

# **Fiscal Affairs Scotland Monthly Bulletin**

**April 2015**

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**‘Government Expenditure and Revenues Scotland’ (GERS) 2015**

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## **‘Government Expenditure and Revenues Scotland’ (GERS) 2015**

The Scottish government published the latest version of its annual GERS publication in March. The main findings are summarised in our GERS press release.

However, there were other points of interest in the publication that are worth highlighting.

### Onshore Revenues

As with the UK, the main source of revenues for Scotland are Income Tax, National Insurance and VAT (see Table 1). Together, these 3 taxes contribute over £30 billion of revenues, 60% of the total raised in 2013-14.

**Table 1: Scottish Revenue 2013-14**

	£, bn	as a % of UK total
<b>Income Tax</b>	11.4	7.3%
<b>VAT</b>	10.1	8.4%
<b>National Insurance</b>	8.7	8.1%
<b>Gross Operating Surplus</b>	4.0	10.4%
<b>Corporation Tax (excluding North Sea)</b>	2.8	7.9%
<b>Fuel Duties</b>	2.2	8.2%
<b>Council Tax</b>	1.9	7.1%
<b>Non-domestic rates</b>	1.9	7.5%
<b>Tobacco Duties</b>	1.3	13.2%
<b>Alcohol Duties</b>	1.0	9.3%
<b>Stamp Duties</b>	0.6	5.1%
<b>Other (each &lt; £0.5 bn)</b>	4.1	-
<b>TOTAL</b>	50.0	8.1%
<b>Population share</b>		8.3%

Source: GERS, March 2015, Table 3.1

However, while the ranking across taxes is similar, there are some notable differences in

terms of relative shares across the revenue types.

Scotland’s share of UK onshore revenues (8.1%) is just under its population share (8.3%) and this has been the case in each of the past four years. Within that total, Scotland has a higher than population share of: Tobacco duties, Alcohol duties, Betting duties, Landfill tax, Climate change levy, Aggregates levy, and Gross Operating Surplus. Notwithstanding such higher shares, most apply to relatively small taxes.

Scotland has a lower than population share of: Income tax, Corporation tax, Capital Gains tax, Stamp duties, Insurance premium tax, Inheritance tax, Non-domestic rates, and Council tax. Of these, Income tax is the largest source of tax revenue and is the principal cause of Scotland’s lower than population overall share.

It is interesting to note that, for most of the taxes that Scotland has, or is due to have, control over (Income tax, Stamp duties, Non-domestic rates, Council tax), its current share is well below its population share. This might suggest there is potential to grow these tax bases and bolster funds available for public services, provided that policies can be found that can help achieve such growth.

### Expenditure

GERS also shows public spending across the main expenditure areas. This allows us to look at which areas have done relatively well or badly since expenditure peaked in 2009-10.

As Table 2 shows, the biggest percentage increases have been seen in International services, and payment of debt interest on the UK’s debt, followed by Science and

Technology and Social Protection. These are all areas where the Scottish government has little or no say on allocation as they are Reserved areas of expenditure.

If we just look at areas of spend where Scotland has principal control of spending allocation (ie, Devolved expenditure areas) then the winners are Environmental Protection, Agriculture, forestry and fishing and Health. The biggest losers have been Enterprise and economic development and Housing and community amenities.

Relative to the UK, Scotland has done better in all areas of spend (over which it has control), with two exceptions, Health and Education and training.

Where Scotland has control over the allocation of expenditure, the area that has benefitted most relative to decisions on spending in the rest of the UK is Enterprise and economic development. However, as previously highlighted, this is very much a relative benefit as spending in this budget area has been cut dramatically at both the Scottish and UK levels.

**Table 2: Scottish and UK Expenditure, level and % change (2009-10 to 2013-14, cash terms)**

(ordered by Scottish growth rate)	Scotland, level, £bn	Scotland, % change	UK, % change	Allocation responsibility
<b>International services</b>	0.8	40%	42%	UK
<b>Public sector debt interest</b>	3.1	35%	36%	UK
<b>Science &amp; technology</b>	0.3	16%	25%	UK
<b>Social protection</b>	22.3	12%	13%	UK
<b>Environment protection</b>	1.3	10%	11%	Sc
<b>Agriculture, forestry &amp; fisheries</b>	0.9	8%	6%	Sc
<b>Health</b>	11.5	7%	11%	Sc
<b>Transport</b>	3.0	3%	-11%	Sc
<b>Public and common services</b>	1.6	0%	-12%	Sc
<b>Recreation, culture &amp; religion</b>	1.5	-2%	-11%	Sc
<b>Education &amp; training</b>	7.6	-2%	3%	Sc
<b>Employment policies</b>	0.3	-4%	-11%	UK
<b>Defence</b>	3.0	-4%	-3%	UK
<b>Public order and safety</b>	2.6	-5%	-12%	Sc
<b>Accounting adjustments</b>	3.8	-11%	1%	Sc
<b>Housing &amp; community amenities</b>	1.6	-18%	-28%	Sc
<b>Enterprise &amp; economic development</b>	1.0	-24%	-57%	Sc
<b>Total</b>	<b>66.4</b>	<b>4%</b>	<b>5%</b>	<b>-</b>

Source: GERS, March 2015, Tables 5.5 and 5.6

## UK BUDGET 2015

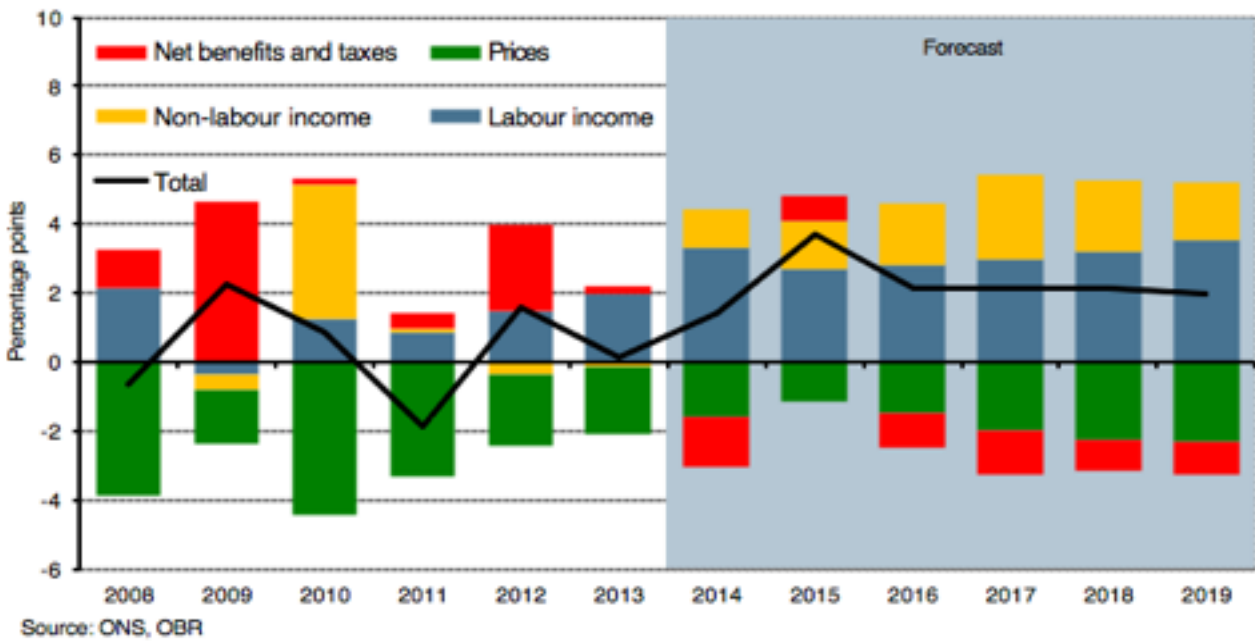
March also saw the final Budget prior to the next UK election. Again, our initial analysis was published in March and is available from our website.

Within the OBR's Economic and Fiscal Outlook was an analysis of how household income has changed since the recession started, broken down into different sources.

From the figure below we can see the role benefits and taxes played in supporting household incomes between 2008 and 2013 and how these are projected to go into reverse for most years after 2013.

The prime positive driver of real household income beyond 2013 is forecast to be wage-related income, assisted by a resurgence in non-wage related income sources (e.g. savings and investment related) and lower inflation.

Figure 1: Contributions to real household income growth



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## UK ELECTION 2015 TAX PLEDGES

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Even before the party manifestos have been published there have been a plethora of commitments from political parties which are intended to exclude any rise in particular taxes during the next parliamentary term.

So far the two main UK parties have explicitly ruled out raising VAT and National Insurance. These may have been chosen as the parties simply take for granted that neither Corporation tax nor the basic rate of Income tax will be raised.

This precludes raising tax on the four biggest sources of UK revenue (see Table 3), although there may remain scope for the higher rate of Income tax to be increased and/or for the tax banding's to change.

This leaves only one third of the current total of revenues open to upward adjustment, and within that sub-total are revenue sources such as Council tax, which may also remain a 'protected' tax it has been in the UK and Scotland since at least the last UK election. At the level left, each tax accounts for no more than 5% of the total so large increases, or increases across a number of taxes, would be required to raise substantial levels of additional taxes as a contribution to achieving fiscal balance.

One possible way to get around such restrictive commitments on tax matters, post-election, relates to their having been made by individual parties. If there is a coalition, then, as part of a deal, one or more of these commitments may be dropped, as happened in 2007 over the Liberal Democrats promise on tuition fees.

**Table 3: UK Revenues 2014-15, by size**

	£, bn	as a % of UK total
<b>Income Tax</b>	163	25%
<b>VAT</b>	111	17%
<b>National Insurance</b>	109	17%
<b>Corporation Tax (excluding North Sea)</b>	40	6%
<b>Gross Operating Surplus</b>	38	6%
<b>Council Tax</b>	28	4%
<b>Non-domestic rates</b>	27	4%
<b>Fuel Duties</b>	27	4%
<b>Alcohol Duties</b>	11	2%
<b>Stamp Duties</b>	11	2%
<b>Tobacco Duties</b>	9	1%
<b>Other (each under £7 bn)</b>	73	11%
<b>TOTAL</b>	647	100%

Source: OBR Economic and Fiscal Outlook, March 2015, Table 4.5

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## RECENT FISCAL AFFAIRS SCOTLAND PAPERS

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The following papers have also been published by Fiscal Affairs Scotland over the past month and are available from our website at [www.fiscalaffairsscotland.co.uk](http://www.fiscalaffairsscotland.co.uk).

- GERS press release and Budget related update
- UK Budget 2015 - initial analysis

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