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Rt Hon Elizabeth Truss MP
Chief Secretary to the Treasury
HM Treasury
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15 May 2019

Dear Liz,

I am writing to reiterate my profound concerns about the proposed approach to VAT assignment, and to highlight the now clear need to delay its introduction.

I am committed to honouring the Smith Commission's recommendations on VAT assignment. However, this can only proceed when a robust approach has been agreed. Furthermore, an act of fiscal devolution should be meaningful and full devolution - as opposed to assignation of revenues - of VAT would have the capacity to be a genuine fiscal power.

I remain concerned about the hugely uncertain context in which we are being asked to accept VAT assignment, with no power over setting rates. As the Cabinet Secretary for Finance, Economy and Fair Work, I must ensure that the implementation of any new fiscal instrument supports fiscal accountability, without imposing a disproportionate level of financial risk on the Scottish Government.

The current approach to implementing VAT assignment does not offer the requisite assurance on the stability of Scotland's finances. I recognise that with any tax there will be volatility of revenues. Despite the best efforts of both sets of our officials, however, significant volatility would remain under the proposed assignment approach. We are being asked to take on significant risk, mostly as a result of the methodology used, and without the levers to manage it appropriately. As it stands, the survey-based methodology, combined with the lack of the verifiable outturn data available for all other devolved taxes, is not an appropriate basis for assigning annual revenues of almost £6 billion.

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Furthermore, it would be reckless to implement this approach at a time of such extreme uncertainty. EU exit will add significant volatility and uncertainty to VAT receipts, and Scotland does not currently have the full levers necessary to combat such volatility. Under current intentions, the baseline year for VAT receipts coincides with plans for exiting the EU. Robust and reliable VAT forecasts cannot feasibly be constructed in this uncertain environment. This view has been echoed not only by the Scottish Parliament's Finance Committee, but also by stakeholders such as Audit Scotland, the Fraser of Allander Institute, and the Chartered Institute of Taxation.

I recognise the significant work by officials to reach this stage, and the investment of resource. The work done to date on VAT assignment has value in its own right, and we are keen to continue to support this work and for HMRC to publish the results as experimental statistics.

I hope you recognise, as stakeholders in Scotland do, that to implement VAT assignment in Scotland, with such significant doubts about the robustness of the approach, would be detrimental to the robust running of the country's finances. It would therefore be contrary to the aims and intentions of the Smith Commission. I have discussed this issue with the Scottish Parliament's Finance Committee, and it was evident that they shared similar concerns. They are supportive of my call that more time is needed to provide reassurance that VAT assignment is a robust instrument; and that, if it does not prove to be so, alternative options should be considered. As a result, the only appropriate course of action at present is to seriously consider the case for a delay to the implementation of VAT assignment and review the case at the time of the Fiscal Framework review.



DEREK MACKAY

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