

Scottish Fiscal Commission
4 Lilybank Gardens
Glasgow G12 8RZ

31 August, 2015

Convener
Room T3.60
The Scottish Parliament
Edinburgh
EH99 1SP

Dear Convener,

Thank you for your letter of the 27th and for the chance to speak to the Committee the day before. We welcome the interest the Committee continues to take in the Commission.

In response, let me start by saying that we value transparency and independence very highly indeed. I shall comment on that later, but first and for the sake of clarity, some comments in relation to your requests.

For the LBTT, there exist at this time three months' outturn data. There are three points to note.

First, as you know, there are no prior years' data for this new tax. Because of this fact and the fact that property transactions are highly seasonal, there are limits to the interpretation that can be made by extrapolating data from one quarter only to represent an entire year. We have therefore requested work to be done on seasonality.

Second, the data we do have reflect both forestalling and forecasting errors ('shocks'). There needs to be a way of separating the two in order to do a decent job of assessing the reliability of the government's forecasts so far. That, of course, requires us to get an idea of the performance of those forecasts outwith the forestalling period.

In sum, data which are still provisional, and which cover such a short period, necessarily provide limited insight. Nevertheless, as it's always good to get started, we have already done so – taking in comparisons to the OBR forecasts.

For SLfT, again Revenue Scotland has released three months' provisional data. As above, seasonality assumptions will by necessity be hypothetical,

We will also of course comment on the Scottish Government's forecast of forestalling and, in this case, some relevant data are available.

In the short term, the more data we have, the better the ability to analyse forecasts and outturn performance. Over time, the limitations I've described will be addressed by the availability of additional data and we continue, as you know, to challenge the Scottish Government to make improvements in this area.

You've asked for our response by October 30th, I trust in the knowledge of the constraints I mention above. We would note that providing such analysis alongside the draft budget would allow us to draw on published data for an additional quarter which, while not removing the limitations inherent in seasonality adjustments, would improve the robustness of the analysis. If you feel it would be more useful to the Committee to delay the Commission's report until further numbers are produced, please do let us know.

You have also asked us to come back to meet you in November; we are currently checking diaries for the date you specify and will revert shortly.

Finally, with regard to work on forestalling earlier this year, I can confirm what I stated at the meeting. We published a comment on forestalling in January. This was in response to a request from the Minister. He sent it directly on to the Finance Committee and we published his letters with our one on our website (as a reminder, www.Scottishfiscalcommission.org and also www.fiscal.scot). I attach, and will forward separately the correspondence which I'm sure you'll recognize once you've seen it again.

We are currently developing our website and considering how we might enhance the reporting of our activities. For example, now that we have some support, we will prepare formal minutes of our forecasting meetings. We intend to summarise each session on the website, publishing the minutes alongside our Report on the Draft Budget, and we are open to suggestions from the Committee as to what else we might reasonably do.

Meanwhile, we will be in touch with the Clerk regarding the November meeting of the Committee.

Sincerely,

Susan Rice
Chairman

Deputy First Minister
and Cabinet Secretary for Finance, Constitution and Economy
John Swinney MSP

T: 0300 244 4000
E: dfm@scotland.gsi.gov.uk

Lady Susan Rice CBE
Chair
Scottish Fiscal Commission

Issued by email



15 January 2015

Susan,

As you are aware, I published tax revenue forecasts for the devolved taxes in the 2015-16 Draft Budget which estimated the revenue from the tax rates and bands which I proposed at that time. I am now in the process of taking final decisions on the rates of Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax which will apply from 1 April 2015.

I am considering making changes to the rates and bands which I proposed for the taxation of residential properties under LBTT. If I decide upon new rates and bands, I will of course update my forecast of the revenue which I expect to raise from residential LBTT. While these forecasts will be based on the same underlying methodology as you reviewed ahead of the Draft Budget, I now intend to assess and reflect the impact of forestalling effects on the revenue raised in 2015-16 in light of the significant changes which the UK Government made to Stamp Duty Land Tax at the 2014 Autumn Statement.

I am writing to request that the Scottish Fiscal Commission scrutinises and provides a public view on any revised forecasts which the Scottish Government may produce. I intend to announce my final decision to the Scottish Parliament during the Stage 1 debate on Wednesday 21 January and it would be helpful if the Commission could be ready to report when I make my announcement. My officials will provide you with details of the methodology followed today and will make themselves available to the Commission to respond to any questions which you have.

John Swinney

JOHN SWINNEY

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.scotland.gov.uk



Deputy First Minister
and Cabinet Secretary for Finance, Constitution and Economy
John Swinney MSP

T: 0300 244 4000
E: dfm@scotland.gsi.gov.uk

Kenneth Gibson MSP
Convener
Finance Committee
Room T3.60
The Scottish Parliament
Edinburgh
EH99 1SP



22 January 2015

DEVOLVED TAXES – RATES AND BANDS

Further to the announcement which I made in Parliament yesterday, I am writing to provide you with further details on my planned rates and bands for Land and Buildings Transaction Tax and Scottish Landfill Tax from April 2015.

Land and Buildings Transaction Tax (LBTT) – Residential transactions

I confirmed to Parliament yesterday that I have reviewed the proposed LBTT rates and bands for residential transactions in order to ensure that I remain true to the principles which underlined the original proposals announced in the 2015-16 Draft Budget following the changes made to UK Stamp Duty Land Tax (SDLT) in December 2014.

I therefore intend to bring forward an Order to set residential rates and bands as follows:

<i>Purchase price</i>	<i>Rate</i>
Up to £145,000	-
£145,001 to £250,000	2.0%
£250,001 to £325,000	5.0%
£325,001 to £750,000	10.0%
£750,001 and over	12.0%

My decisions have again been influenced by the four maxims set out by Adam Smith, particularly that taxes should be proportionate to the ability to pay. These revised rates and bands prioritise support for first time buyers and are intended to assist people moving through the property market.

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.scotland.gov.uk



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Glasgow
G12 8RZ

21st January, 2015

John Swinney MSP
Deputy First Minister and Cabinet Secretary
for Finance, Constitution and Economy
St Andrew's House
Regent Road
Edinburgh
EH1 3DG

Dear Minister,

Thank you for your letter which I received on 16th January, asking the Scottish Fiscal Commission (SFC) to scrutinise and provide a view on any revised forecasts the Scottish Government may produce in light of the changes to the SDTT announced in the UK Government's 2014 Autumn Statement.

The most recent top-line estimate of LBTT tax revenues follows the methodology described and accepted as reasonable in our October 2014 Report. We note that the annual model has not been updated in line with any new data that have emerged in the few months since the time of the original report.

Based on our understanding of that model, we believe the most recent top-line revenue forecasts, before forestalling is taken into consideration, are a consistent application of the new tax schedule to the forecasting methodology which, as stated above, we have viewed as reasonable.

The calculation of the forestalling effect is both desirable and relatively straightforward in itself. However, it depends upon identifying the elasticity of the transactions with respect to anticipated changes in the tax schedules, which is less straightforward.

We have engaged with your officials, reviewed early and later versions of their analysis, and asked them to provide further and sufficient evidence on the value of this elasticity in order to enable the SFC to form a view of the reasonableness of that calculation.

Our understanding is that they continue to refine this work. We appreciate that it is complex and requires judgment. We will review any further evidence they can provide in support of the assumptions underpinning their forestalling calculation as and when it becomes available.

We would also note that the forecasts do not incorporate any behavioural responses to changes in tax regime beyond the forestalling effects; limited evidence we have suggests that these are likely to be important as well.

Thank you for the opportunity to comment on the revised forecasts.

With all good wishes,

Susan Rice
Chairman
