

This note updated the Scottish Fiscal Commission's analysis of forecasts vs outturns for LBTT given the new data from Revenue Scotland for October 2015.

Updated Comparison of Residential LBTT forecasts for 2015-16 with Outturns (in £m)

SG, Forecast Jan 2015	235	235	235
Forestalling	12 (SG min.)	20 (OBR)	37(SG max.)
Outturn Data to Date (Apr-Oct)	116.4	116.4	116.4
Outturn Data Adjusted for Forestalling	128.4	136.4	153.4
Outturn Data Annualised.	203.9	216.6	243.5
Estimated Forecast Error	31.1	18.4	-8.6

Initial estimates of the revenues from residential LBTT at the time of the Draft Budget for 2015-16 suggested revenues under the new tax would be £295m. Following the changes to the tax rates and thresholds in January 2015 this forecast fell to £235m with an additional possible fall in revenue estimated to be in the region of £12m-£37m due to forestalling effects arising from the changes to UK Stamp Duty.

Initial outturn data from Revenue Scotland indicate that liabilities of £116.4m have been generated over for the period between April and October 2015. In order to make this data comparable to the initial forecast we need to make assumptions about the extent to which this data has been affected by forestalling. We therefore add back the upper and lower bound of the Scottish Government's forecasts of forestalling, as well as the OBR's forestalling estimate of £20m to get a range of estimates of the revenues that would have been generated in the absence of forestalling.¹ We then scale these estimates by a measure of the seasonality in the housing market which suggests that typically 62.98% of revenues would be expected to have been raised over this part of the year. This gives rise to an annualized measure of the outturn data after adjusting for a range of potential forestalling effects of £203.9-£243.9m which can be compared with the pre-forestalling forecast of £235m, giving an implied estimated forecast error of between £31.1m and -£8.9m.

¹ This implicitly assumes that the effects of forestalling have ended by October 2015.

Updated Assessment of Forestalling

Month	Expected Tax Revenues (%)	Expected Tax Revenues (£m)	Actual Liabilities (£m)	Difference (£m)	Cumulative Difference (£m)
Apr	7.5	17.6	7	10.6	10.6
May	8.1	19.1	11.4	7.7	18.3
Jun	9.3	21.9	18.5	3.4	21.7
Jul	10.3	24.1	19.4	4.7	26.4
Aug	9.2	21.5	21.4	0.1	26.6
Sep	9.6	22.5	18.7	3.8	30.3
Oct	9.1	21.3	20.0	1.3	31.6
Nov	8.4	19.8			
Dec	9.8	23.0			
Jan	5.5	12.9			
Feb	6.1	14.3			
Mar	7.2	17.0			
Total	100.0	235.0			

Preliminary analysis by the Scottish Government, prompted by the Commission, exploring seasonality in the housing market implies that the shortfall in revenues over the period of April to October 2015 is around £31.6m and although early indications suggested that the gap between outturn and forecast had been eliminated by August 2015 (possibly implying that any forestalling effects had come to an end), this gap has subsequently widened again in September, before falling again in October. This suggests that either (1) the forestalling effects are larger and possibly more prolonged than anticipated, (2) that the underlying forecast is over-predicting revenues received for the year to date or (3) the process of seasonal adjustment in attempting to allocate an annual forecast across individual months is not accurately capturing the monthly variability in revenues observed this year.

Updated Assessment of Non-Residential LBTT

Non-residential LBTT revenues were forecast to be £146m in the Draft Budget of 2015-16. Outturn data from Revenue Scotland for the period April-October 2015 imply realized revenues of £101.6m. For this particular tax we are unable to produce an estimate of the seasonality in revenues and therefore simply adjusted the 7 months outturn data to obtain an annual estimate of £174.2m, which implies an estimated forecast error of £28.2m. Obviously this estimate is highly dependent on the extent of any seasonal pattern in the outturn data which we have not controlled for.

Caveats:

The above analysis is entirely dependent on our ability to move from part-year outturn data to generate an estimate of what that outturn data would imply revenues would be for the whole year. This is highly uncertain and a better measure of forecast accuracy will be obtained when the full year data is released.