

## **IMPLEMENTATION OF THE DEVOLVED TAXES – JOINT UPDATE FROM REVENUE SCOTLAND, REGISTERS OF SCOTLAND AND THE SCOTTISH ENVIRONMENT PROTECTION AGENCY, DATED 17 OCTOBER 2014**

This letter provides the joint 6 monthly update from Revenue Scotland (RS), Registers of Scotland (RoS) and the Scottish Environment Protection Agency (SEPA) on progress on the implementation of the devolved taxes.

### **Policy Development, Consultation and Legislation**

As you know, on 9 October, the Cabinet Secretary for Finance, Employment and Sustainable Growth published the 2015-16 Draft Budget in which he announced his tax rate proposals for Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) from 1 April 2015. The Equality Budget Statement also contains a chapter on the devolved taxes.

We are aware that the Committee has launched a call for evidence on LBTT rates and bands and the findings of this scrutiny process will be considered by the Scottish Government before formally introducing rate-setting orders and seeking Parliament's approval of these proposals.

At the same time, the programme of consulting on and making subordinate legislation for the devolved taxes remains on target to be completed prior to the introduction of LBTT and SLfT in April 2015, subject of course to Parliamentary approval.

Consultation papers detailing proposals on secondary legislation for both taxes were published in May, and a further consultation specifically on LBTT sub-sale development relief followed in June. Following analysis of the responses, secondary legislation will be laid in Parliament in November.

The Revenue Scotland and Tax Powers (Scotland) Act 2014 (RSTPB) which will establish Revenue Scotland as the tax authority responsible for the collection and management of the two devolved taxes received Royal Assent on 24 September 2014. Consultation papers on proposals for secondary legislation and tax tribunal rules were published earlier this month. Following analysis of the responses to these consultations, secondary legislation will be laid in Parliament in early 2015.

### **Tax Administration Programme**

The last update noted that the Gateway Review of the Tax Administration Programme in February 2014 recommended that arrangements be put in place to separate the change management and operational teams within Revenue Scotland. This separation has been achieved with the creation of two divisions: the Tax Administration Programme and Revenue Scotland Operations. The Programme has also now been organised into six distinct projects which include a discrete IT Implementation Project in line with another of the Gateway Review's recommendations. The programme is progressing well and is on track to have arrangements in place for live operation from April 2015. The remainder of this

update provides some more information on specific areas which have been of interest to the Committee up to now.

### **Revenue Scotland Staffing**

As mentioned above, Revenue Scotland is now set up as two divisions within the Scottish Government with around 40 staff in total. The majority of staff are currently engaged on delivering the Tax Administration Programme to prepare Revenue Scotland for its tax administration role. We envisage the programme team starting to reduce in numbers from around March, but we would not expect to wind up the programme completely until around the autumn of 2015 to allow an orderly handover to the operational team.

We have agreed the anticipated future staffing structure for Revenue Scotland in live operation and are currently completing the detailed planning and preparation for the recruitment of 41 staff for the first year of operation in two main phases. The phasing has been developed to meet the operational needs of Revenue Scotland and make best use of resources. This means that some staff will not be required in post as early as was originally anticipated.

Recruitment for 10 roles is currently in progress or complete and a period of intensive activity is due to start within the next month on recruiting into further posts. This should allow for the majority of staff, including all key appointments, to be in post by February 2015.

We are also developing a training programme for all staff which will be delivered as operational staff are recruited in preparation for the administration of LBTT and SLFT.

### **Revenue Scotland Board and Statutory Positions**

The appointment of a Chair and Board members of Revenue Scotland is underway, following the standard public appointments process. This process is due to be completed by December.

In preparation for the arrival of the Board and the independent status of Revenue Scotland from early 2015, I will be working full-time as Head of Revenue Scotland from 20 October. This will allow me to provide appropriate support to the Board through to live operations and until the recruitment of a permanent Chief Executive.

### **Costs**

As the Committee is aware, the Financial Memorandum to the RSTPB reviewed and revised the initial estimates of the costs of establishing and running the devolved taxes that had originally been provided to the Parliament in June 2012. The revised estimates were based on the specific arrangements for LBTT and SLFT as now established by the Parliament, including the progressive structure of LBTT and the provisions to bring illegal waste disposal within the scope of SLFT.

Taking these into account, excluding the costs of the Scottish Tax Tribunals which are quite separate, the total estimate for setting up collection arrangements to meet

the needs of the Scottish taxes and operating these for the first five years was £19.5m. Although we expect that the additional costs will be significantly offset by additional tax revenue collected in later years, to ensure transparency we have not attempted to include any estimate of that in the total cost figure.

Since the last update, and following advice from the Gateway Review and other sources of assurance, we have increased resources for 2014-15 on the overall programme management and on certain key aspects of development of the processes and systems required to begin collection of the taxes on day one. This has included increased investment in staff costs for implementation, with some of these costs now falling in 2015-16. To ensure that we have additional capacity in the critical early months when we may have more queries and when systems are bedding in, we have also decided to slightly increase operational staffing for Revenue Scotland for its first year of operation.

Taking all of this together, our latest projection of the total cost of the set up and first five years of operation is £21.2m. This total cost continues to compare favourably with the original estimate of £22.3m which HMRC gave for the cost of the set up and first five years of operation of the two taxes on a like-for-like basis with existing Stamp Duty Land Tax and UK Landfill Tax.

### **IT Implementation**

Following the completion of functional requirements in April, we considered potential IT solutions which led to a procurement exercise over the summer for the tax collection and tax administration elements of the system. The procurement exercise was completed in August and European Dynamics has been appointed as the supplier.

Development of the system between now and go-live is being managed in two phases – a contingency release, which will provide the core system to process tax returns, and a business release which will include a portal for online submission. The online submission elements of the system will be demonstrated to and tested by prospective users of the system over the winter.

### **Taxpayer Contact**

Since the principles for taxpayer contact were agreed by the TAP Board, as noted in my last update, specifications for the telephony and secure messaging system have been completed and a procurement exercise is underway for a call handling system.

The single telephone number for Revenue Scotland will be secured by the end of the year and the telephony system will be in place for the end of January, in preparation for initial operational contacts in February 2015.

### **Stakeholder engagement and communications**

In the last six months, our stakeholder engagement and communications activities have focussed on 'awareness raising', for the interested audiences of both taxes and the new framework for collecting and managing devolved taxes. In addition to the

six-monthly meetings of the devolved tax collaborative, we have continued to build relationships with the Law Society and ICAS through regular bi-laterals with the appropriate committees of those bodies. Where at all possible, we have tapped into existing channels of communication, rather than set up bespoke events, to reduce demand on stakeholders' time.

The six month period to go-live will see us sharpen the focus of our communications towards what the changes will mean for key stakeholders, and the action they need to take to prepare for the introduction of the taxes from 1 April. Our communications for this period will be shaped by the development of guidance for the taxes, our tax processes, and the IT portal through which agents will complete online returns and make electronic payments.

There was a considerable amount of communications activity for the announcement of the proposed rates and bands for LBTT and SLfT as part of the Cabinet Secretary's Draft Budget statement. These activities were coordinated across the communication teams of Revenue Scotland, Scottish Government, HMRC, RoS and SEPA. The Revenue Scotland communications team also launched a set of tax calculators at the time of the announcement, which allows taxpayers to calculate their LBTT liability on purchases and leases of land and property in Scotland from 1 April next year, assuming the rates and bands proposed by the Cabinet Secretary.

The Revenue Scotland website has been under development over the summer and has been user tested by a small group of stakeholders. Security testing has also taken place, and following a short period of refinement and re-testing, we expect the site to be live later in the autumn. Shortly after this, work will start on user-testing the guidance online, and we have already approached a small group of end users to provide input on this.

The communications team is also planning for the consultation and publication of the Charter of Standards and Values. We will consult informally with key stakeholders and use these discussions to inform a draft consultation, which we intend to launch in early 2015.

### **The relationship between Revenue Scotland and RoS & SEPA**

RoS and SEPA are fully engaged in the Tax Administration Programme for the setting up of Revenue Scotland. They are active on the Programme Board, and attend weekly meetings on assumptions and issues, as well as ad-hoc meetings to deal with the specifics of ensuring that taxpayers are provided with a seamless journey. Similarly, Tax Administration Programme Managers are active on RoS and SEPA Project Boards.

We also have work well in hand to document the relative roles and responsibilities of each organisation in 'steady state' operations. These relationships will be set out formally in Memoranda of Understandings (MoUs) and Schedules of Delegation between RS and SEPA and RS and RoS. The MoUs will also be supplemented with Information Sharing Agreements which will cover how information will be shared securely between the organisations.

We would expect to share draft MoUs and Schedules of Delegation with the Boards of the three bodies soon after Revenue Scotland's Board members have been appointed. We will then be happy to share these also in draft with the Finance Committee.

### **Registers of Scotland progress**

RoS have provided a supplementary progress report on Land and Buildings Transaction Tax implementation for the Committee at **Annex B**.

### **SEPA progress**

SEPA have provided a supplementary progress report on Landfill Tax implementation for the Committee at **Annex C**.

### **Conclusion**

I hope that this update is useful to the Committee and I would be happy to answer any further questions.

Yours sincerely

**ELEANOR EMBERSON**

## **REGISTERS OF SCOTLAND: PROGRESS REPORT ON LAND AND BUILDINGS TRANSACTION TAX IMPLEMENTATION, DATED 16 OCTOBER 2014**

1. RoS continues to work closely with colleagues from Revenue Scotland, HMRC and SEPA in implementing Scotland's new tax collection system. RoS has its own internal LBTT Project and is represented on the Tax Admin Programme Board, the Revenue Scotland IT Implementation Project and the Revenue Scotland Tax Processes Project.

### ***Roles and responsibilities***

2. RoS is clear as to roles and responsibilities that are intended to be delegated to it by Revenue Scotland. There are 4 principal aspects to this:

- (i) We will check upon receipt of an application for registration that it complies with section 43 of the LBTT (Scotland) Act 2013; namely that a land transaction return has been made in relation to the transaction. Operational guidance for RoS staff is being drafted and appropriate training will be provided prior to the launch of LBTT.
- (ii) We will receive and process any paper LBTT returns and any associated payment. RoS staff will enter the information on the LBTT return directly in to the Revenue Scotland system. We have developed resource modelling assumptions around this based on a range of scenarios for rates of paper submission.
- (iii) We will support Revenue Scotland's compliance activities by providing a regular data feed of all relevant applications registered in the Land Register and the Books of Council and Session. RoS already supplies such data to HMRC.
- (iv) We will have a role to play in the event that system contingency has to be invoked. The detail of this is being worked upon.

### ***IT***

3. In terms of the provision of IT the role of RoS is limited. We fully support the decision for Revenue Scotland to build a centralised IT system. The principal IT activities for RoS are:

- (i) to enable the Revenue Scotland system to have access to our authentication server; thus enabling solicitors who have already been authenticated by RoS to access the Revenue Scotland system without the need for further authentication.
- (ii) To receive and transmit data to and from Revenue Scotland.

### ***Stakeholder engagement***

4. RoS will support Revenue Scotland's communication and engagement strategy. We have worked with Communications colleagues from Revenue Scotland to have LBTT information included at our Land Registration etc. (Scotland) Act 2012

stakeholder events. We are running 17 such events throughout Scotland between end September and late November to which circa 1800 solicitors and other legal professionals will attend. These provide an invaluable opportunity for key LBTT information to be disseminated to a wide range of stakeholders.

## **Registers of Scotland**

## **PROGRESS REPORT FROM SEPA ON SCOTTISH LANDFILL TAX IMPLEMENTATION, DATED OCTOBER 2014**

### **SLfT Project Progress**

The Scottish Landfill Tax Project in SEPA continues to make good progress with Monthly Project board meetings and a Scottish Landfill Tax (SLfT) project team now well established in SEPA. Open and productive working relationships are maintained and weekly highlight reporting is provided to Revenue Scotland.

In September 2014 a separate but closely aligned project was established to manage the delivery of SEPA's role as regulator of the Scottish Landfill Communities Fund. SEPA, Revenue Scotland and the Scottish Government worked together to resolve legal questions on SEPA's ability to undertake this role and this has brought greater clarity to the operation of this fund.

Progress has been made in relation to relative roles and responsibilities. A paper on compliance activity was agreed by the TAP Board. This describes SEPA's roles and responsibilities in relation to compliance, inspections and enforcement of Scottish Landfill Tax. Both SEPA and Revenue Scotland attended a Landfill Tax inspection undertaken by HMRC in August 2014 in order to better understand HMRC's current compliance and inspection processes.

SEPA has provided detailed comments direct to Scottish Government on the Landfill Tax Regulations following the consultation period and continues to work closely with Scottish Government staff producing legislation for the implementation of SLfT.

A Landfill Operators Workshop was held on 17 June 2014, hosted by SEPA and RS and was well attended with 45 operators and sector representatives present. Revenue Scotland presented on various aspects of the new tax and Scottish Government Fiscal Responsibility and initiated discussions on aspects of the legislative consultation. The event was well received and views were clearly expressed.

In April 2014 a decision was made by Revenue Scotland and SEPA that SEPA will not collect tax data or process any SLfT financial transactions on behalf of Revenue Scotland. This is seen as the best option given that Revenue Scotland are developing an IT system to hold taxpayer information and this approach also overcomes the requirement for SEPA to build a bespoke IS system with sufficient security specification to hold tax return data. The focus for SEPA will be on collection of tax in the wider sense; SEPA will have a significant role in compliance activity in relation to authorised and unauthorised sites to maximise the collection of the SLfT. SEPA will provide landfill site data to assist Revenue Scotland in the registration process and share routinely submitted waste data from landfill sites. SEPA will also undertake analysis of this data and provide this to Revenue Scotland for compliance purposes.

Revised costs projections for the SEPA project phase to April 2015 and also running costs from April 2015 have been agreed with Revenue Scotland. Reduced project costs reflect a lesser IT role and the agreed running costs will enable recruitment to go ahead to ensure SEPA is resourced to undertake this new role from April 2015

onwards. Project spend for the year 2013-2014 was within the budget and is projected to be within budget for the year 2014-2015.

A webpage is maintained on SEPA's website describing key aspects of Scottish Landfill Tax and contains links to Revenue Scotland, Entrust and HMRC.

See [http://www.sepa.org.uk/waste/scottish\\_landfill\\_tax.aspx](http://www.sepa.org.uk/waste/scottish_landfill_tax.aspx).

General awareness training is being rolled out to SEPA staff from late October 2014.

### **Illegal Waste Sites**

SEPA welcomes the provisions within the Landfill Tax (Scotland) Act 2014 which includes the liability to pay the Scottish Landfill Tax for unauthorised landfill sites.

SEPA will receive funding as part of the 2015-16 running costs to undertake specific work in relation to the identification and investigation of unauthorised sites which are liable to pay the SLFT. This will include establishing the potential tax liability associated with such sites. As well as providing increased tax revenue this work should remove some of the incentives for unauthorised sites thus promoting a level playing field for legitimate industry.

Revenue Scotland, Scottish Government, Crown Office Procurator Fiscal Service and SEPA have met to discuss potential issues with enforcement of SLFT with POCA, civil recovery and common law fraud.

### **Scottish Landfill Communities Fund**

The existing credit scheme associated with the UK Landfill Tax is to be replaced with a Scottish version titled the Scottish Landfill Communities Fund (SLCF), over a two year period, April 2015 to March 2017. This optional credit scheme will allow landfill operators to contribute a capped proportion of their tax liability to be used for environmental and community projects. Up to 90% of contributions to the fund can be off-set by landfill operators against SLFT liability.

Revenue Scotland formally asked SEPA to regulate the fund on their behalf on a cost neutral basis. SEPA have agreed to undertake this responsibility and continue to liaise with the Scottish Government and Revenue Scotland while the subordinate legislation is being developed. An approach is being developed with the aim of reducing administration costs and simplifying the operating model of the Fund.

SLCF Projects in Revenue Scotland and SEPA are working closely to ensure everything required for the operation of this fund in Scotland is produced in the tight time scale that remains before April 2015. Guidance and procedures for SEPA and Revenue Scotland will be produced in conjunction with external communication materials for landfill operators, environmental bodies and projects ahead of the two year hand over period. A SLCF Stakeholder Conference in August 2014 was hosted by Zero Waste Scotland, Revenue Scotland and the Scottish Government to engage with interested parties and listen to opinions on the proposed SLCF Regulations and operating model.