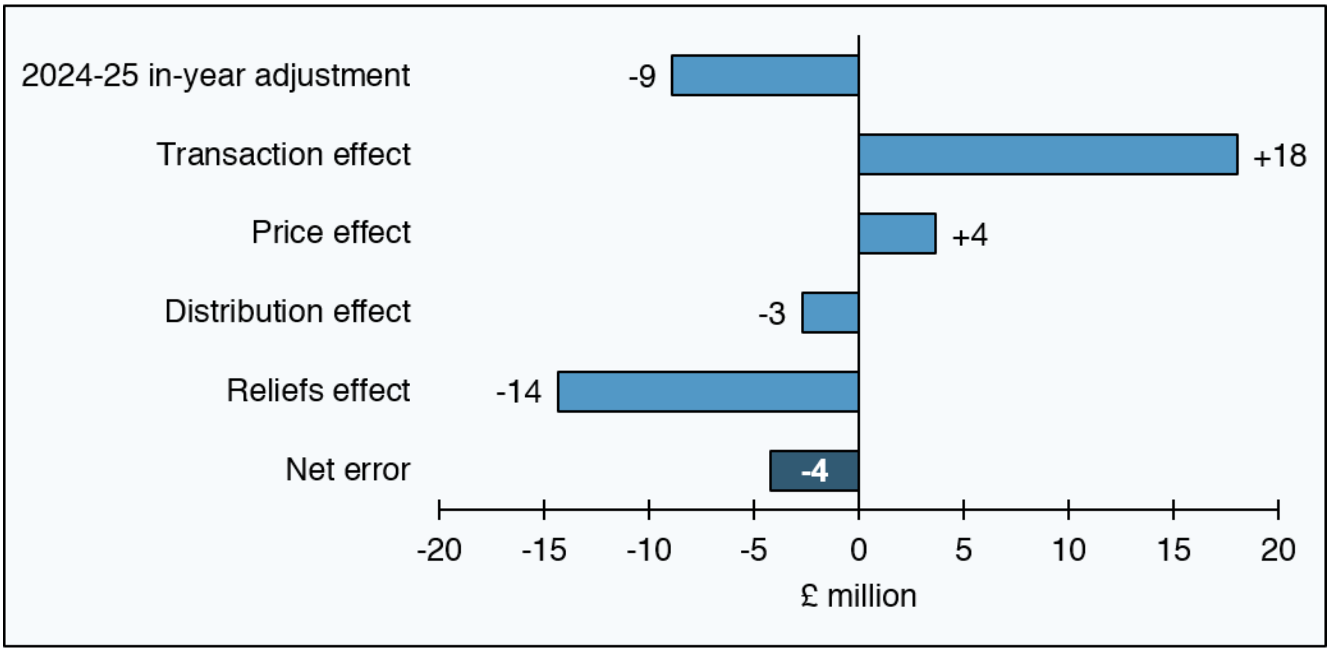
3.46 The effect of the change in the ADS repayment window from 18 to 36 months is likely to be a factor in the £18 million negative ADS repayment error. However, there are several other factors that may have affected the level of repayments. These include the increase in the ADS rate from 6 per cent to 8 per cent, mortgage and interest-rate conditions, and the Scottish Government policies affecting second homes and the rental market. The available data does not allow us to identify the contribution of each factor with confidence.

## Non-Residential LBTT

3.47 Non-residential LBTT revenue was £231 million, which is £4 million, or 2 per cent, lower than our forecast of £235 million. Figure 3.13 shows the decomposition of this forecast error.

**Figure 3.13: Decomposition of the December 2024 Non-residential LBTT forecast error for 2025-26**

**Errors in transactions and reliefs largely offset one another, leaving a small net error**




Description of Figure 3.13: Bar chart showing the main factors contributing to the non-residential LBTT error. The largest error is a positive transaction effect error which is mostly offset by a negative reliefs error.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024; Revenue Scotland (2026) Provisional LBTT Outturn Data 2025/26; Revenue Scotland (2026) LBTT Forecasting Data – 2026.

Figures may not sum because of rounding.

3.48 The relatively small net error is made up of larger errors in non-residential transactions and reliefs, which largely offset one another. In December 2024, we forecast around 7,000 non-residential conveyances in 2025-26. Outturn data shows that there were around 7,300 conveyances, resulting in an £18 million positive transactions error in our forecast.

3.49 Non-residential reliefs grew by more than expected. We forecast £91 million reliefs, but outturn data shows reliefs were £105 million in 2025-26, leading to a negative error of £14 million. There was also a notable negative error from reliefs in our 2024-25 forecast so we will continue to review our forecasting approach and monitor data on non-residential LBTT reliefs.

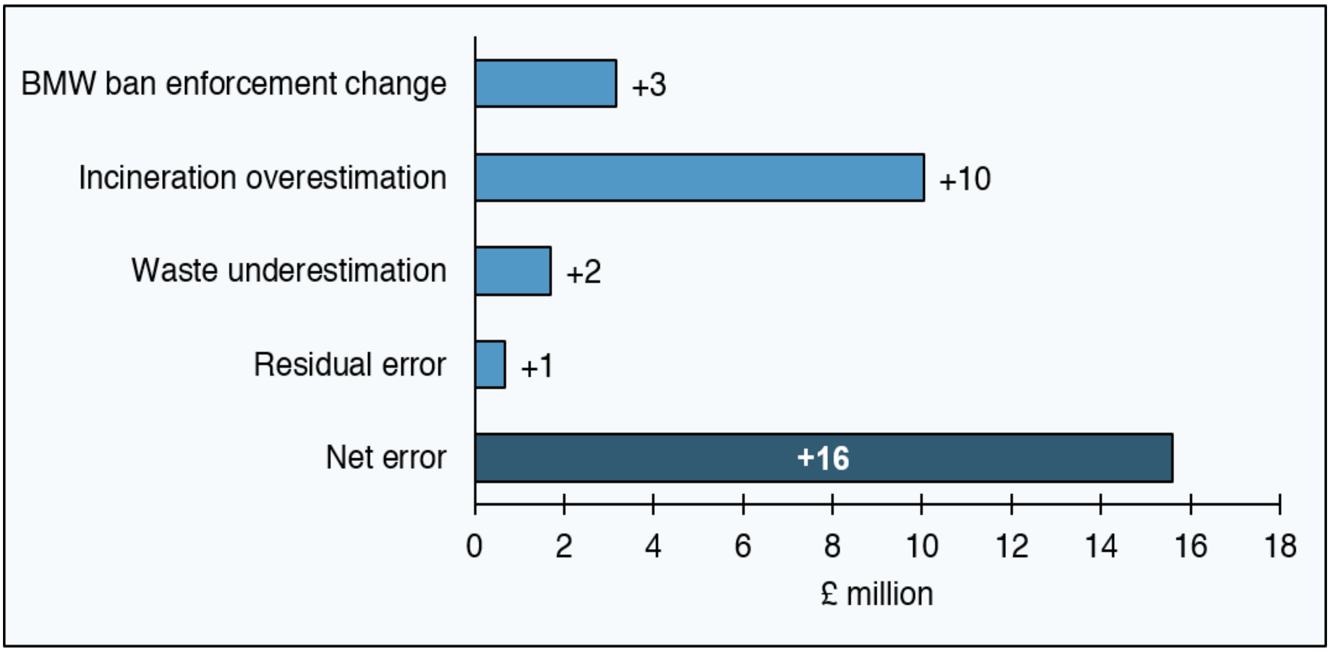
# Scottish Landfill Tax

3.50 Figure 3.14 compares the 2025-26 provisional outturn data for Scottish Landfill Tax (SLfT) with our December 2024 forecast for SLfT revenue.

3.51 Provisional outturn revenue for 2025-26 is £56 million, which is 39 per cent higher than we forecast in December 2024. Figure 3.14 shows we overestimated incineration capacity leading to an error of £10 million. The remaining sources of error include underestimation of waste and the delay in implementation of the Biodegradable Municipal Waste (BMW) ban, which was not enforced at the start of 2026 as had been expected. These errors result in a total forecast error of £16 million.

**Figure 3.14 Decomposition of December 2024 SLfT error for 2025-26**

**The error is largely explained by an overestimation of how much incineration capacity would be available in 2025-26**




Description of Figure 3.14: Bar chart shows the main factors contributing to our Scottish Landfill Tax error. An overestimation of the amount of incineration capacity is the largest error, with the two-year delay in the enforcement of BMW ban, an underestimation of total waste and residual error also contributing to our net error.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Revenue Scotland 2025 (2026) Scottish Landfill Tax (SLfT) statistics: Q4 2025/26, January – March 2026 and annual trends.

Figure may not sum because of rounding.

# Chapter 4
# Social security

## Introduction

4.1 In this chapter we evaluate our social security forecasts, comparing provisional outturn in 2025-26 against our December 2024 forecasts, which informed the 2025-26 Scottish Budget. Total spending on devolved social security in 2025-26 was £6.8 billion. This is 3 per cent below our forecast of £6.9 billion.

4.2 Our forecasts cover 'devolved social security expenditure' as set out in the Scottish Fiscal Commission Act 2016. This includes nearly all the payments made by Social Security Scotland, some devolved payments that are still administered by the Department for Work and Pension (DWP), some payments made by local authorities, and some spending on employability services.[19]

4.3 The outturn used in this report is provisional and may be revised when Social Security Scotland publishes its audited Annual Report and Accounts later in 2026.

**Figure 4.1: Headline evaluation – December 2024 forecast of 2025-26 social security**

| Forecast (£ million) | Provisional outturn (£ million) | Error (£ million) | Relative error (per cent) | Historical average error (per cent) [1] | Historical average absolute error (per cent) [1] |
|---|---|---|---|---|---|
| 6,930 | 6,751 | -179 | -3 | 1 | 2 |

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government, Social Security Scotland.

[1] Average errors are for 2020-21 onwards.

Figures may not sum because of rounding.

## Understanding our forecast error

### Background to our December 2024 forecasts

4.4 When we finalised our December 2024 forecasts, for most payments we had monthly financial data up to September 2024 and statistical data up to around mid-2024.

4.5 We knew the September 2024 CPI inflation rate of 1.7 per cent which would be used for uprating payment amounts in April 2025. This meant that our forecasts were based on the actual payment rates for 2025-26, though average amounts are still a source of error in areas where payment amounts can vary.

[19] Note that we are removing Employability Services from our next forecasts. This is discussed in Annex B in Scottish Fiscal Commission (2026) Fiscal Update – August 2026.

4.6 We expected slow but positive growth in the economy. Earnings growth was stronger than we forecast, GDP growth was slower, and employment fell slightly. However, we do not think these differences made a material contribution to the forecast error for social security.

4.7 Case transfers from Personal Independence Payment (PIP) to Adult Disability Payment (ADP) were in progress and Carer Support Payment was being made available nationally following a pilot. Pension Age Disability Payment and Scottish Adult Disability Living Allowance (SADLA) were due to launch in early 2025.

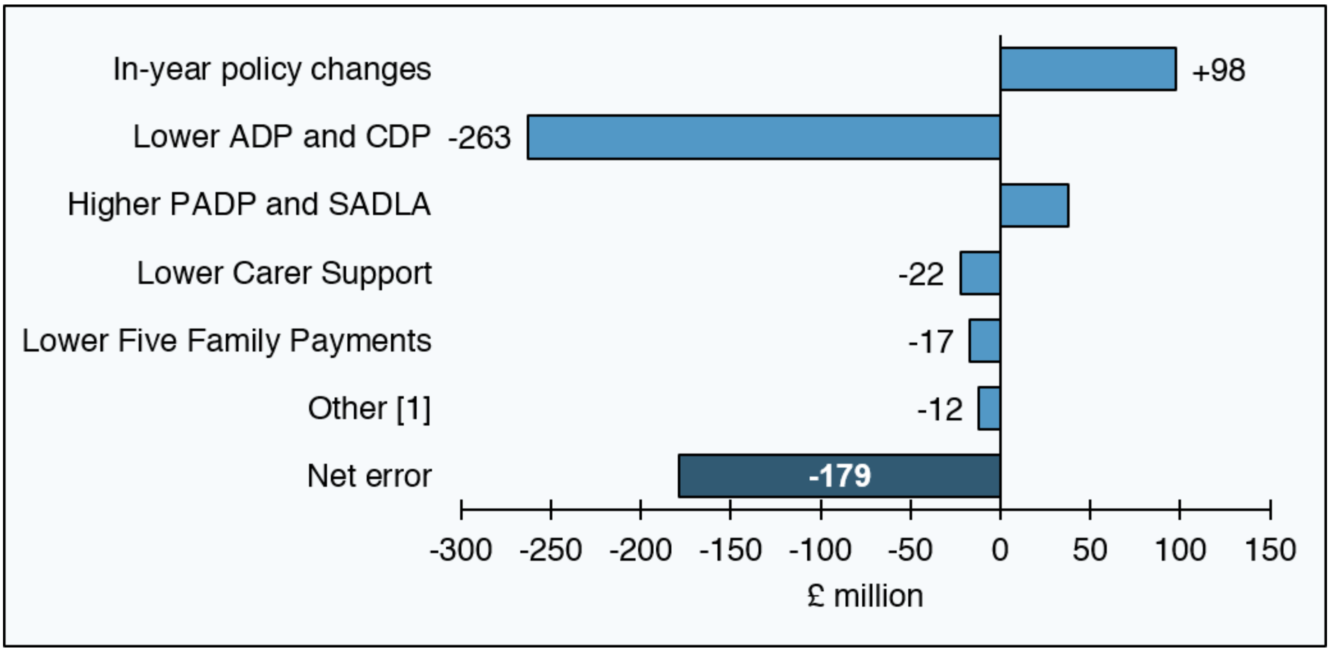
4.8 Our forecast for Pension Age Winter Heating Payment (PAWHP) was based on the Scottish Government's plan to pay the full amount to people in receipt of qualifying benefits, usually Pension Credit, as in 2024-25, but to introduce a payment of £100 for other households with a person over State Pension age but not in receipt of the qualifying benefits.

## Reasons for forecast error

4.9 Figure 4.2 shows the main factors contributing to our forecast error. We have included a full table showing the error for each payment at the end of this chapter in Figure 4.5.

**Figure 4.2: Decomposition of December 2024 social security forecast error for 2025-26**

**Error was mainly because ADP and CDP spending were lower than forecast**




Description of Figure 4.2: Bar chart shows the main factors contributing to our social security forecast error. The largest factor is that spending on ADP and CDP was lower than forecast, and this is partly offset by additional spending due to in-year policy changes.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government, Social Security Scotland.

[1] 'Other' category is the sum of all errors too small to be included in the figure individually.

Figures may not sum because of rounding.

## In-year policy changes added £98 million

4.10 In June 2025, the UK and Scottish Governments both announced similar changes to Winter Fuel Payments (WFP) and Pension Age Winter Heating Payment (PAWHP), taking effect in winter 2025-26. In both cases broadly universal eligibility to receive a payment was reinstated, but with plans to subsequently recover the payment from pensioners with annual incomes over £35,000. This added £89 million to Social Security Scotland's spending in 2025-26 over and above our original forecast.[20] During 2025-26, the Scottish Government also announced an additional £8 million of in-year spending across the Scottish Welfare Fund and Discretionary Housing Payments. Together these in-year changes added £98 million to devolved social security spending in 2025-26.

## Lower Adult Disability Payment

4.11 Spending on ADP was £222 million (6 per cent) lower than our forecast. This is the third consecutive year that ADP spending has been below our forecast. In the previous two years, this was because of lower average payment amounts, but the caseload had exceeded our forecasts. This is the first time that the caseload has not grown as fast as we expected.

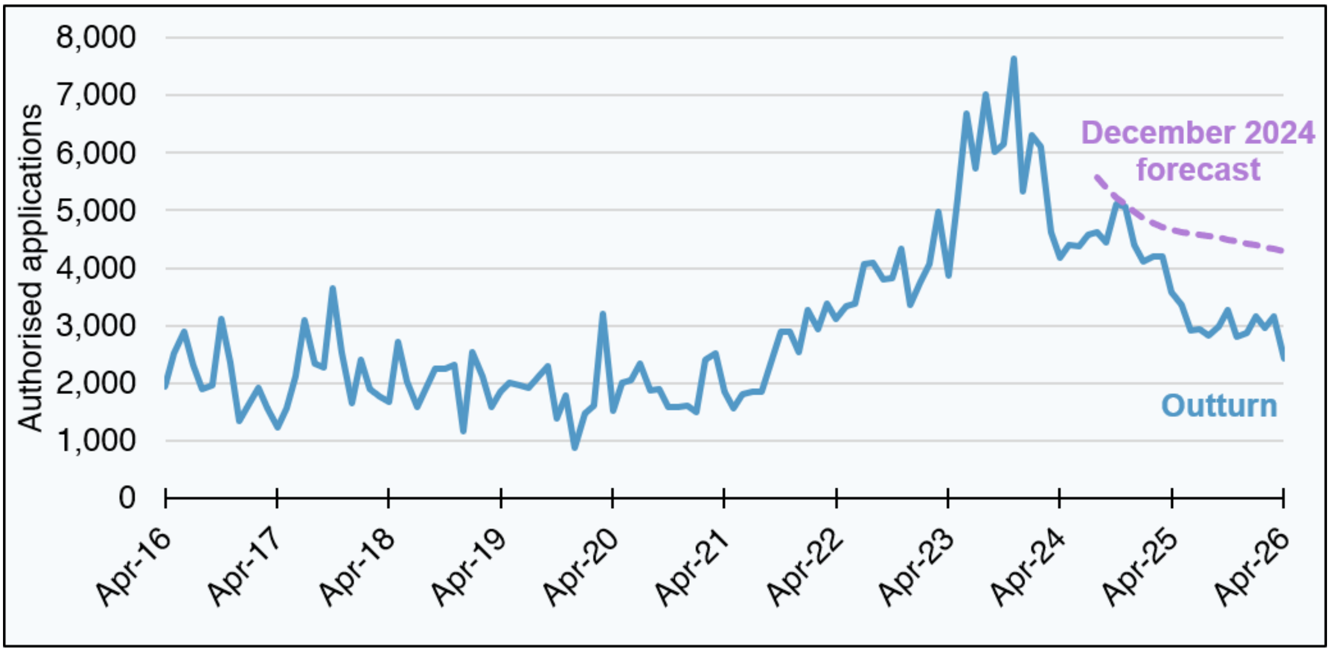
4.12 ADP data has shown that the number of people entering the payment is lower than we had previously forecast. The number of people submitting an initial application for ADP and the number of applications processed by Social Security Scotland were both broadly in line with our forecasts, but as we discussed in our January 2026 Scotland' Economic and Fiscal Forecasts report, the authorisation rate proved to be lower than expected and we reduced our forecasts.

4.13 Figure 4.3 shows the long-term trend in successful applications for PIP or ADP in Scotland, and compares the number of applications authorised by Social Security Scotland against our December 2024 forecast.

[20] Some of this spending will be recovered from higher income pensioners by HMRC.

**Figure 4.3: Authorised PIP and ADP applications in Scotland, April 2016 to April 2026**

**In 2025-26 the number of authorised ADP applications fell faster than we had forecast**




Description of Figure 4.3: Line chart showing forecast and actual monthly authorisations of ADP and PIP applications in Scotland. Following the spike in 2023-24, the number of authorisations fell faster than we had expected during 2025-26.

Source: Scottish Fiscal Commission, Department for Work and Pensions (2026) Personal Independence Payment statistics to April 2026, Social Security Scotland (2026) Adult Disability Payment statistics to 30 April 2026.

4.14 There were also slightly more people exiting ADP than we had expected, for example due to having their award stopped following a review. This explains only a small part of the error, and the trends here are still broadly in line with our forecasts, with only a small proportion of reviews leading to the award being reduced or ended.

4.15 In January 2026 we reduced our ADP forecast in response to data showing that average payment amounts were slightly lower than our forecasts. In the latest statistics from Social Security Scotland the data on award levels has been revised to show more people receiving higher amounts. As a result, the average payment amount in 2025-26 now appears to have been slightly higher than our forecasts. These revisions also affect the data for earlier years, which still shows a trend towards lower amounts, so the implications for our next forecasts are not clear at this point.

4.16 Now that we have the full set of statistical data for 2025-26, a large part of our error appears to be due to a narrowing of the gap between statistical and financial data. Typically, the total spending has been several per cent higher than is implied by the statistics on the number of people receiving the payment and payment amounts. We had assumed that this difference would be around 5 per cent, but it has narrowed to closer to 1 per cent. The revised average payment amounts and lower number of authorisations explain some of this change. However, they may not fully explain why the gap narrowed by this extent. We will review our assumptions for future forecasts.

### Lower CDP

4.17 Spending on Child Disability Payment (CDP) was £41 million (7 per cent) lower than our forecast. The biggest factor was that our forecast of the number of CDP recipients aged over 18 was too high. This was a one-off effect, associated with a temporary measure which allowed some young people who had transferred from Disability Living Allowance (DLA) to receive CDP up to age 19 in 2022 and 2023. We took account of this in our May 2025 forecasts. While the number of young people aged over 18 has fallen from a late 2023 peak, the total caseload for CDP has continued to rise throughout 2025-26.

4.18 We have also seen lower average payment amounts, and reduced our forecasts in response in January 2026. We think that with the ongoing rise in the number of children receiving payments there is a higher proportion of recipients with less severe conditions who receive lower awards.

### Higher PADP and SADLA

4.19 Following pilots and launch during 2024-25, Pension Age Disability Payment (PADP) and Scottish Adult Disability Living Allowance (SADLA) have replaced Attendance Allowance (AA) and Disability Living Allowance (DLA) in Scotland, with the case transfer process completing at the end of 2025. Spending on both these payments was higher than our forecasts.

4.20 For PADP, we have seen more new clients and more people receiving the payment than we expected with spending £23 million (3 per cent) higher than our forecasts. This had become apparent in data for AA before the full launch of PADP, and we responded by increasing our forecast in May 2025. This higher demand can also be seen in England and Wales, where spending on Attendance Allowance has exceeded the OBR forecasts. We do still expect that PADP will cost more than would have been spent on AA, but with a smaller difference than previously forecast.

4.21 For SADLA, spending was £14 million (4 per cent) above our forecast. This was mainly because fewer people moved from DLA to ADP than we had expected ahead of the launch of SADLA. We updated our assumptions on DLA to ADP transfers in our January 2026 forecasts, and this effect will also have contributed to lower spending on ADP.

### Lower Carer Support

4.22 Spending on Carer Support (including the new Carer Additional Person Payment and Scottish Carer Supplement which replaced Carer’s Allowance Supplement) was £22 million (4 per cent) below our forecast. This was mainly due to the caseload not growing as fast as we had expected.

4.23 Eligibility for Carer Support comes through providing substantial unpaid care to someone who is in receipt of a qualifying disability payment. This error in lower spending on carer payments corresponds with our forecast error across disability payments, where the total caseload was lower than we expected.

4.24 Our forecasts had also assumed an increase in the number of new recipients associated with the national launch of Carer Support Payment in 2024, which did not seem to emerge. Slower than expected processing times may also have led to temporarily reduced spending. We will review both these factors ahead of our next forecasts.

### Lower Five Family Payments

4.25 Spending across the Five Family Payments (Scottish Child Payment, Best Start Foods and the three forms of Best Start Grant) was £17 million (3 per cent) below our forecast. Most of this error is due to the continuing fall in the number of children in households eligible for Scottish Child Payment, partly offset by higher take-up rates.

4.26 Some of the recent fall in our estimates of eligibility for Scottish Child Payment is associated with the replacement of Tax Credits by Universal Credit, which was completed during 2025. This was a one-off effect, and we also expect the removal of the two-child limit from Universal Credit to put some upward pressure on eligibility. We have updated our forecasts to reflect lower levels of eligibility, but we still expect the recent downward trend to level out.

### Other

4.27 Spending in areas of social security not discussed in detail in this chapter was below our forecasts, accounting for £12 million of the total error.

## Comparison against OBR forecasts and BGA funding

4.28 The Scottish Government receives social security Block Grant Adjustment (BGA) funding from the UK Government, based on spending on equivalent payments in England and Wales. Outturn Block Grant Adjustments (BGAs) are not yet available, and the OBR will evaluate its forecasts for 2025-26 next year, but we can make a broad assessment of the implications for Scottish Government funding based on the OBR's March 2026 forecasts, and the DWP's Annual Report and Accounts for 2025-26.

4.29 Excluding Winter Fuel Payments, spending in England and Wales on the relevant benefits appears to have been 1 per cent higher than the OBR's October 2024 forecasts, mainly because of higher spending on DLA for children and Attendance Allowance. This higher spending in England and Wales slightly increases the BGA funding for social security and has already led to positive in-year reconciliations in the Spring Budget Revision, while devolved spending in these areas has been around £250 million lower than our forecasts.

4.30 For Winter Fuel Payments and Pension Age Winter Heating Payment, both we and the OBR have large forecast errors due to in-year policy changes. The new UK and Scottish policies are similar. However, the original UK Government policy had narrower eligibility for Winter Fuel Payments, so the relative change is larger in England and Wales. This means that the BGA based on Winter Fuel Payments spending increases by more than the devolved spending on PAWHP, narrowing the difference between funding and spending by around £50 million.

4.31 In December 2024 the social security net position for 2025-26 implied by our and OBR's forecasts was around negative £0.5 billion. Outturn BGAs are not yet available, but based on the available information, the net position is likely to have narrowed to around negative £0.2 billion.

# Winter Fuel Payments and two-child limit

4.32 This year, there are two areas where there have been major in-year policy changes by both the UK and Scottish Governments since our December 2024 forecasts were finalised. The changes to WFP and PAWHP had a substantial effect on both spending and funding for 2025-26, and have been discussed already in this chapter.

4.33 The commitments and policy changes around the Universal Credit two-child limit were not included in our December 2024 forecast and had only a small and indirect effect on spending in 2025-26, but were included in some of our forecasts during the year.

4.34 In this section we set out how our forecasts of these two areas changed during the year.

## Winter Fuel Payments and Pension Age Winter Heating Payment

4.35 Figure 4.4 shows how our forecast for PAWHP changed over the course of 2025-26 and the policy position at each update.

**Figure 4.4: Forecasts of PAWHP 2025-26 spending since December 2024**

| Forecast date | Forecast spending (£ million) | Notes |
|---|---|---|
| December 2024 SEFF | 101 | Scottish Government policy of full payment for households with qualifying benefits and £100 for other eligible households |
| May 2025 SEFF | 98 | Forecast still based on Budget policy |
| June 2025 SEFF Update | 151 | New policy, forecast shown net of recoveries |
| August 2025 Fiscal Update | 187 | Forecast shows spending before recoveries |
| January 2026 SEFF | 187 | Forecast shows spending before recoveries |
| Provisional outturn | 190 | Actual spending, before recoveries |

Source: Scottish Fiscal Commission, Social Security Scotland.

## Two Child Limit Payment and the abolition of the two-child limit

4.36 The Scottish Government's proposed mitigation of the two-child limit was announced at the 2026-27 Scottish budget but was not included in our December 2024 forecast, as the information was provided to us after the final policy deadline.

4.37 We did publish a costing in January 2025 and following the Scottish Government's announcement of a March 2026 launch date, our June 2025 forecast update included £11 million in 2025-26 for the Two Child Limit Payment.

4.38 In November 2025, the UK Government announced that the two-child limit would be abolished from April 2026. We reduced our forecasts in January 2026, removing the Two Child Limit Payment altogether, but making small increases from 2026-27 to reflect how we expect the changes to Universal Credit to interact with eligibility for the Five Family Payments and the Scottish Government's commitments to mitigating the Benefit Cap.

4.39 The Scottish Government has committed to reallocating this reduction in our forecasts to other measures to tackle child poverty. The additional £5 million for the Scottish Welfare Fund in 2025-26 was part of this response, so while the original mitigation commitment was superseded by the UK Government's decision to remove the limit altogether, it did lead indirectly to some additional social security spending in 2025-26 that was not in our forecast.

# Historical forecast performance

4.40 Over the period 2020-21 to 2025-26, spending has on average been 1 per cent higher than our Budget-setting forecasts, and our absolute error has averaged 2 per cent. The two main factors have typically been higher spending on disability payments, and in-year policy changes, including spending in response to the COVID-19 pandemic.

4.41 However, more recently spending has been below our forecasts, and 2025-26 was the first year that the number of people receiving disability payments did not grow as fast as we expected.

4.42 The supplementary tables published with this report include a full record of all our previous forecasts, and outturn spending for each payment.

# Conclusions

4.43 Devolved social security spending in 2025-26 was 3 per cent below our forecast, with an underlying error of 4 per cent if we exclude the in-year policy changes. This is a relatively large error compared to recent years, and is the first time that the caseload for Adult Disability Payment has been below our forecasts.

4.44 We had already responded in our May 2025 and January 2026 forecasts to most of the factors causing this error, including some one-off factors, but will review our assumptions ahead of our next forecasts.

# Forecast errors for individual payments

**Figure 4.5: Summary of December 2024 social security forecast errors for 2025-26**

| Payment (£ million, unless specified) | Forecast | Provisional outturn | Error | Relative error (per cent) |
|---|---|---|---|---|
| Adult Disability Payment | 3,605 | 3,382 | -222 | -6 |
| Best Start Foods | 19 | 17 | -3 | -14 |
| Best Start Grant | 21 | 20 | -1 | -6 |
| Carer's Allowance Supplement | 62 | 61 | -1 | -2 |
| Carer Support Payment | 459 | 437 | -21 | -5 |
| Child Disability Payment | 618 | 577 | -41 | -7 |
| Child Winter Heating Payment | 12 | 12 | 0 | -3 |
| Discretionary Housing Payments | 97 | 93 | -4 | -4 |
| Employability Services | 73 | 73 | 0 | 0 |
| Employment Injury Assistance | 83 | 80 | -3 | -4 |
| Funeral Support Payment | 14 | 12 | -1 | -11 |
| Pension Age Disability Payment | 834 | 857 | 23 | 3 |
| Pension Age Winter Heating Payment | 101 | 190 | 89 | 89 |
| Scottish Adult Disability Living Allowance | 394 | 408 | 14 | 4 |
| Scottish Child Payment | 471 | 458 | -13 | -3 |
| Scottish Welfare Fund | 36 | 41 | 5 | 15 |
| Severe Disablement Allowance | 4 | 5 | 0 | 3 |
| Winter Heating Payment | 28 | 28 | 0 | 0 |
| Total devolved social security | 6,930 | 6,751 | -179 | -3 |

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government, Social Security Scotland.

This table uses the names of the new Scottish payments, but some lines still include spending on the DWP-administered payments that they replace.

Figures may not sum because of rounding.

4.45 The supplementary tables published with this report and available on our website include a full record of all our previous forecasts, and outturn spending for each payment.

# Additional information

## Abbreviations

| | |
|---|---|
| AA | Attendance Allowance |
| ADP | Adult Disability Payment |
| ADS | Additional Dwelling Supplement |
| BGA | Block Grant Adjustment |
| BMW | Biodegradable Municipal Waste |
| CDP | Child Disability Payment |
| COVID-19 | Coronavirus disease 2019 |
| CPI | Consumer Prices Index |
| DLA | Disability Living Allowance |
| DWP | Department for Work and Pensions |
| EU | European Union |
| GDP | Gross domestic product |
| HMRC | His Majesty's Revenue and Customs |
| HM Treasury | His Majesty's Treasury |
| LBTT | Land and Buildings Transaction Tax |
| LFS | Labour Force Survey |
| NDR | Non-Domestic Rates |
| NICs | National Insurance contributions |
| OBR | Office for Budget Responsibility |
| OECD | Organisation for Economic Co-operation and Development |
| ONS | Office for National Statistics |
| PADP | Pension Age Disability Payment |
| PAWHP | Pension Age Winter Heating Payment |
| PAYE | Pay As You Earn |
| PIP | Personal Independence Payment |
| PUT | Public Use Tape |
| QNAS | Quarterly National Accounts Scotland |
| RDHI | Real disposable household income |
| RTI | Real Time Information |
| SADLA | Scottish Adult Disability Living Allowance |
| SBBS | Small Business Bonus Scheme |
| SBTR | Small Business Transitional Relief |

| | |
|---|---|
| SCAPE | Superannuation Contributions Adjusted for Past Experience |
| SEFF | Scotland’s Economic and Fiscal Forecasts |
| SFC | Scottish Fiscal Commission |
| SIT | Scottish Income Tax |
| SLfT | Scottish Landfill Tax |
| UK | United Kingdom |
| US | United States |
| WFP | Winter Fuel Payment |
| WHP | Winter Heating Payment |

A full glossary of terms is available on our website: Glossary I Scottish Fiscal Commission.

# Professional standards

The SFC is committed to fulfilling our role as an Independent Fiscal Institution, in line with the principles set out by the Organisation for Economic Co-operation and Development (OECD).[21] [22]

The SFC also seeks to adhere to the highest possible standards for analysis. While we do not produce official statistics, we voluntarily apply as far as possible the UK Statistics Authority’s Code of Practice for Statistics. Further details and our statement of voluntary application can be found on our website.[23]

[21] OECD (2014) Recommendation of the Council on Principles for Independent Fiscal Institutions.

[22] OECD (2025) OECD Review of the Scottish Fiscal Commission 2025.

[23] Scottish Fiscal Commission (2025) Statement of Voluntary Application of the Code of Practice for Statistics and Error Policy.

# Correspondence and enquiries

We welcome comments from users about the content and format of our publications. If you have any feedback or general enquiries about this publication or the SFC, please contact info@FiscalCommission.scot. Press enquiries should be sent to press@FiscalCommission.scot.

All charts and tables in this publication have also been made available in spreadsheet form on our website. For technical enquiries about the analysis and data presented in this paper please contact the responsible analyst:

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