



The Scottish Budget

13 January 2026

INTRODUCTION

The timing of this year's Scottish Budget announcement was later than usual because of the UK Chancellor's decision to delay her Autumn Budget until 26 November 2025. The Scottish Government was critical of Rachel Reeves' procrastination, with Finance Secretary Shona Robison saying that Westminster had left Scotland "as an afterthought". The late UK Budget may also have annoyed Robison's Holyrood colleagues because it has meant a gap of less than four months between the Scottish Budget and elections for the Scottish Parliament.

Despite its unwelcome timing, the UK Budget did contain some good news for Scotland. Across the UK, it raised an additional £26.6 billion of taxes by 2030/31, which had a knock-on improvement to the payments made to the Scottish government.

Westminster's plan to abolish the two-child benefit cap from April 2026 was also a boost to Scottish finances because the Scottish Government was able to drop its own plans for a Two-Child Limit Payment, projected to cost £155 million in the coming year.

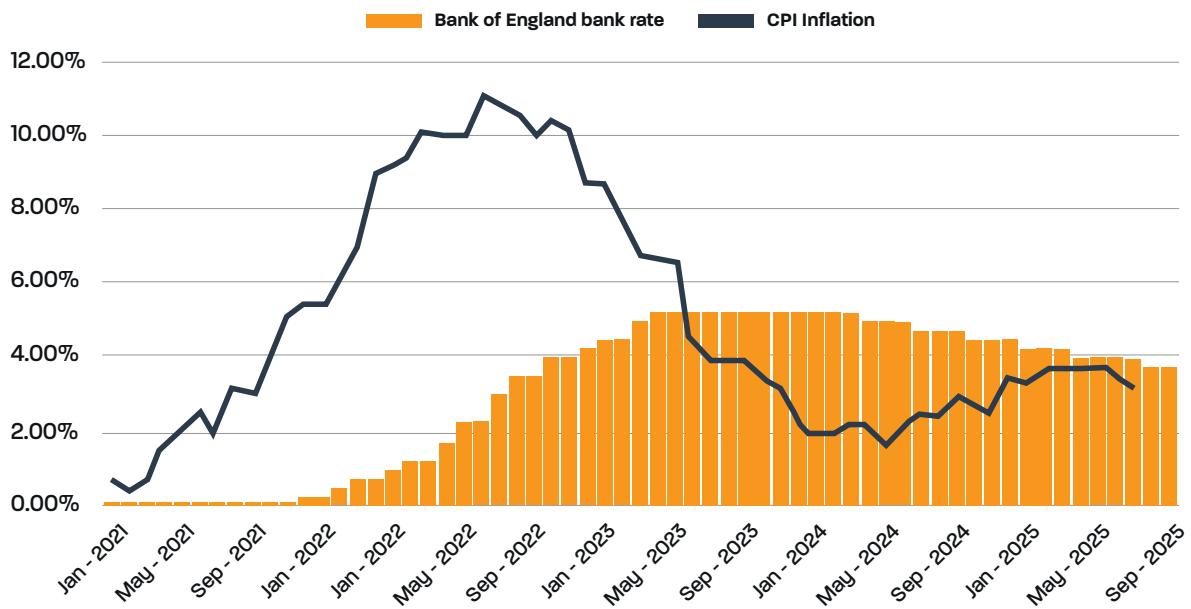
This Budget was Shona Robison's third and final as Finance Secretary – she will be stepping down from Holyrood in May. After three difficult years marked by two UK Chancellors with differing political agendas, she may be glad to pass on the baton of managing Scotland's fiscal challenges.

ECONOMIC UPDATE

The Scottish Budget and Scottish Spending Review announced on 13 January 2026 followed on from a Rachel Reeves' UK Spending Review published in June 2025 and her Autumn 2025 Budget five months later. The UK economic environment for both presentations was mixed, with UK plc showing signs of having suffered from the tax rises introduced in the Autumn 2024 Budget:

- Estimates for the UK economy from the Office for National Statistics (ONS) suggested that while the first quarter of 2025 had seen 0.7% growth, this fell to 0.2% in the second quarter and then just 0.1% in the third quarter 2025. The Office for Budget Responsibility (OBR) is projecting 1.4% growth for 2026, but independent forecasters are less optimistic. For example, the December edition of HM Treasury's own comparison of independent forecasts revealed an average of 1.1%.
- The latest annual CPI inflation figure (for November 2025) was 3.2%, up 0.6% on the corresponding 2024 figure, but down 0.4% on October 2025 and lower than had been expected. Inflation is now forecast to fall sharply in 2026, with the Bank of England anticipating a figure "closer to 2%" in the second quarter of the year. Some of that decrease is thanks to measures to constrain administered prices (e.g. domestic energy bills) announced in the November Budget.
- The Bank of England made four 0.25% cuts to its Bank Rate in 2025, taking it down to 3.75%, the lowest level since early 2023. The pace of rate reductions is set to slow or even stop in 2026, with the median forecast being for only one more quarter point easing by the year end.
- The December ONS labour market overview showed a UK unemployment rate of 5.1% for the August-October 2025 period, up from 4.3% twelve months previously. However, UK labour data is less reliable than it once was, much to the frustration of the Bank of England.
- Average weekly earnings grew by 4.7% in the August-October 2025 period, a drop of 0.7 percentage points over the year. While the latest figure represents a real terms growth rate of 1.0% (based on CPI), net take home pay continues to be affected by the income tax freezes of recent years. The OBR's November 2025 forecast was for real household disposable income per head to rise by a near invisible 0.2% in 2026.

Inflation v Bank of England bank rate Jan 2021 - Jan 2026



The Scottish Autumn Budget Revision (ABR), published in September 2025, revealed a £1.4 billion projected increase in the Scottish Budget to £64.5 billion for 2025/26. According to the Fraser of Allander Institute (FAI) analysis of the ABR, the revised figure meant there was a revenue shortfall of about £1.91 billion. This was projected to be met by:

- A £557 million drawdown from reserves;
- £364 million from the ScotWind proceeds (one-off income from leasing the Scottish seabed to windfarm businesses);
- £518 million of budgetary items, £500 million of which is 'reconciliations' (basically the difference between forecasts and outcomes in the UK/Scotland budgeting process – a figure that can go in either direction);
- £472 million of borrowing.

FAI highlighted in its work the Government's reliance on one-off items to cover the shortfalls – something also seen in previous years.

In November 2025, shortly before the UK Budget, Audit Scotland also sounded a warning about government revenues, in particular the Scottish Government's assumptions about the sums raised by Scottish income tax rates. Audit Scotland noted that for 2025/26, "...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..." due to the relative performance of the Scottish tax base to the UK.

Reeves' Autumn 2025 Budget was criticised by Shona Robison as "fail[ing] to deliver" for Scotland. Nevertheless, the Autumn 2025 Budget will see Scotland receive an additional £637 million in Westminster funding consisting of a £307 million rise in Barnett consequentials and an extra £330 million in Block Grant Adjustments for 2026/27. The FAI reckon that the extra cash, together with other positive financial developments, mean Robison's 2026/27 day-to-day spending budget should be close to balance. However, that leaves a £1 billion plus capital spending shortfall.

TAX ANNOUNCEMENTS

Income tax

The structure of Scottish income tax will be little changed in 2026/27:

- The starter rate band will widen by £1,140 and the basic rate band by £2,035. As a result, the intermediate band will correspondingly shrink by £2,035.
- The higher rate, advanced rate and top rate thresholds will remain frozen.

Scottish taxpayers – non-dividend, non-savings income	2026/27		2025/26	
	Tax Rate		Tax Rate	
Starter rate on taxable income up to	19%	£3,967	19%	£2,827
Basic rate on next slice up to	20%	£16,956	20%	£14,921
Intermediate rate on next slice up to	21%	£31,092	21%	£31,092
Higher rate on next slice up to	42%	£62,430	42%	£62,430
Advanced rate on next slice up to	45%	£125,140	45%	£125,140
Top rate on income over	48%	£125,140	48%	£125,140

No changes were announced to the rates of tax on property income. However, the UK Finance (No 2) Bill contains provisions to allow Scotland to set its own rate, with this power coming into effect in 2027/28.

Land and buildings transaction tax (LBTT)

LBTT rates will remain unchanged for 2026/27. A comprehensive review of LBTT was announced in the Scottish Budget 2025/26 and is now underway, with results set to be published before the end of the current parliamentary session.

Land and buildings transaction tax (LBTT) on slices of value from 5 December 2024

Residential property	%	Commercial property	%
Up to £145,000	0	Up to £150,000	0
£145,001 – £250,000	2	£150,001 – £250,000	1
£250,001 – £325,000	5	Over £250,000	5
£325,001 – £750,000	10		
Over £750,000	12		

First-time buyers: 0% on first £175,000

Additional residential and all corporate residential properties £40,000 or more: add 8% to rates

TAX ANNOUNCEMENTS

Council tax bands

From April 2028 the number of Scottish council tax bands will be increased from eight to ten. The new bands will be:

- Band I for properties valued between £1 million and £2 million; and
- Band J for properties valued above £2 million.

These bands will be based on up-to-date values for properties currently in bands G and H, with all other homes remaining on the existing Council Tax valuation framework. The level of tax to be applied to these properties is subject to policy development.

Regulations will be introduced imminently which, subject to Parliamentary approval, will remove the existing legislative cap on Council Tax premiums. The change would allow local authorities to determine the level of Council Tax premium that applies from 1 April 2026 to second homes and long-term empty homes.

Robison also announced a 2% real terms increase for local government funding, saying that she hoped this would prompt councils to make “reasonable decisions on council tax”.

Scottish non-domestic rates (NDR)

The next revaluation takes effect from 1 April 2026, based on property values as at 1 April 2025. For 2026/27 the NDR rates will be:

Category	Rate
<i>Basic Property Rate</i> for properties with a rateable value up to and including £51,000 ('poundage')	48.1p
<i>Intermediate Property Rate</i> for properties with a rateable value between £51,001 and £100,000	53.5p
<i>Higher Property Rate</i> for properties with a rateable value above £100,000	54.8p

TAX ANNOUNCEMENTS

Scottish non-domestic rates (NDR) - Continued

As controversially happened in England, while the pence per £ rate has fallen, the overall NDR payment may increase due to valuation changes and the impact of any reliefs available.

The Small Business Bonus Scheme (SBBS) relief will be maintained at the existing rates and thresholds for the next three years. From 1 April 2026, shooting estates and deer forests will be excluded from eligibility for SBBS relief, except for:

- a) properties where shooting rights are exercised solely for the purposes of deer management, including to prevent damage to woodland or to agricultural production, environmental management or vermin control;
- b) crofts; and
- c) all forms of agricultural and small landholding tenancies, leases for new entrants, and leases agreed for environmental purposes.

Also from 1 April 2026, those premises requiring a short-term let licence to operate will only be eligible for SBBS relief if they have a short-term let licence.

A 15% relief for 2026/27 and the following two years will be offered to properties in the retail, hospitality, and leisure sectors liable for the basic or intermediate property rate, capped at £110,000 per business per year.

100% relief will continue to apply in 2026/27 through to 2028/29 for hospitality businesses located on islands as defined by the Islands (Scotland) Act 2018 and in three prescribed remote areas (capped at £110,000 per business per year).

A revaluation transitional relief will be introduced, capping increases in gross bills up to the next revaluation in 2029. This begins with a 15% cash terms cap for small properties in 2026/27:

Category/rateable value	Transitional Relief Cap		
	2026/27	2027/28	2028/29
Small – up to £20,000	15%	22%	38%
Medium – £20,001 to £100,000	30%	44%	75%
Large – over £100,000	50%	75%	113%

TAX ANNOUNCEMENTS

A new small business transitional relief (SBTR) will be introduced from 1 April 2026 for those ratepayers losing eligibility for SBBS relief (including shooting estates and deer forests but excluding those properties that require a short-term let licence but do not have one), rural relief, hospitality relief or the former SBTR introduced for the 2023 revaluation cycle.

Under the new SBTR, eligible ratepayers will pay 25% of any increase to their net bill in the 2026/27, rising to 50% in 2027/28 and 75% in 2028/29.

Scottish landfill tax

The standard rate of Scottish landfill tax will increase from £126.15 a tonne to £130.75 a tonne and the lower rate from £4.05 a tonne to £8.65 a tonne from 1 April 2026, in line with the changes made in the UK Autumn Budget.

OTHER ANNOUNCEMENTS

- The capital investment programme will be £7.32 billion, about £0.86 billion less than set out in the Medium-Term Financial Strategy (MTFS).
- The Scottish Child Payment will increase in line with inflation to £28.20 a week, with a new payment of £40 a week for children under 12 months old to start in 2027/28.
- From April 2027, an Air Departure Tax (ADT) will come into force and the ADT framework will be used to introduce a private jet supplement in 2028/29.
- By August 2027 there will be breakfast clubs in every primary school, with additional plans for after school activities, swimming lessons for all primary students and summer activities to assist parents.
- For 2026/27 there will be a 10% increase in college funding.
- Workers in local government commissioned services across social care and childcare will be paid at least the real living wage from 2026/27 (£13.45 an hour for 2025/26).
- In 2026/27, the health and social care budget will increase by £713 million over the ABR projection of £21.76billion for the current year.