Scottish Budget 2025-26 and Scotland’s Tax Strategy

General Features



22 January 2025

The Scottish government has published its Budget for 2025-26 together with its Tax Strategy.

On 4 December 2024, the Cabinet Secretary for Finance and Local Government Shona Robison set out the Scottish Budget for 2025-26 (see tinyurl.com/y5r73kxv). As a minority administration, the Scottish government will need the support of other parties for its Budget to pass. The Budget (Scotland) (No. 4) Bill for financial year 2025-26 was introduced to the Scottish Parliament on18 December 2024. The Scottish Parliament must pass the Scottish Rate Resolution, which sets the Scottish income tax for 2025/26, before it passes the Budget Bill.

Scottish income tax

The Scottish government announced that the starter rate band will increase by 22.6%, and the basic rate band will increase by 6.6%. The effect of these increases

is to raise the thresholds at which taxpayers pay basic rate tax and intermediate rate tax by 3.5%. The Scottish government committed to not introduce any new Scottish income tax bands and not increase Scottish income tax rates before the end of the current Parliament (with the next election due to take place no later than 7 May 2026).

Land and buildings transaction tax

The additional dwelling supplement has increased from 6% to 8%, with effect from 5 December 2024. The additional dwelling supplement may apply to the purchases of residential property for £40,000 or more, where the purchaser already owns residential property. All other residential and non-residential rates of land and buildings transaction tax (LBTT) remain unchanged.

The Scottish government also announced a review of LBTT, which will commence early in 2025. The main objective is to review various aspects of LBTT to ensure they still meet the policy intent. It is intended that this review will focus on longer term policy changes to LBTT, rather than dealing with urgent legislative changes. The Scottish government would welcome suggestions for areas of focus for the LBTT review. Please do feed any thoughts into the technical team as we will be responding to the review.

After ongoing discussion with professional bodies, the Scottish government has committed to making progress on a few other longstanding LBTT issues:

- It will lay legislation in early 2025 to provide clarity on clawback arrangements for sub-sale development relief and to provide for group relief in cases of non-partition demergers.
- It will publish draft legislation for consultation to provide relief on the exchange of units within Co-ownership Authorised Contractual Schemes.
- It will consult further on the case for a relief for the seeding of properties from unauthorised investment vehicles into Property Authorised Investment Funds and Co-ownership Authorised Contractual Schemes.

Scottish landfill tax

From 1 April 2025, the lower rate of Scottish landfill tax (SLfT) will increase to £4.05 per tonne and the standard rate will increase to £126.15 per tonne. The Scottish

government is commissioning independent research on the ongoing effectiveness of the lower rate of SLfT. We are also expecting a consultation in 2025 on the future of the Scottish Landfill Communities Fund.

Non-domestic rates

Scottish Budget announcements included a freeze of the basic property rate and inflationary increases to both the intermediate property rate and the higher property rate. The Budget included a commitment to maintaining the Small Business Bonus Scheme, the Business Growth Accelerator relief and 100% hospitality sector relief for island communities and in three prescribed remote areas (Cape Wrath, Knoydart and Scoraig). A 40% relief was also announced for 2025-26 for hospitality premises, including grassroots music venues, which are liable to the basic property rate (capped at £110,000 per business).

Scottish Tax Strategy

On Scottish Budget Day, the Scottish government published ‘Scotland’s Tax Strategy’.

The publication of Scotland’s Tax Strategy follows a series of roundtables with key stakeholders, which ATT, CIOT and LITRG participated in. The Tax Strategy covers five key areas:

- priorities for the existing tax system;
- key areas of focus for the economy and the tax system;
- administration of the existing tax system;
- evidence and evaluation to inform tax policymaking; and
- future priorities.

Some key points to note include commitments to pick up consideration of changes to the legislative processes for devolved taxes in Scotland, to increase public awareness and understanding of devolved taxes in Scotland and complete devolution of the Scottish aggregates tax and air departure tax. These topics, in particular the need for legislative reform, perhaps in the form of an annual Finance Bill, have been recurring areas of discussion with the Scottish government in recent years.

The Tax Strategy included a commitment to work collaboratively with HMRC to improve tax compliance and explore digitalisation of the Scottish tax system. The Tax Strategy also noted that there would be engagement in 2025 to build consensus on the way forward for council tax reform.

To support public understanding of devolved taxes in Scotland, the Tax Strategy confirmed that the Scottish government will publish the Tax Literacy Framework in early 2025. LITRG has been engaging with the Scottish government throughout 2024 on the development of the Tax Literacy framework.

The Tax Strategy also included a list of Areas of Research Interest, a list of key tax research areas for the next five years, with the aim of improving their evidence base. This includes research to evaluate the impact of the divergence of Scottish income tax rates in 2023-24 and 2024-25.

The ATT, CIOT and LITRG have highlighted the importance of taking action to progress key elements of the Tax Strategy, as well as delivering on the 2021 Framework for Tax.

Additional publications on Budget Day

Several additional documents were published alongside the Scottish Budget and Scotland's Tax Strategy, including updated research on public attitudes to tax in Scotland.

This research shows that only 42% of respondents felt they understood tax devolution in Scotland and the devolved taxes they paid. The Scottish government has also published a study on the use of fiscal levers to reduce greenhouse gas emissions across the world.

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