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Clerk To the Finance Committee
Room T3.60
The Scottish Parliament
Edinburgh
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Dear Jim

LAND AND BUILDINGS TRANSACTION TAX – SIX MONTH UPDATE

You wrote to me on 28 March highlighting the recommendations made by the Committee in relation to the administration of Land and Buildings Transaction Tax (LBTT) by Revenue Scotland (RS) and Registers of Scotland (RoS). That letter requested an update each six months on progress in implementing LBTT.

As you are aware, the Land and Buildings Transaction Tax Act received Royal Assent in July. As a result of this, and Parliament's formal consent to powers which require a Scottish tax authority to carry them out, the Tax Administration Programme has moved from the initiation phase I set out in my previous letter to an implementation phase.

That letter also provided a high-level timeline of the work we expect to carry out on LBTT between now and April 2015. That timeline remains accurate and progress has been made against each of the areas set out. I have attached a revised version of the timeline which provides a more detailed breakdown of our work on data management and IT implementation; dates and key milestones have not changed.

We have been working on the priority areas – staffing in the short and longer term, process mapping, and data management – that I identified in that previous letter. We are also working with stakeholders to examine options for sub-sale relief from LBTT, in line with Mr Swinney's commitment during Stage 3 consideration of the LBTT Bill on 25 June, and are developing the subordinate legislation required under the Act. This letter provides a brief update on each of those areas, along with other key activity from the past six months.

I should note that, on each of these areas, we are taking a consistent approach to Scottish Landfill Tax, working with the Scottish Environment Protection Agency, although of course some of the detail of that work is dependent on the Scottish Landfill Tax Bill currently before Parliament.

Staffing

Revenue Scotland currently has a complement of 9 staff, focused on the transition to delivering the LBTT and Scottish Landfill Tax from April 2015. While these staff are focused on transition management and development of operational systems and policy, a key aspect of the work is defining the resources that will require to be in place and trained in time for the collection of taxes to start from April 2015. This will involve a change of emphasis over time from transition management to greater focus on tax administration. We expect this review of the staffing requirement for both the remaining period of set up, the final build up towards live operation and then operational steady state to be completed by December.

Respective Roles of RoS and RS

A key aspect of this is agreeing the detailed split of responsibilities under live running between Registers of Scotland and Revenue Scotland. This is guided by two principles: that our arrangements should be as convenient for the taxpayer as possible, and that we should make the best use of the professional expertise of staff in each organisation.

Some key aspects of the relationship between RoS and RS will depend on subordinate legislation and the Revenue Scotland and Tax Powers Bill which the Parliament will consider in due course; our operational arrangements will of course be subject to the Parliament's views on that legislation.

Joint working groups have been established comprising staff from Revenue Scotland, RoS and SEPA, looking at both LBTT and Scottish Landfill Tax. These groups are examining the duties to be performed, the demarcation of roles and the approach to be taken. Along with colleagues from HMRC, we are particularly focused on ensuring that taxpayers and their agents receive clear, comprehensive and timely communications prior to implementation and that a robust help facility and appropriate guidance are in place in advance of the transition from SDLT to LBTT.

The process mapping work described below is the basis for these decisions at operational level. It is important that Revenue Scotland and Registers of Scotland take the time to work through the process mapping in detail before reaching a final agreement on the split of responsibilities under live running if we are to ensure a fully joined-up service to taxpayers and their agents.

Process Mapping

We have been developing a detailed breakdown of the separate processes that will underpin the collection of LBTT, and an understanding of each process. These process maps will help us to test and agree the specific roles best undertaken by RoS and RS at each stage of collection. The aim is to ensure that LBTT due is collected accurately, efficiently and in a timely way.

We expect much of this work to be completed by the end of 2013; some aspects will be dependent on the subordinate legislation that follows the LBTT Act, and others will be dependent on the Revenue Scotland and Tax Powers Bill, so aspects of this work will continue into 2014.

Registers of Scotland progress

The RoS LBTT collection project remains on track with regards to progress against the timeline previously submitted to the Finance Committee and budget. An independent Gateway Healthcheck review of the RoS project to deliver an LBTT collection system was carried out by the Scottish Government Programme and Project Management Centre of Expertise in August. Based on a 5 point scoring matrix ranging from green, green/amber, amber, amber/red, red the project was assessed at green/amber. The review team concluded that the project was progressing well and that 'successful delivery appears probable...' Seven recommendations were made. Three of these have been completed with work having commenced on the remaining four, which relate to joint RoS and RS issues.

Data Management

A detailed understanding of these processes is also central to our decisions on data management – the system requirements for both RoS and RS and the point at which we will require data to be transferred from or shared between the two organisations. We expect the initial phase of this work to be completed by November to allow sufficient time for IT development or procurement.

It is already clear that the taxpayer-facing elements of the system will be developed by RoS, to ensure convenience for taxpayers given the close fit with land registration. RoS is in the requirements gathering phase of the project with detailed work continuing throughout October. The result of this work will be a comprehensive catalogue of user interactions with the collection system which in turn will be translated into system requirements. Through the requirements capture process we have developed a skeleton taxpayer facing system to enable stakeholders to input comments on the look, feel and functionality of the eventual system.

Further policy work – sub-sales

During Stage 3 consideration of the Bill on 25 June, Mr Swinney indicated that he intended to form a working group to examine options for providing relief from LBTT on sub-sales, where the same land is the subject of more than one transaction on a single day. Mr Swinney indicated that he would be prepared to consider introducing a relief where development was in prospect, and provided the risk of tax avoidance could be tackled satisfactorily. A working group has been formed and two meetings have been held. It is intended to describe options and provide advice to the Cabinet Secretary by the end of 2013. This work could lead to an amendment to the Act, which would be made by means of a Scottish Statutory Instrument under the Act.

Subordinate Legislation

A number of Scottish Statutory Instruments under the LBTT Act will require to be prepared and laid, in relation to, for example, acquisition relief, alternative finance investment bond relief,crofting community RtB relief, charities relief, licenses, multiple dwelling relief and transitional arrangements. Progress is being made with this work. Timetables have yet to be finalised. In addition, statutory instruments dealing with tax rates and bands will be prepared in line with the timetable indicated to the Committee by the Cabinet Secretary.

Communications

For taxpayers in Scotland, understanding the transition between the existing UK taxes – Stamp Duty Land Tax and UK Landfill Tax – and the new devolved taxes which replace them will be important. To this end, we have established a joint communications group with RS, RoS, SEPA, Scottish Government and HMRC to ensure that those affected by the changes receive accurate and consistent information about the transition.

RoS has established a stakeholder group involving representatives from key stakeholder groups including the Law Society and the Property Support Lawyers Group. The group has been set up to ensure that the on-line LBTT system is developed with users' needs at the forefront.

RoS and RS have started to raise awareness of the new tax with stakeholders more widely through a number of means. A key part of this has been to participate in joint presentations with the Law Society as part of the Law Society's autumn round of Conveyancing Roadshows. The audience at those roadshows, which were held in 7 locations throughout Scotland, will be the key parties transacting with RoS and RS on behalf of their clients.

Conclusion

As you know, the First Minister announced on 3 September that the Government would be bringing forward the Revenue Scotland and Tax Powers Bill to establish Revenue Scotland and to provide an overarching framework for the collection and management of devolved taxes. I know that in scrutinising that Bill the Committee will be keen to ensure that it provides a coherent and robust framework for the implementation of Land and Buildings Transaction Tax and Scottish Landfill Tax, and we will stand ready to provide any assistance which you would find helpful.

I hope that this is useful and look forward to the opportunity to discuss it further with the Committee on 30 October.

Yours sincerely

ELEANOR EMBERSON

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