
News release

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Lower growth reduces impact of devolved taxes

Lower earnings and employment growth in Scotland compared with the rest of the UK is reducing the impact of devolved taxes on the country's budget.

Holyrood's budget has been boosted by over £4 billion since the introduction of devolved taxes in 2015/16. But that figure is significantly less than the additional tax raised over the same period, a trend that is set to continue.

In 2025/26 alone, the Scottish Government expects to raise up to an additional £1.7 billion from its Scottish Income Tax rates and bands. However, the budget is only projected to benefit by £616 million because of how the fiscal framework operates. The relative performance of the Scottish tax base, such as earnings and employment, is factored into those calculations and is a main reason for the difference. But the Scottish Government has not been transparent enough about why the difference exists and how it thinks it can be addressed.

Tax and economic growth are central to the Scottish Government's plans to deliver fiscal sustainability. But in practice its focus has been on controlling public spending. The government has not been clear enough about whether it expects tax policy to help further close an expected £2.6 billion funding gap by 2029/30, or how its economic strategies will help grow the tax take.

Stephen Boyle, Auditor General for Scotland, said:

"Devolved taxes are growing Holyrood's budget, but their impact is weakened by Scotland's lower earnings and employment growth compared with the rest of the UK.

"The Scottish Government needs to be more transparent with the public and Parliament about the net impact of its tax choices on the Scottish budget.

"It also needs to better align its tax and economic strategies and set out which of its economic interventions are specifically expected to help grow the Scottish tax base."

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Notes to Editor:

1. The fiscal framework for Scotland is a 2016 agreement between the UK and Scottish governments that sets rules for how the Scotland's budget is determined, including adjustments for devolved tax and welfare powers.
2. Tax block grant adjustments reduce the block grant by the amount it is estimated that the UK Government would have raised had devolution not occurred and Scottish tax revenues performed at the same rate as the rest of the UK. The amount of tax raised through the Scottish Government's devolved policies is then added to the block grant in its place.
3. If the block grant adjustment is less than the tax revenues added, the Scottish Budget benefits by the net difference. If the block grant adjustment is greater than the revenues added, the Scottish Government must manage the net reduction to the Scottish Budget.
4. The Scottish Government is facing significant budget pressures, with the gap between its funding and spending for day-to-day activity expected to increase from £1 billion in 2026/27 to £2.6 billion in 2029/30.
5. Its financial plans do not sufficiently address the fiscal risks arising from devolved taxes, including significant budget reconciliations, the impacts of behavioural change and the impact of UK policy changes, and how it plans to manage these.
6. The Scottish Government has chosen not to introduce any new income tax bands or rates for the remainder of the current parliamentary term. These choices mean that improving relative economic performance is crucial to grow tax revenues.
7. Audit Scotland has prepared this report for the Auditor General for Scotland. All Audit Scotland reports published since 2000 are available at www.audit.scot
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