

IMPLEMENTATION OF THE DEVOLVED TAXES – JOINT UPDATE FROM REVENUE SCOTLAND, REGISTERS OF SCOTLAND AND THE SCOTTISH ENVIRONMENT PROTECTION AGENCY, DATED MARCH 2014

As you know, I have undertaken to provide six monthly updates to the Committee on progress on the implementation of the devolved taxes. This letter provides a joint update from Revenue Scotland (RS), Registers of Scotland (RoS) and the Scottish Environment Protection Agency (SEPA) on our implementation work. I also attach an updated version of the timeline sent previously

Policy Development and Secondary Legislation

The programme of legislation for the devolved taxes is on target to be completed prior to the introduction of the devolved taxes in April 2015. Work is underway to publish public consultations on proposals for secondary legislation for both taxes shortly, with a view to laying the draft legislation in Parliament in the autumn. As you know, the Revenue Scotland and Tax Powers (RSTP) Bill, which is currently being considered by the Committee, proposes to establish Revenue Scotland as the tax authority responsible for the collection and management of Scotland's two devolved taxes. The bill team plans to consult on proposed secondary legislation in early summer 2014. The current timetables for the RSTP Bill and the secondary legislation should see everything in place in time by 1 April 2015.

Tax Administration Programme

The work to prepare for the administration of the devolved taxes is overseen by the Tax Administration Programme (TAP) Board. TAP underwent a second Gateway Review in February 2014, the first having been in April 2013. The overall assessment of delivery confidence was Amber.

The Gateway Review made a number of recommendations regarding the detail of programme and resource planning, and governance arrangements.

I have accepted all of the recommendations and in response have put measures in place to:

- increase the central resource dedicated to programme management in Revenue Scotland;
- ensure that our resourcing plans for 2014-15 reflect the Programme's critical path;
- establish a discrete IT Implementation Project Board within the programme; and
- put in place arrangements to separate the change management and operational teams within Revenue Scotland.

Revenue Scotland Staffing

Revenue Scotland division is headed by the Chief Operating Officer for Revenue Scotland, Nicolette Harrison. There are currently 16 staff employed within the division, focused on delivering the Tax Administration Programme to prepare Revenue Scotland to administer LBTT and SLfT. As indicated above, the emphasis

on transition management will change over time to a greater focus on tax administration.

We are currently finalising the expected staffing structure for Revenue Scotland in live operation, working with HR specialists to confirm appropriate workload and grading for individual posts. We will then begin phased recruitment and expect most of the operational staff to be in post from Autumn 2014.

The relationship between Revenue Scotland and RoS & SEPA

The work on 'taxpayer journeys' and process mapping, which will underpin decisions about roles and responsibilities over the course of 2014, has been discussed with the Committee previously and is due to be completed very shortly. Tables setting out the expected roles and responsibilities of each organisation have been shared for agreement. These will be formalised in due course into Schedules of Delegation, which the Board of Revenue Scotland will consider when it is formally constituted. These cannot therefore be finalised until the Board is in place, following the passage of the RSTP Bill through the Parliament.

Memoranda of Understanding describing the working relationships between RS, RoS and SEPA during the set-up phase to April 2015 have been drafted and are in the process of being signed off formally by RoS and SEPA.

Costs

Estimates lodged with SPICe following the Cabinet Secretary's statement on the Scottish Government's approach to taxation in June 2012 for setting up and running the devolved taxes – covering both Revenue Scotland and functions delegated to RoS and SEPA – totalled £16.7m. As the Committee is aware, this is 25% less, on a comparable basis, than HMRC estimated costs of £22.3m to set up and collect the devolved taxes over the period to March 2020. Our estimated costs for the basic collection of the taxes have not changed – they remain at £16.7m. This estimate was included in Financial Memoranda to the devolved taxes Acts.

Since our initial estimates, we have identified additional activities which will enhance our tax collection capacity, over and above the basis for the estimate provided by HMRC. There are four areas of cost associated with this.

First, it has become clear that we need to take a stronger approach to combatting tax avoidance. This is supported by key stakeholders, including the Tax Consultation Forum, and, as you know, by the Finance Committee itself. Revenue Scotland will tackle tax avoidance more robustly if it can store and analyse information about complex transactions – which requires IT investment with estimated set-up costs of £1m between December 2013 and 31 March 2015, and £100k per year maintenance costs from 1 April 2015 to March 2020. This is in addition to previous estimates from RoS and SEPA on IT investment.

Second, we are aware that other tax administrations – including HMRC – make additional investment in compliance work to gather extra revenue that more than covers the investment. As LBTT and SLfT will be new taxes, there is no baseline for

them for a “tax gap” – the difference between the tax collected and the tax actually due. Taking into account the differences between LBTT and the UK Stamp Duty Land Tax (which will reduce or remove some of the opportunities for avoidance present in SDLT) we make a conservative estimate that the tax gap for LBTT could be around £4.5m a year – £22.5m over the period from 1 April 2015 to 31 March 2020. We now plan to make a modest additional investment in tax compliance of £230k in financial year 2015-16, aimed at reducing the expected tax gap.

Third, there are costs associated with the application of SLfT to illegal disposals to landfill which were not covered by HMRC’s estimate, as the UK tax does not apply to illegal disposals. We estimate those will amount to £210k per year – £1.05m over the period 1 April 2015 to 31 March 2020.

Fourth, a Scottish Tax Tribunal will be established to consider appeals against decisions taken in respect of the devolved taxes by Revenue Scotland. The costs for the Scottish Tax Tribunal are expected to be around £120k for set up, around 70k for its first year and around £135k for annual running after that.. This means that, over the period from December 2013 to March 2020, the cost of the Scottish Tax Tribunal will be around £730k.

IT Implementation

We are on track to complete the first round of functional requirements very shortly. In April we will seek to finalise the solution design and the associated high level development and test plan. I am very grateful for the excellent co-operation and support from RoS and SEPA which has helped us reach this stage. The identified costs of the project are set out in the table below.

Allocated to	Cost Description	Set-up Costs (£000)	Reference
RoS	Build Cost of new LBTT System	75	Table 6
SEPA	Information Systems	350	Table 8
Revenue Scotland	IT Investment in Revenue Scotland	1,230	Table 1&2
Total		1,655	

In January, with the additional IT investment in Revenue Scotland approved, the TAP Board agreed in principle to a revised proposal from the project manager, following consultation with RoS, SEPA and internal stakeholders, for the overall IT Implementation. One likely consequence of this is that the amount of IT development work undertaken by RoS and SEPA will reduce, and Revenue Scotland will do more. There may be some revision to the budget allocations, and the project manager is working with colleagues at RoS and SEPA to identify potential opportunities. This change is about the data management behind the scenes and will not disrupt the key

requirement of convenience for the taxpayer through integrating tax collection with the other online systems run by RoS and SEPA.

The IT implementation project will also be subject to the Gateway Healthcheck Review process developed to provide additional assurance on significant IT projects and the first of two expected reviews is currently planned for May 2014.

Taxpayer Contact

The arrangements for taxpayers to contact Revenue Scotland, RoS and SEPA have been of interest to the Committee in previous discussions. Following consultation among Revenue Scotland, RoS and SEPA, a paper outlining the proposed principles and basis for taxpayer contact was approved by the TAP Board. The main points are:

- Following the policy set out in “Scotland’s Digital Future: Delivery of Public Services” the “first resort” for taxpayer contact should be self-service through online systems and this will be encouraged in guidance and publicity;
- But there will also be provision for:
 - A telephone service
 - A messaging service, managed within a secure customer account environment;
- The telephone service will be provided from a single number
 - There will be a triage of calls based on a short list of initial options
 - There will be the facility to transfer calls among RoS, SEPA and RS, without the need for the taxpayer or agent to redial
 - There will be the facility to transfer calls, where appropriate, from RoS and SEPA client management phone systems into the devolved taxes system; and
- Resourcing plans will be drawn up on basis of expected call volumes, which will include:
 - an estimate of the Scottish portion of calls about the existing UK landfill tax and SDLT
 - provision for an initial surge of calls during the set-up phase.

Stakeholder engagement and communications

Since the Cabinet Secretary first announced the Scottish approach to tax in June 2012, we have been engaged in a regular programme of discussions with stakeholders. We hold six monthly plenary meetings of the Devolved Tax Collaborative (DTC), which met most recently on 21 March to discuss the proposed consultations on secondary legislation for LBTT and SLfT. Also, staff of the Revenue Scotland division and the legislative teams in the Fiscal Responsibility division continue to work with key stakeholders including the Law Society of Scotland, ICAS and CIOT on individual issues relating to legislation and implementation. Additionally, we propose to convene a new group to user test the proposed IT systems: this will include the membership of, and draw on the earlier work of, the LBTT implementation group set up by RoS.

We also plan to engage with prospective taxpayers and their agents to ensure that those who will be using the tax system from 2015, as well as those with a more

professional interest in tax, understand the changes and are prepared for them. Revenue Scotland, RoS, SEPA and HMRC are working on a Joint Communications Plan, identifying the key audiences and appropriate activities to reach them. This plan, which will draw on the advice offered by key stakeholders, will enable us to ensure a common approach to communications from the two administrations.

The development of the Revenue Scotland website is also an important component of our communications work. We have held user testing workshops with members of the DTC and potential site users to seek feedback on the proposed content and organisation of the site. We intend that the initial “brochure” site (phase 1) will be in place by the early summer to provide information, with the transactional facilities (phase 2) to be operational shortly before the “go live” date for the new taxes. We are continuing to develop these plans in line with the Scottish Government’s overall approach to digital public service provision, which includes the ambition for a single “MyGov” portal for digital public services.

Registers of Scotland progress

RoS engaged closely with its stakeholder group throughout 2013 in support of the taxpayer journey work referred to further above. This informed the creation of a prototype system and in January led to the first iteration of the live system. Revenue Scotland has used this work to inform a full set of system requirements for a Scottish tax collection system. Although RoS’s role in IT build and maintenance will now reduce, it will be represented on the joint IT Implementation Project Board and Team. This will support the development of a one-stop-shop for the taxpayer for registration of property transactions and the collection of any associated tax.

SEPA progress

The SLfT project in SEPA is making progress in several areas. The project board – chaired by John Kenny, Head of National Operations – includes the Head of Finance, Head of IS, Head of Resilience and the Data Unit Manager, and meets on a monthly basis, supported by the project manager, and SEPA’s Programme Management Office. Recently two new staff have joined the SEPA Scottish Landfill Tax team, a Senior Waste Policy Officer and a Waste and Landfill Tax Manager. The board recently signed off the Project Initiation Document, which details the project content and structure and contains the project plan and communications plan. The project spend is currently on track with the budget as agreed with Revenue Scotland for 2013-14.

Together with Revenue Scotland, SEPA is currently forming business requirements to inform the IT development work, and working to finalise roles and responsibilities. SEPA has worked with partner agencies to progress data security issues and the impact of changes to information security classifications.

A page << http://www.sepa.org.uk/waste/scottish_landfill_tax.aspx >> has been added to SEPA’s website describing key aspects of SLfT and containing links to Revenue Scotland, Entrust and HMRC.

Illegal waste sites

Unlike the UK landfill tax, SLfT includes provisions to tax unauthorised landfill sites. This will support SEPA's environmental aims, as well as securing additional tax. As I mentioned above, SEPA will be given further funding to identify and investigate unauthorised sites. This will include establishing the potential tax liability associated with such sites. As well as providing increased tax revenue, this work will remove some of the incentives for unauthorised sites and establish a level playing field for the legitimate industry.

SEPA continues to work with, and support, Scottish Government tax policy in relation to the provisions within the RSTP Bill, particularly in relation to appropriate sanctions to deter non-payment of SLfT.

Conclusion

Overall, the programme of work to implement the devolved taxes is on track and within budget at this stage.

I have attempted in this update to provide more detailed information on issues which have been of interest to the Committee previously and I hope that this is helpful. I look forward to discussing it with the Committee on 2 April and I would be very happy to provide further information if required.

ELEANOR EMBERSON

