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30 October 2015

Kenneth Gibson MSP
Convener, Finance Committee
The Scottish Parliament
Edinburgh
EH99 1SP

Finance.committee@scottish.parliament.uk

Dear Mr Gibson

ADMINISTRATION OF THE DEVOLVED TAXES – UPDATE FROM REVENUE SCOTLAND

1. This letter provides an update on the performance of Revenue Scotland in administering and collecting the devolved taxes since 1 April 2015, as requested in your letter of 27 August.

General Update

2. The first and most important point is that, since my previous report to the Committee on 27 February 2015, Revenue Scotland started its collection of both Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) on time and in line with the legislation. You will see from the statistics included in this report that we receive more than 97 per cent of our tax returns online, well above our first-year target of 90 per cent.

3. Our working relationships with Registers of Scotland (RoS) and the Scottish Environment Protection Agency (SEPA) continue to be extremely effective. RoS staff are processing paper returns and cheque payments on behalf of Revenue Scotland, and drawing real-time information about the submission of LBTT returns from the Revenue Scotland system to ensure that tax returns have been made before title is registered. SEPA has a tax team working with Revenue Scotland on SLfT compliance, and we have the benefit of all their environmental expertise in dealing with a complex tax. We meet RoS and SEPA quarterly to review progress under the Memoranda of Understanding. We also maintain a good working relationship with HMRC and continue to liaise with them on topics of joint interest at a local and national level.

Latest Outturn Figures

4. You asked in your letter for the latest outturn figures. The most recent figures from our monthly LBTT and quarterly SLfT statistical releases are shown at **Annex A**. Returns for SLfT for the second quarter of 2015-16, up to the end of September, are due by Friday 13 November.

5. Up to the end of September, more than £180m of LBTT has been collected. There is a transitional effect in the very early figures for LBTT which reflects the timing of returns. Taxpayers are required to submit their return within 30 days of the effective date of the transaction, so although some returns are submitted very quickly on or after the effective date, some returns can be up to a month later than the transaction to which they refer. During April, therefore, Revenue Scotland collected a lower-than-usual amount of LBTT, and HMRC was still collecting Stamp Duty Land Tax in April for some transactions which took place in March.

6. SLfT for the first quarter of 2015-16 was £37.4m, net of £1.8m of contributions to the Scottish Landfill Communities Fund.

Set-up and Operating Costs and Staffing Levels

7. You asked for information on costs and staffing levels. **Annex B** sets out figures for costs for 2014-15 and 2015-16 compared to the figures I set out for those financial years in my previous report to the Committee in February 2015. **Annex C** sets out total set-up costs for Revenue Scotland, again compared to the estimates provided previously in February 2015.

8. There are a few points that it may be worth noting on these figures:

- The total set-up cost for Revenue Scotland and collection of LBTT and SLfT is £5.5m. This compares to my estimate of £6.3m in February 2015.
- Staff costs for set-up in 2015-16 turned out to be £378k, when I had estimated £770k in my report to you in February 2015. The cost was lower as staff involved in the setting up of Revenue Scotland completed their work earlier than I had estimated and were then quickly able to find work elsewhere. We are now beginning work to plan for collection of air passenger and aggregates taxes in Scotland and are using the underspend on the previous set-up costs this year to fund the early work on the new taxes.
- Staff costs for Revenue Scotland operations for 2015-16 are projected to be around £227k higher than I had estimated in February, due to a combination of increasing the capacity of the team to prepare for introduction of new taxes and some staff costs turning out to be higher than originally estimated.
- The planned transfer of £275k from HMRC will most likely take place in the Autumn Budget Revisions.

9. The comparison between costs and revenues is also important. The £5.5m set-up cost for the devolved taxes and the total operating cost for 2015-16 of £3.8m were covered in full by

LBTT collected between 1 and 17 April. Operating costs for 2015-16 are 0.76 per cent of the £498m tax revenue forecast.

10. I have not included any figures for operating costs in 2016-17 or later years, as these will be subject to the outcome of the Spending Review. We are too early in the planning work for the implementation of new taxes to be able to give the Committee robust estimates of set-up cost, but the work going on now alongside policy development will inform the estimates which will be provided to the Committee for scrutiny along with further tax legislation.

11. The table at **Annex D** shows an up-to-date organogram for Revenue Scotland, covering both operational staff and the small group who are doing the early work on setting up the new taxes.

Level of Compliance Activity and Details of Compliance Yield

12. The diagram at **Annex E** shows the range of activity that falls under the general heading of 'Compliance'. In all of our compliance work, we remain very alert to the possibility of tax avoidance but, as yet, have not had to use the powers available under the General Anti-Avoidance Rule.

13. A significant proportion of our compliance staff's time is taken up in 'taxpayer-initiated' work, where taxpayers have requested a Revenue Scotland opinion on an area of uncertainty, have applied to defer the payment of LBTT or have applied for a pre-liability approval on SLfT.

14. We have run a number of risk assessment profiles on returns received which help highlight returns into which it may be appropriate to enquire or where further information is required. Some of our risk assessment is informed by intelligence received. Risk profiles also flag up cases where it appears there has been a more straightforward error, often in the calculation of tax compared to consideration declared. We undertake 'early interventions' to resolve these apparent errors primarily by asking taxpayers to amend their returns to correct the apparent error and this work has ensured payment of significant additional tax.

15. We have initiated a programme of information requests where we consider there may be something wrong with a return, but require further information to establish the correct position. Some of these have resulted in additional tax being paid and some have led to formal enquiries. We currently have a small number of formal enquiries open covering both LBTT and SLfT taxpayers.

16. Our compliance work has been initiated in stages: for instance, some taxpayer-initiated compliance work was underway before 1 April, but we have only relatively recently opened the first formal enquiries. No formal enquiries have been concluded and we have not as yet been involved in any criminal prosecution.

17. We have investigated the application of penalties and interest for some late returns and payments, and reviewed reasons given for delays in a sample of cases. It is not unusual to grant

a grace period to taxpayers and their agents when introducing new taxes or systems. In the interests of equity and certainty, the Revenue Scotland Board concluded that we should make a firm statement about the application of penalties and interest from a given date, and this was done on 1 October. We will apply penalties and interest for returns and payments due on or after 1 October which come in after their due dates.

18. We are taking a cautious approach to the measurement of compliance yield, so we are counting the additional tax only where we can directly link payment to action taken by Revenue Scotland. We are also measuring yield only at the time that the tax return is made reflecting additional tax resulting from our compliance work – so where we are taking actions now, for instance on SLfT pre-liability approvals, that we expect will lead to additional tax being collected in future years, we are not counting that additional tax as part of our compliance yield at this stage. To date, our debt management team has brought in £155k of tax that was not paid following simple reminders, and additional compliance yield of £135k has been generated from a combination of response to taxpayer-initiated issues, early interventions and information requests. Based on the work we have in hand and our experience to date, we estimate that we may generate between £800k and £1.5m of compliance yield in total by the end of this financial year and £3m to £4.5m in 2016-17 if we are able to retain the specialist compliance posts which were initially included in our staffing plans for one year only. We estimate that those posts should bring in between £2m and £3m of compliance yield during 2016-17.

Performance against Adam Smith Principles and Strategic Objectives

19. We publish data on a range of our Key Performance Indicators (KPIs) quarterly, and the latest data are at **Annex F**. It may be helpful to compare this to the Strategy Map from the Revenue Scotland Corporate Plan, included for reference at **Annex G**, which shows how these KPIs align to the Adam Smith Principles and the Strategic Objectives. There are several further KPIs where data will only be collated and published annually, and we will publish that information in our Annual Report during 2016.

20. Decisions have still to be taken on targets for three KPIs. On one of those, relating to the resolution of disputes, we shall have to wait until we have some experience of dispute resolution before it can be considered. For the KPIs on call waiting times and response to taxpayer correspondence, we had indicated that a decision would be taken after Q1 but, in practice, found that it would be helpful to have a little more data before asking the Revenue Scotland Board to take a decision on targets in these areas. The Board will consider KPIs on call waiting times and response to correspondence before March 2016 so that targets can be set for 2016-17.

21. I hope this information is helpful to the Committee. Dr Keith Nicholson, Chair of Revenue Scotland, and I look forward to discussing it with you on 18 November.

Yours sincerely,

A handwritten signature in blue ink that reads "Eleanor A Emberson".

Eleanor A Emberson.

Eleanor Emberson

Annex A: Latest outturn figures

Land and Buildings Transaction

Tax Monthly Statistics - September 2015

Table 1: All Notifiable Transactions

	Returns Received ¹	Total Tax Liabilities ²	Total Tax Received by 5th Working Day of Following Month ³	Total tax Received By Month To Date ⁴
Apr-2015 ^P	^C 7,490	£17,900,000	£17,700,000	£17,900,000
May-2015 ^P	^C 8,620	^R £24,100,000	£23,900,000	£24,100,000
Jun-2015 ^P	^C 10,980	^R £32,400,000	£32,200,000	£32,300,000
Jul-2015 ^P	^C 10,910	£37,500,000	£37,100,000	£37,500,000
Aug-2015 ^P	^C 10,440	^R £37,000,000	£37,100,000	£37,000,000
Sep-2015 ^P	10,010	£34,400,000	£34,200,000	£34,200,000

¹: All valid returns received during the stated month.

²: Total self-reported tax due on returns received during the stated month.

³: Total payments received by the 5th working day of the following month, where the return to which they relate was received during the stated month.

⁴: Total payments received by date of data extraction relating to returns received during the stated month.

^P: Provisional

^R: Revised

^C: Corrected

Table 2: Notifiable Residential Transactions

	Residential Returns Received ¹	Total Residential Tax Liabilities ²	Total Residential Tax Received By 5th Working Day of Following Month ³	Total Residential Tax Received By Month To Date ⁴
Apr-2015 ^P	^C 6,880	£7,000,000	£6,900,000	£7,000,000
May-2015 ^P	^C 7,810	£11,400,000	£11,400,000	£11,400,000
Jun-2015 ^P	^C 10,030	£18,500,000	£18,400,000	£18,500,000
Jul-2015 ^P	^C 9,940	£19,400,000	£19,200,000	£19,400,000
Aug-2015 ^P	^C 9,540	£21,400,000	£21,300,000	£21,400,000
Sep-2015 ^P	9,040	£18,700,000	£18,500,000	£18,500,000

¹: All valid residential returns received during the stated month.

²: Total self-reported tax due on residential returns received during the stated month.

³: Total payments received by the 5th working day of the following month, where the return to which they relate was received during the stated month.

⁴: Total payments received by date of data extraction relating to returns received during the stated month.

^P: Provisional

^C: Corrected

Table 3: Notifiable Non-Residential Transactions

	Non-Residential Returns Received ¹	Total Non-Residential Tax Liabilities ²	Total Non-Residential Tax Received By 5th Working Day of Following Month ³	Total Non-Residential Tax Received By Month To Date ⁴
Apr-2015 ^P	^C 610	^R £10,900,000	£10,800,000	£10,900,000
May-2015 ^P	^C 810	£12,600,000	£12,500,000	£12,600,000
Jun-2015 ^P	^C 950	^R £13,800,000	£13,800,000	£13,800,000
Jul-2015 ^P	^C 970	£18,100,000	£18,000,000	£18,100,000
Aug-2015 ^P	^C 900	^R £15,500,000	£15,800,000	£15,500,000
Sep-2015 ^P	970	£15,800,000	£15,700,000	£15,700,000

¹: All valid non-residential returns received during the stated month.

²: Total self-reported tax due on non-residential returns received during the stated month.

³: Total payments received by the 5th working day of the following month, where the return to which they relate was received during the stated month.

⁴: Total payments received by date of data extraction relating to returns received during the stated month.

^P: Provisional

^R: Revised

Scottish Landfill Tax Statistics

April to June 2015

Table 4: Quarterly SLfT Statistics

	Returns Received ¹	Total Sites	Total Tax Declared Due ²	Total Payments Received by 44th day ³	Total Payments Received to Date ⁴	Total of Scottish Landfill Communities Fund Payments ⁵	Total Standard Rate Tonnage ⁶	Total Lower Rate Tonnage ⁶	Total Exempt Tonnage ⁶
Apr-Jun 2015 ^P	34	51	£37,400,000	£37,300,000	£37,400,000	£1,800,000	472,900	270,300	297,700

¹: All valid returns received to date.

²: Total self-reported tax due on returns relating to the given quarter. Rounded to the nearest £100,000.

³: Total payments received by the 44th day after the end of the quarter to which the payment relates. Rounded to the nearest £100,000.

⁴: Total payments received to date relating to the quarter. Rounded to the nearest £100,000.

⁵: Total self-declared payments made to the Scottish Landfill Communities Fund relating to the quarter. Rounded to the nearest £100,000.

⁶: Rounded to the nearest 100 tons.

^P: Provisional

Annex B: Revenue Scotland Costs 2014-15 and 2015-16

	Latest - Oct 2015		Previous - Feb 2015		Variance	
	Actual 2014/15	Estimate 2015/16	Forecast 2014/15	Estimate 2015/16	Actual 2014/15	Estimate 2015/16
Revenue Scotland						
Staff Set Up	1,732	378	1,717	770	15	-392
Non-Staff Set Up	614	34	634	10	-20	24
Total Set Up	2,346	412	2,351	780	-5	-368
Staff Running Costs*	482	1,800	472	1,573	10	227
RS non-staff running costs*	29	542	31	668	-2	-126
Transfer in from HMRC - operational savings		-275		-275		
Total Running Costs	511	2,067	503	1,966	8	101
IT Investment - procurement & maintenance*	513	461	749	419	-236	42
IT Investment - additional staff	306	61	253	93	53	-32
Total IT Investment	819	522	1,002	512	-183	10
New Taxes early planning - Staff		343				343
New Taxes early planning - Non-staff		60				60
Total New Taxes	0	403	0	0	0	403
Total Revenue Scotland	3,676	3,404	3,856	3,258	-180	146
Registers of Scotland						
Set Up	234		280		-46	
Staff Running Costs*		181		240		-59
RoS non-staff running costs*		16		85		-69
Total Registers of Scotland	234	197	280	325	-46	-128
Scottish Environment Protection Agency						
SEPA set-up	268		240		28	
SEPA running costs*		496		502		-6
Total SEPA	268	496	240	502	28	-6
Additional Compliance Activity 2015-16 only*		247		259		-12
GRAND TOTAL	4,178	4,344	4,376	4,344	-198	0

Total operating cost* (items marked with asterisk)

3,743

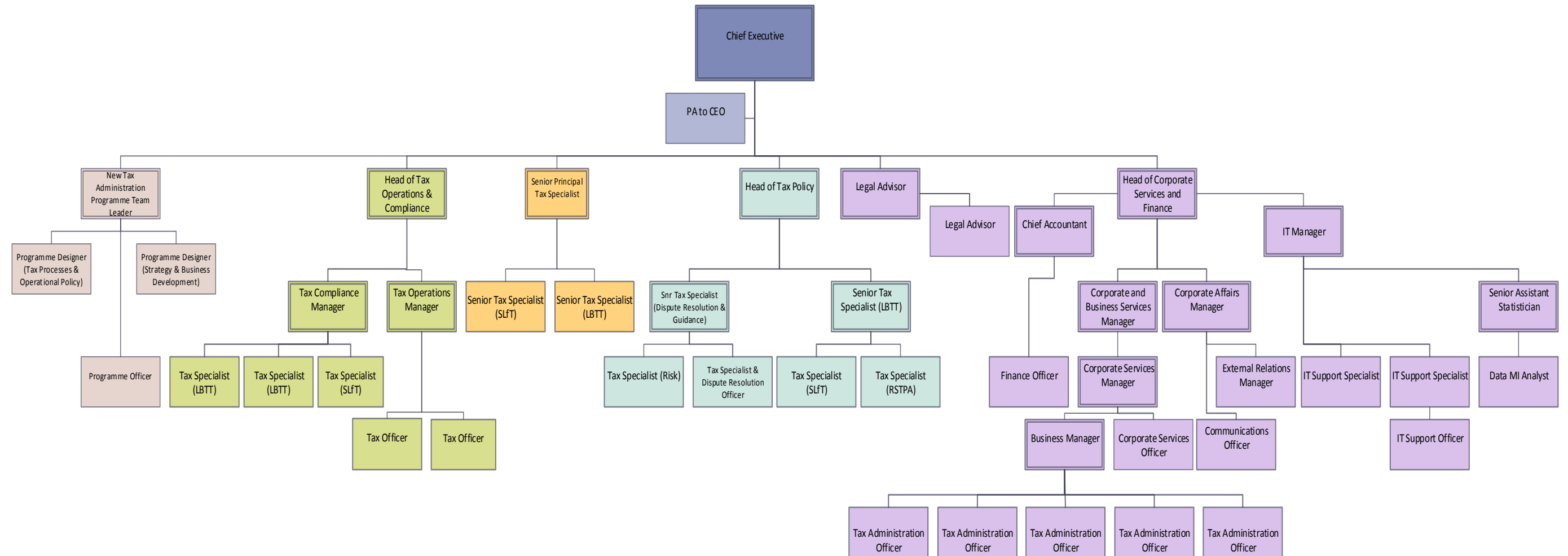
As percentage of forecast tax revenue

0.75%

Annex C: Revenue Scotland Set-up Costs

	2013-14	2014-15	2015-16	Outturn Total	Estimate February 2015	Variance
Revenue Scotland						
Staff Set Up	580	1,732	378	2,690	3,067	-377
Non-Staff Set Up	31	614	34	679	675	4
Operational Staff		482		482	472	10
Operational Non-Staff		29		29	31	-2
IT investment - procurement		513		513	980	-467
IT investment - additional staff		306	35	341	346	-5
Total Revenue Scotland	611	3,676	447	4,734	5,571	-837
Registers of Scotland						
Set Up	91	234		325	371	-46
Total Registers of Scotland	91	234	0	325	371	-46
Scottish Environment Protection Agency						
SEPA set-up	140	268		408	380	28
Total SEPA	140	268	0	408	380	28
GRAND TOTAL	842	4,178	447	5,467	6,322	-855

Annex D: Revenue Scotland Organogram



Annex E: Compliance Activity

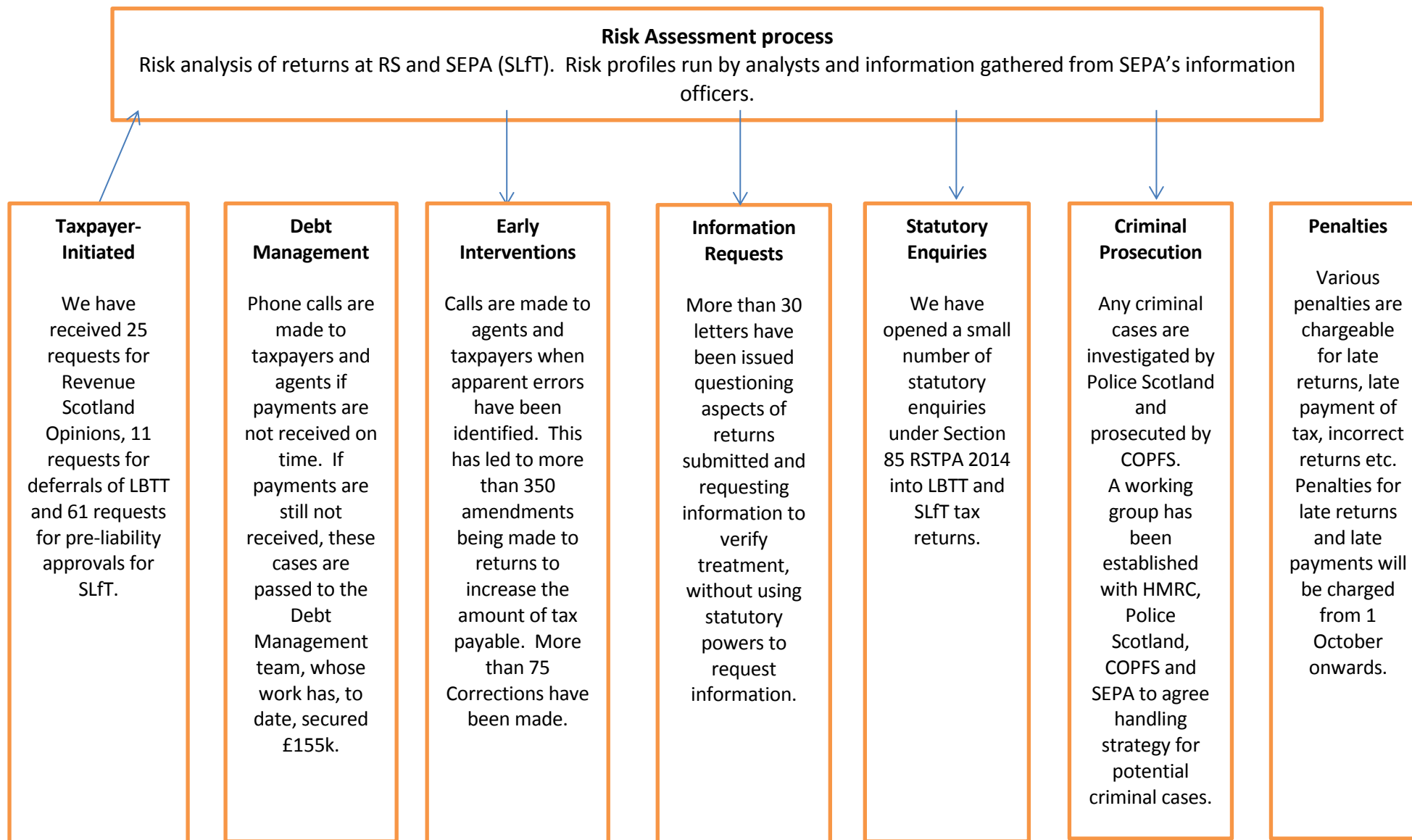


Table 1: Method of Return Submission

	Total Number of Returns	Total Number of Returns Submitted Online	Percentage of Returns Submitted Online
Q1 2015/16	27,177	26,490	97%
Q2 2015/16	31,390	30,743	98%

Table 2: Payments Made on Time

	Total Returns with Tax Due	Total Number of Payments Received On Time ¹	Percentage of Payments Made On Time ¹
Q1 2015/16	12,610	11,790	94%
Q2 2015/16	15,230	13,960	92%

¹: Payment received by either five working days after receipt of return *or* thirty days after effective date of transaction, whichever is sooner.

Table 3a: All Call Waiting Times¹

	Calls Received	Mean Waiting Time (seconds)	Median Waiting Time (seconds)	Maximum Waiting Time (seconds)
Q1 2015/16	2,498	11.8	7	749
Q2 2015/16 ²	1,872	10.8	7	399

¹: Excludes calls placed outwith Support Desk opening hours.

²: No call data are available for the period 01-07 July.

Table 3b: Answered Call Waiting Times¹

	Calls Received	Mean Waiting Time (seconds)	Median Waiting Time (seconds)	Maximum Waiting Time (seconds)
Q1 2015/16	2,460	11.7	7	749
Q2 2015/16 ²	1,831	10.8	7	399

¹: Excludes calls placed outwith Support Desk opening hours

²: No call data are available for the period 01-07 July.

Table 3c: Abandoned¹ Call Waiting Times²

	Calls Received	Mean Waiting Time (seconds)	Median Waiting Time (seconds)	Maximum Waiting Time (seconds)
Q1 2015/16	38	18.4	3.5	186
Q2 2015/16 ³	41	15.2	3	349

¹: Calls where the caller hangs up before speaking to a member of the Support Desk team

²: Excludes calls placed outwith Support Desk opening hours

³: No call data are available for the period 01-07 July.

Table 4a: All Written Communications

	Taxpayer Initiated Communications	Responses by 10 days ¹	Responses by 11-25 days ¹	Responses over 25 days ¹
Q1 2015/16	614*	582	26	6
Q2 2015/16	488**	467	16	5

¹: Whole or part working days between initial contact and substantive response.

*: Five additional pieces of correspondence were for information only and did not require a substantive response. Four secure messages were responded to by other methods (e.g. phone call) and consequently no response time data are available for these contacts and these contacts are excluded.

** : Three secure messages were responded to by other methods (e.g. phone call) and consequently no response time data are available for these contacts and these contacts are excluded.

Table 4b: Email Communications

	Taxpayer Initiated Communications	Responses by 10 days ¹	Responses by 11-25 days ¹	Responses over 25 days ¹
Q1 2015/16	574*	564	6	4
Q2 2015/16	423*	410	12	1

¹: Whole or part working days between initial contact and substantive response.

*: Emails sent to Revenue Scotland's corporate contact points only.

Table 4c: Postal Communications

	Taxpayer Initiated Communications ¹	Responses by 10 days ²	Responses by 11-25 days ¹	Responses over 25 days ²
Q1 2015/16	18*	5	11	2
Q2 2015/16	43	35	4	4

¹: Whole or part working days between initial contact and substantive response.

*: Five additional pieces of correspondence were for information only and did not require a substantive response.

Table 4d: Secure Message Communications

	Taxpayer Initiated Communications	Responses by 10 days ¹	Responses by 11-25 days ¹	Responses over 25 days ¹
Q1 2015/16	22*	13	9	0
Q2 2015/16	22**	22	0	0

¹: Whole or part working days between initial contact and substantive response.

*: Four secure messages were responded to by other methods (e.g. phone call) and consequently no response time data are available for these contacts and these contacts are excluded.

** : Three secure messages were responded to by other methods (e.g. phone call) and consequently no response time data are available for these contacts and these contacts are excluded.

Table 5: Number of Complaints Received

	Number of Complaints
Q1 2015/16	1*
Q2 2015/16	2**

*: Only complaints which progressed to stage 2 of our published Complaints process are included in the first quarter. Complaints resolved at stage 1 (frontline) were not recorded this quarter.

** : Complaints resolved at stage 1 (frontline) were only recorded from August onwards. Complaints resolved at stage 1 prior to this were not recorded.

Table 6: Number of Security Breaches

	Number of Security Breaches
Q1 2015/16	0
Q2 2015/16	0

Annex G: Revenue Scotland Strategy Map 2015 - 2016
REVENUE SCOTLAND PURPOSE

To collect the devolved taxes which fund public services for the benefit of all Scottish citizens

by delivering excellent tax administration founded on Adam Smith's four principles of equity, certainty, convenience and efficiency, built on a modern digital platform, with all involved working together in good faith to ensure that the right amount of tax is paid at the right time.

Adam Smith Principles

Equity: "Proportionate to the taxpayer's ability to pay: The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities"

Certainty: "The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person."

Convenience: "Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay..."

Efficiency: "Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state..."

KEY ACTIVITY AND PERFORMANCE INDICATORS

Direct compliance yield (A)

Proportion of all tax returns that receive no Revenue Scotland intervention (A)

Mean, median and maximum waiting time for all calls made to the support desk (Q)

Target: TBA after quarter 1

Total running costs as a percentage of money transferred to the Scottish Consolidated Fund + Scottish Landfill Communities Fund (A)

Positive stakeholder feedback on Revenue Scotland's taxpayer guidance (A)

Proportion of taxpayer correspondence received by secure message, email and post responded to within 10 and 25 working days (Q)

Target: TBA after quarter 1

Strategic Objectives			
<p><u>Collect</u> the right amount of tax from the full taxpayer base for each of the devolved taxes, using online technology to best effect.</p>	<p>Ensure <u>compliance</u> in payment of the correct amount of tax at the right time, resolving disputes as cost-effectively as possible</p>	<p>Build an effective, efficient tax authority with a reputation for high-quality <u>public service</u> to taxpayers and the people of Scotland</p>	<p>Attract, develop and retain a knowledgeable and skilled <u>workforce</u> who are engaged and motivated to deliver the functions of Revenue Scotland to the highest standards of professionalism and integrity.</p>
KEY ACTIVITY AND PERFORMANCE INDICATORS			
<p>Proportion of all due payments received a) on time (Q) b) within 3 months (A) c) within 1 year (A)</p>	<p>Mean, median and maximum days between enquiries being opened and closed (A)</p>	<p>Positive stakeholder feedback on Revenue Scotland's compliance with the Charter of Standards and Values (A)</p>	<p>Employee engagement index (A) <i>Target: to be in the top 25% of all civil service organisations</i></p>
<p>Proportion of all tax returns filed online (Q) <i>Target: 90%</i></p>	<p>Value of tax liabilities identified as a consequence of corrections, amendments, assessments, determinations and enquiries (A)</p>	<p>Number of data security breaches (Q) <i>Target: 0</i></p>	<p>Sickness absence rate (A) <i>Target: fewer than 7 average working days lost</i></p>
	<p>Number of disputes and time to resolution method (A) <i>Target: TBA after year 1</i></p>	<p>Number of complaints (Q)</p>	