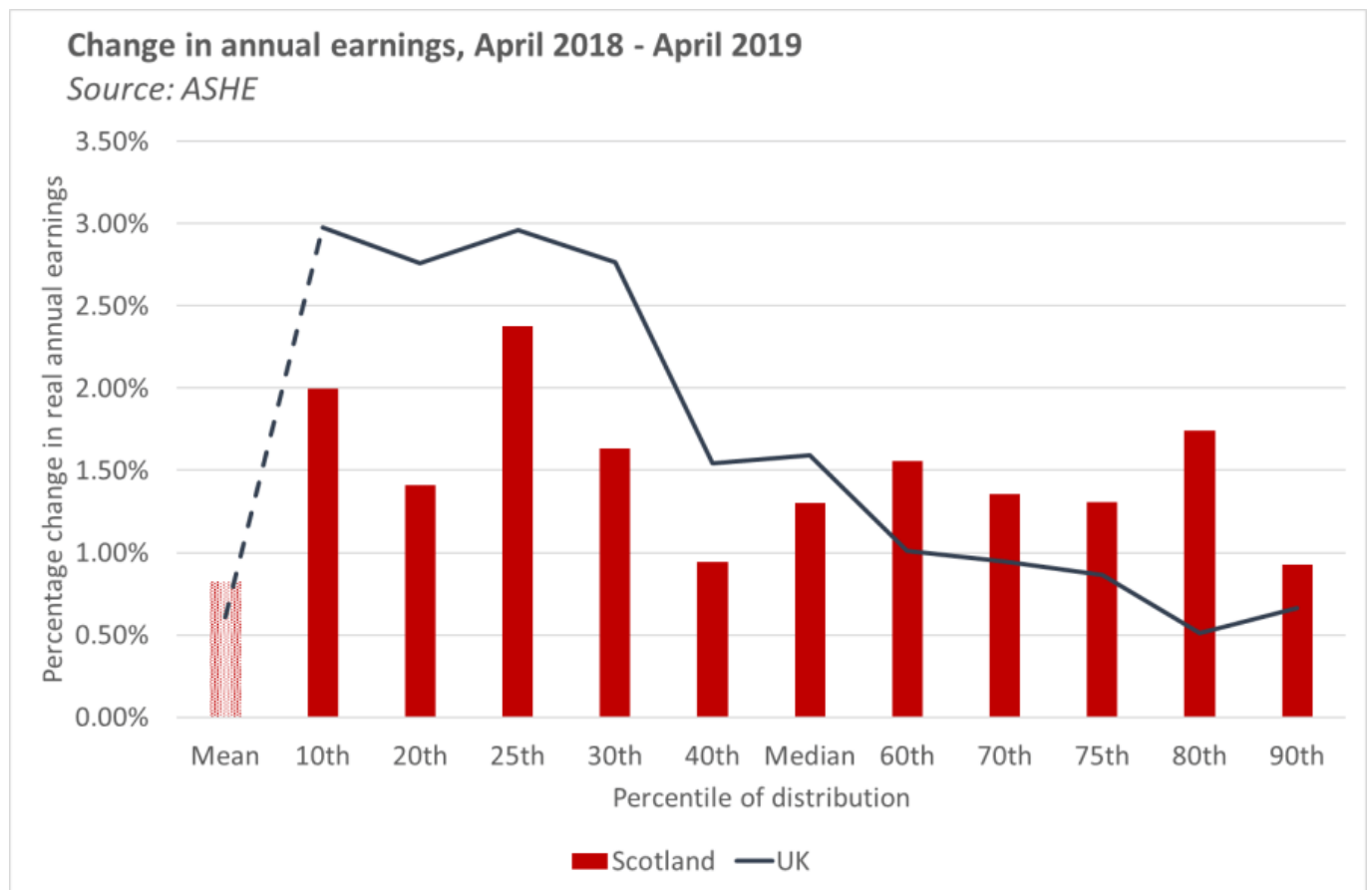


Today's release of annual earnings data shows that average annual earnings grew slightly more quickly in Scotland than in the UK between April 2018 and 2019... (2.9% in Scotland v. 2.7% in UK; or in real terms, 0.8% v. 0.6%).

More strikingly, earnings in the top half of the distribution grew more quickly in Scotland than they did in the UK, whilst earnings in the bottom half of the distribution grew less quickly in Scotland than in the UK.



This is potentially good news for Scotland's budget, given the importance of growth in Scotland's income tax base relative to the growth in the rUK's equivalent tax base in determining the resources available to the Scottish Government.

Perhaps that forecast income tax reconciliation of £600m in respect of 2018/19 will turn out to be not so large?

Before we get carried away however, there are a couple of caveats.

Latest data on earnings growth and possible implications for the Scottish budget

- First, there are other sources of earnings data, and they don't all pay such a positive picture. HMRC data on the pay of PAYE taxpayers shows that Scottish pay grew slightly slower on average than UK pay between 17/18 and 18/19.
- Second, as well as employee earnings there are other important determinants of the tax base, like employment rates and income from pensions and self employment.

And whilst the trends observed this year might be good news for the Scottish budget, it does mean that earnings inequality - measured by the ratio of earnings at the 90th percentile to the 10th percentile - increased more quickly in Scotland than in the UK last year (but remains lower than in the UK).

The trends observed in 2019 are the exact opposite of what was observed between 2017 and 2018, when average earnings grew slightly more quickly in UK than Scotland, and when inequality declined more in Scotland than in the UK.

This is a reminder not to place too much attention on annual fluctuations.

The Scottish Gov has argued that its budget in 17/18 was disadvantaged by faster growing inequality in rUK, which drove relatively faster rUK income tax growth. It will be harder to make that argument in respect of revenues in 2018/19.

On average in recent years, Scottish annual earnings have generally performed in line with the UK. Trends in earnings inequality have also mirrored the UK.

The exception was in 2017, which is the main reason why Scottish tax revenues ending up being less than the BGA in 17/18. We won't know the final position on Scottish income tax revenues until July 2020.

