



The Scottish Parliament
Pàrlamaid na h-Alba

Finance and Constitution Committee

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Dear Derek,

VAT assignment in Scotland

As you are aware, the Committee has taken a keen interest in development of the methodology being used for assigning VAT in Scotland. During our pre- budget and budget scrutiny, we explored how robust the model was and whether there were any potential risks associated with VAT assignment in Scotland.

The Committee concluded that basing VAT assignments for Scotland on estimated figures could introduce further volatility into Scotland's finances and recommended that both Governments should continue to review the methodology used for assigning VAT to Scotland during the implementation year to ensure its robustness and reduce the risk of introducing yet further volatility into the Scottish budget.

These issues were explored further at its meeting on 13 March 2019, where we held a roundtable evidence session and agreed to write to you highlighting the issues raised during discussion. The Official Report and papers for that meeting, including a briefing paper from the Committee's Adviser, can be accessed on the Committee's website—

<https://www.parliament.scot/parliamentarybusiness/CurrentCommittees/101355.aspx>

The Committee were told that the main challenge in assigning VAT was in how to calculate a robust estimate. Witnesses said that the risk to the Scottish Budget from assigning VAT revenues could be increased given the statistical uncertainty inherent in forecasting and estimating VAT receipts in Scotland.

Questions arose around the data sources being used in the model, such as the annual survey in hours and earnings, as opposed to real time information from HMRC. Witnesses said that there is a need for more transparency around these issues and for more detail on the variability in the methodology of the data sources being used in the

model. It was also suggested that the sample size being used may be too small and that using information based on one year, as opposed to taking an average over a number of years, could reduce the reliability of the estimates.

We explored the possibility of an alternative model based on actual outturn figures as opposed to estimates however, witnesses were not convinced that this would produce more accurate results and highlighted numerous difficulties associated with setting up a Scottish VAT system including the major administrative burden this would put on Scottish businesses.

The Committee intends to take evidence from you on these issues in May and I would be grateful if you could respond to this letter in advance of that evidence session.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Bruce Crawford".

Bruce Crawford MSP
Convener