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21 February 2017

Dear Bruce

REPORT ON THE FIRST YEAR’S OPERATION OF THE LAND AND BUILDINGS TRANSACTION TAX

I am writing to you to respond in full to the publication of the Finance and Constitution Committee’s LBTT Inquiry “Report on the First Year’s Operation of the Land and Buildings Transaction Tax”.

Firstly, I would like to record my sincere thanks for what is a very comprehensive and balanced report. As I said at my evidence session to the Inquiry on 26 October 2016, it is important to hear all the available evidence from a range of stakeholders and the report makes a valuable contribution to the existing evidence base on LBTT.

I am pleased to note the Committees conclusion that the transition to LBTT in Scotland has gone well and that the first year has been operationally successful. In the attached annex, you will find our response to each of your recommendations.

On the specific subject of a review, my letter to the Committee of 26 August 2016 stated that we would provide a report on the 2015-16 outturn at the Draft Budget in addition to that already provided by Scottish Fiscal Commission (SFC). The written evidence that I submitted to the Committee provided a detailed review of how LBTT had been performing up to July 2016. This included an assessment of the four issues raised in the Committee’s call for evidence: the impact of LBTT on the property market; achievement against our principles of “fairness, equity, and the ability to pay”; comparison of 2015-16 outturn and forecast; and the impact of forestalling. The Devolved Taxes Methodology Report which the Scottish Government published alongside the Draft Budget built on this and included a further assessment of the 2015-16 LBTT outturn. I also reviewed the available statistical evidence (including that in the Inquiry report) to inform my decisions on maintaining the current LBTT rates for 2017/18. In addition to this, and as recommended by the Committee, the monthly Revenue Scotland publication now provides a breakdown by LBTT band for all months back to April 2015 which increases transparency by allowing for greater public scrutiny of trends in different segments of the market.
After careful consideration it is my view that the material published by the Scottish Government, combined with the thorough report from the Committee, has meant that there is now a detailed and comprehensive set of information of the first year of LBTT and has in effect superseded the need for a formal review.

For 2016-17 onwards, our response sets out details of the on-going work we will do with the SFC and Revenue Scotland on the most effective way to monitor and assess the progress of LBTT in future. As part of this work we would also be happy to engage with the Committee on what sort of information would be helpful to assess to further.

DEREK MACKAY
ANNEX 1: INITIAL SCOTTISH GOVERNMENT RESPONSE TO LBTT INQUIRY RECOMMENDATIONS

Introduction

7. The Committee invites the Scottish Government to consider this report as part of its review of the first year’s operation of LBTT.

Response: The Scottish Government welcomes this comprehensive report which makes a valuable contribution to the existing evidence base on LBTT. The Scottish Government has listened to the evidence provided to the Committee and has carefully considered the findings of the report in its analysis and the subsequent Draft Budget 2017-18 tax decisions on rates and bands.

In the evidence paper submitted to the LBTT Inquiry in August 2016, I provided a detailed review of how the tax was performing up until the publication of the July 2016 data. There was also an assessment of 2015-16 outturn in the Devolved Taxes Methodology Report and the rationale for my decisions on maintaining the current LBTT rates and bands for 2017-18 was set out as part of the Draft Budget.

Furthermore, transactions by price band from Registers of Scotland and the transactions and revenue information by LBTT band from Revenue Scotland is now publicly available (in line with the Committee’s recommendations below). This has increased transparency by enabling any interested party to access the latest data showing trends in different price segments of the housing market. The links for these two sets of statistics are here:

RoS Quarterly statistics time series

Revenue Scotland LBTT monthly data

As a result there is now a detailed and comprehensive set of information available on the first year of operation of LBTT. Collectively, we think these factors have in effect superseded the need for a formal review.

Background

13. The Committee asks the Scottish Government to confirm what percentage of LBTT tax payers in 2015-16 paid either less tax than UK SDLT or no tax at all.

Response: The following table for 2015-16 for residential LBTT in Scotland shows that 93.1 per cent of LBTT transactions attracted either less tax than UK SDLT or no tax at all. The table also shows the breakdown of the 93.1 per cent figure.
<table>
<thead>
<tr>
<th>Number of LBTT residential transactions</th>
<th>% of taxpayers (incl. zero payers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paying no tax</td>
<td>45,230</td>
</tr>
<tr>
<td>Taken out of tax (compared to SDLT)</td>
<td>9,690</td>
</tr>
<tr>
<td>Paying less tax (compared to SDLT)</td>
<td>41,640</td>
</tr>
<tr>
<td>Total paying less tax or no tax (compared to SDLT)</td>
<td>96,560</td>
</tr>
<tr>
<td>Total LBTT transactions</td>
<td>103,680</td>
</tr>
</tbody>
</table>

Source: Revenue Scotland

**Outturn Figures versus Forecasts**

**Residential LBTT**

23. The Committee recommends that the Scottish Government publishes a response to the findings of the SFC’s outturn report alongside the 2017-18 Budget Bill. This should include an assessment of the SFC’s conclusion that the housing market in the £325k to £750k band remained subdued throughout the entire fiscal year excluding March 2016.

Response: We have provided our assessment of 2015-16 outturn in our evidence to the LBTT Inquiry on 26 August which included our assessment of the £325k-750k price bracket in paragraphs 7-9, with the relevant data, covering the period Q1 2014 to Q2 2016, set out in Table 1 as well as Figures 1 and 3. The analysis showed that aside from quarters affected by forestalling behaviour, the share of total residential transactions attributable to the £325k-750k band has remained broadly constant in the LBTT period compared to its share before 1 April 2015. This analysis was updated to Q3 2016 in the Devolved Taxes Forecast Methodology published alongside Draft Budget 2017-18, which showed this pattern continued; see Chart 13 on P38. See also the analysis under paragraph 26 below, which includes data up to Oct-Dec 2016, which is illustrated in the chart below:
24. The Committee notes that the Cabinet Secretary has explained the lower than expected outturn figures for residential LBTT as being due to relatively flat property prices. The Committee asks that the Scottish Government provides details of the annual average rise in house prices over the past five years and an explanation of why the forecast assumption was 5% for 2015-16.

Response: Data from Registers of Scotland on the annual average rise in residential property prices in Scotland for the last five fiscal years is set out in the following table:

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>% increase in average (mean) house prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>0.1%</td>
</tr>
<tr>
<td>2012-13</td>
<td>-1.3%</td>
</tr>
<tr>
<td>2013-14</td>
<td>2.0%</td>
</tr>
<tr>
<td>2014-15</td>
<td>6.3%</td>
</tr>
<tr>
<td>2015-16</td>
<td>-0.5%</td>
</tr>
</tbody>
</table>

Source: Registers of Scotland quarterly house price statistics.

As set out in the Devolved Taxes Forecasting Methodology paper, published alongside Draft Budget 2015-16, the forecast of 5.3% for house price growth in

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1 Average house prices for each fiscal year are calculated as the weighted average of quarterly average (arithmetic mean) house prices, and the annual percentage change is then calculated. Registers of Scotland data is used because it relates directly to the transactions which occur, and is therefore a close match to the tax base, unlike other house price data sources, such as the ONS house price index, which uses mix-adjustment and a geometric mean, amongst other methodological differences.
2015-16 was based on the outputs of an ARIMA model (a type of statistical model applied to time series data). Since the forecast for 2015-16 was published prior to the end of fiscal year 2014-15, average house price growth in 2014-15 was also required to be forecast. The same ARIMA model produced an estimate of 5.0% growth in 2014-15. As the table above shows, actual house price growth in 2014-15 was somewhat higher, at 6.3%. This higher-than-forecast house price growth in 2014-15 mitigated some, but not all, of the impact of the lower-than-forecast growth in 2015-16.

Following feedback from the Scottish Fiscal Commission there have been changes to the Scottish Government’s forecast methodology since last year. An important change is that we now take a more cautious approach to long-run house price growth (assuming growth between 1%-2%, rather than 4.5%). With further data now available for the post-financial crisis period, we believe it prudent to assume price growth more in line with post-financial crisis trends than using an average which includes the housing boom years.

25. The Committee recommends that beginning with Draft Budget 2017/18 the forecast of the number of transactions used to inform the residential LBTT receipts forecast should be broken down by band.

Response: The residential LBTT forecasts in Draft Budget 2017-18 did not show the breakdown of transactions by price band as the recommendation came just days before the Draft Budget. The following table now provides that information.

<table>
<thead>
<tr>
<th>Revenue (£m)</th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
<th>2020-21</th>
<th>2021-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>£145,000 - £250,000</td>
<td>28</td>
<td>29</td>
<td>30</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>£250,000 - £325,000</td>
<td>32</td>
<td>33</td>
<td>35</td>
<td>36</td>
<td>37</td>
</tr>
<tr>
<td>£325,000 - £750,000</td>
<td>119</td>
<td>133</td>
<td>142</td>
<td>150</td>
<td>158</td>
</tr>
<tr>
<td>Above £750,000</td>
<td>31</td>
<td>40</td>
<td>44</td>
<td>49</td>
<td>53</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>211</strong></td>
<td><strong>235</strong></td>
<td><strong>251</strong></td>
<td><strong>265</strong></td>
<td><strong>280</strong></td>
</tr>
</tbody>
</table>

26. The Committee notes that the Scottish Government forecast 6.9% growth in transactions for 2015-16 over the previous year. The Committee asks the Scottish Government to provide a breakdown by band of the percentage growth and overall growth in transactions between 2014-15 and 2015-16.

Response: The table below provides a breakdown by band of the percentage growth in transactions between 2014-15 and 2015-16:
<table>
<thead>
<tr>
<th>LBTT band</th>
<th>2014-15</th>
<th>2015-16</th>
<th>Difference</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over £40K - £145K</td>
<td>45,529</td>
<td>48,793</td>
<td>3,264</td>
<td>7%</td>
</tr>
<tr>
<td>Over £145K - £250K</td>
<td>29,035</td>
<td>31,147</td>
<td>2,112</td>
<td>7%</td>
</tr>
<tr>
<td>Over £250K - £325K</td>
<td>6,427</td>
<td>8,444</td>
<td>2,017</td>
<td>31%</td>
</tr>
<tr>
<td>Over £325K - £750K</td>
<td>7,555</td>
<td>7,368</td>
<td>-187</td>
<td>-2%</td>
</tr>
<tr>
<td>Over £750K</td>
<td>532</td>
<td>462</td>
<td>-70</td>
<td>-13%</td>
</tr>
<tr>
<td><strong>Total over £145K</strong></td>
<td><strong>89,078</strong></td>
<td><strong>96,214</strong></td>
<td><strong>7,136</strong></td>
<td><strong>8%</strong></td>
</tr>
</tbody>
</table>

Source: Registers of Scotland quarterly statistics – this is used rather than Revenue Scotland data because it provides comparative data for 2014-15.

It is important to note that the fiscal year data in the table above is strongly distorted by the impact of forestalling activity. In particular, there were significant incentives to bring forward higher-valued transactions from Apr-Jun 2015 to Jan-Mar 2015 to avoid the higher tax rates under LBTT than SDLT in this segment of the market, increasing transactions in 2014-15 and correspondingly depressing the transactions in 2015-16.

The next table therefore sets out trends in the share of higher-valued transactions by quarter. The impact of forestalling behaviour is evident in the spike in the share in Jan-Mar 2015. The latest data for Oct-Dec 2016 shows no significant fall in the share of these transactions relative to 2014.

<table>
<thead>
<tr>
<th>Share of higher-value transactions as % of all transactions</th>
<th>Transactions between £325k and £750k</th>
<th>All transactions above £325k</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAN - MAR 2014</td>
<td>6.3%</td>
<td>6.8%</td>
</tr>
<tr>
<td>APR - JUN 2014</td>
<td>7.3%</td>
<td>7.7%</td>
</tr>
<tr>
<td>JUL - SEP 2014</td>
<td>8.1%</td>
<td>8.6%</td>
</tr>
<tr>
<td>OCT - DEC 2014</td>
<td>7.5%</td>
<td>8.0%</td>
</tr>
<tr>
<td>JAN - MAR 2015</td>
<td>10.2%</td>
<td>11.1%</td>
</tr>
<tr>
<td>APR - JUN 2015</td>
<td>7.4%</td>
<td>8.1%</td>
</tr>
<tr>
<td>JUL - SEP 2015</td>
<td>7.6%</td>
<td>8.0%</td>
</tr>
<tr>
<td>OCT - DEC 2015</td>
<td>7.5%</td>
<td>7.9%</td>
</tr>
<tr>
<td>JAN - MAR 2016</td>
<td>6.7%</td>
<td>7.2%</td>
</tr>
<tr>
<td>APR - JUN 2016</td>
<td>7.0%</td>
<td>7.5%</td>
</tr>
<tr>
<td>JUL - SEP 2016</td>
<td>7.8%</td>
<td>8.2%</td>
</tr>
<tr>
<td>OCT - DEC 2016</td>
<td>7.8%</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

Source: Registers of Scotland quarterly statistics

**Causality**

34. The Committee considers that it is too early to draw any definitive conclusions from the available outturn data but recommends that the SFC should continue to monitor the data on an on-going basis.
Response: Scottish Government will also continue to monitor revenue and transactions outturn data on a monthly basis with respect to the individual rates and bands.

Scotland Reserve

37. The Committee invites the Government to explain why it chose to place the £74 million surplus in the Scotland Reserve rather than spending it on public services or infrastructure.

Response: Scottish Government has made a prudent response to a potential shortfall in LBTT revenues at some point in the future. The empirical evidence shows that property transactions tax revenues are relatively volatile, not only in Scotland but across other parts of the UK, as noted by the Office for Budget Responsibility in relation to Stamp Duty Land Tax (see Box 3.1 on P54 of the OBR’s Forecast evaluation report, October 2016). This underscores the requirement for a prudent approach in our view.

Non-Residential LBTT

45. The Committee notes that the actual revenue of £217 million is £7 million higher than the intermediate forecast of £210 million which was published at the time of Draft Budget 2016-17. This compares to a difference of £71 million between the initial forecast of £146m in Draft Budget 2015-16 and the outturn figure.

Response: The figure of £210 million, contained in the Scottish Fiscal Commission Report on Draft Budget 2016-17, was not an official revision to the Scottish Government forecast for 2015-16, but was used as an intermediate step in the forecasting methodology which generated the official forecast for 2016-17.

46. The Committee asks the Scottish Government to provide details of how much of the £71m forecast error was due to the methodology. The Committee also asks how much was due to the commercial property market being more buoyant than anticipated.

Response: With the impact of forestalling behaviour likely to have been limited in the non-residential sector, due to the rates and thresholds under LBTT being relatively close to those for SDLT, the main reason for the forecast error is that the commercial property market was more buoyant than anticipated. As set out in paragraph 24 of the Scottish Government’s evidence to the LBTT inquiry, the non-residential tax base is very volatile, and a small number of higher-valued transactions can have a large impact on receipts, which makes it difficult to develop a robust forecast methodology.

47. Given the volatility associated with non-residential transactions, and the impact of a relatively small proportion of high value transactions upon revenues, the Committee recommends that the Scottish Government publishes the actual number of transactions in excess of £1m that took place in 2015-16 and does so annually thereafter in order to aid transparency with regard to future forecasts of non-residential LBTT.
Response: Revenue Scotland is responsible for the publication of data related to LBTT transactions and have started publishing a breakdown of non-residential transactions by band (including over £350,000), separate data for leases along with historical data for all months back to April 2015. Due to the small proportion of transaction in excess of £1m, Revenue Scotland will have to consider whether this data can be published without breaching taxpayer confidentiality. I have asked Revenue Scotland to consider this issue.

48. The Committee also recommends that the Budget Process Review Group considers whether any significant differences between forecasts could be addressed in in-year revisions to the Budget.

Response: The Scottish Government recognises the importance of this issue and agrees that it would be helpful for the Budget Process Review Group to consider it as part of their review.

Impact on the First-Time Buyer Housing Market

60. The Committee notes that the majority of stakeholders agree that the rates have been of benefit to the first-time buyer housing market. It would be helpful if the Scottish Government could provide a comparison of the growth in the number of transactions between 2014-15 and 2015-16 for house purchases up to £145k.

Response: According to Registers of Scotland data (see also the table under paragraph 26), the number of residential transactions in the range £40,000-£145,000 in 2014-15 was 45,529 which represented growth of 0.1% on 2013-14. The equivalent transactions figure for 2015-16 was 48,793, which represents growth of 7 per cent over the 2014-15 figure. The data is subject to other market influences as well as the setting of the zero-rate band at £145,000. Properties below £40,000 are excluded from the data as they are exempt from residential LBTT.

61. The Committee invites the Scottish Government to provide this information and other evidence which it has in relation to the impact that the new nil band has had on the first time buyer market, including increased house prices.

Response: As laid out in recommendation 13, Revenue Scotland data shows that nearly 9,700 taxpayers purchased residential property between £125,000 and £145,000 in 2015-16. A breakdown for first-time buyers is not available from this dataset as the LBTT return does not ask for the purchaser’s status in this respect.

However, data from the Council of Mortgage Lenders does have a breakdown by first-time buyers, although it only relates to houses purchased with a mortgage, and therefore excludes cash sales. This shows that the number of loans advanced to first-time buyers in Scotland rose by an annual 11% in 2015-16, relative to an increase of 9% for home movers.

Behavioural Responses
Forestalling

73. The Committee asks the Scottish Government why, given the principle of “no detriment”, the fiscal framework did not appear to use the £40m OBR forecast for forestalling in calculating the baseline adjustment to the block grant for LBTT. The Committee also asks for an explanation of the difference between the gain to the UK Government and the loss to the Scottish Government as a result of forestalling.

Response:
The Fiscal Framework agreed to include a £20m adjustment to the baseline for Stamp Duty Land Tax to take account of the forestalling that is estimated to have occurred. This represents the gain to the UK Government from increased SDLT receipts in 2014-15 (the year relevant for setting the baseline) rather than the loss to the Scottish Government from lower LBTT receipts in 2015-16, due to forestalling.

Forestalling behaviour arises when different tax rates apply at different dates, and transactions are moved in time so that they settle in the period when the lower tax rate applies. In the case of the transition from SDLT to LBTT on 1 April 2015, there was an incentive for higher-valued transactions to be moved forward to settle under the SDLT regime. The extra SDLT accruing to the UK Government from these transactions was therefore lower than the amount of LBTT that would have accrued to the Scottish Government if these same transactions had settled after 1 April 2015.

Longer term impact

80. The Committee notes that the SFC suggests the possibility of an on-going behavioural response within the £325k to £750K band. The Committee recommends that the Scottish Government’s review of the first year of LBTT includes an analysis of the behavioural response within this band and an assessment of the likelihood of an on-going response including the impact of extraneous factors.

Response: As set out in our response to the Committees recommendation at paragraph 23 above, there is no evidence of a significant fall in the share of the £325k-£750K band, which indicates that, even assuming there is a behavioural response, its impact is limited. For an analysis of extraneous factors which could also affect higher-valued transactions, see also the discussion in the Scottish Fiscal Commission Report on Draft Budget 2016 of the impact of house price falls in Aberdeen (Box D, P52-54).

Proposed Changes to the Rates and Bands

Non-Residential

97. The Committee recognises the need for further analysis of the behavioural response to LBTT especially in the £325k to £750K band. It is also essential that sufficient forecast and outturn data is published and that this is readily comparable so that the impact of the tax on the housing market can be openly monitored.
Response: As set out earlier for residential transactions, analysis of the data does not indicate that there has been a significant fall in the share of the £325k to £750k band, indicating any behaviour response is limited at this stage. We will however continue to monitor trends carefully.


Furthermore, additional data breakdowns have recently been added to regular statistical publications, allowing for greater public scrutiny of trends in different segments of the market. The monthly Revenue Scotland publication now provides a breakdown by LBTT band, while the quarterly Registers of Scotland statistics provide a breakdown which is even more disaggregated between £325k and £750k.

Forecast and outturn data for 2016-17 will become available at some point after Summer 2017. At the moment, the precise publication vehicle still needs to be agreed with the SFC.

Additional Dwelling Supplement

104. The Committee invites the Government to provide an update on what its “informed view” is in relation to grace periods.

Response: From the period between 1 April 2016 to 19 February 2017 there have been a total of 18,471 transaction subject to ADS and of these 4,341 have noted an intention to sell their previous main residence. The table below provides a breakdown of the length of time it has taken taxpayers to reclaim from the effective date of the original transaction.

<table>
<thead>
<tr>
<th>Breakdown</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than or equal to 7 days</td>
<td>70</td>
</tr>
<tr>
<td>Between 8 and 14 days (inclusive)</td>
<td>83</td>
</tr>
<tr>
<td>Between 15 and 30 days (inclusive)</td>
<td>218</td>
</tr>
<tr>
<td>Between 31 and 60 days (inclusive)</td>
<td>411</td>
</tr>
<tr>
<td>More than 60 days</td>
<td>723</td>
</tr>
</tbody>
</table>

Source: Revenue Scotland

This shows that of those taxpayers who have reclaimed ADS, 75% have done so more than 30 days after the effective date of the transaction with just under 50% reclaiming the tax paid after more than 60 days. In addition to this there is a further 2,836 transactions where taxpayers have noted an intention to sell their previous main residence but ADS has not yet been reclaimed.

The introduction of a grace period – across the board - could adversely impact on the Scottish Budget as it will shift the tax point forward in all cases. An important feature of the Land and Buildings transaction Tax regime is that – like its precursor Stamp Duty Land Tax - the registration of title is only permitted when arrangements for the tax payable have been put in place. The introduction of a grace period such
as discussed during the parliamentary passage of the Land and Buildings Transaction Tax (Amendment) (Scotland) Bill, would enable registration of title to be made without payment of the ADS but would also place an increased administrative and compliance burden on Revenue Scotland who would be faced with recovering monies from taxpayers. This will also include buyers from outside of Scotland, indeed potentially from outside the UK, making it all the harder to secure payment. This is likely to result in increased debt levels which the Scottish Government would not wish to burden Revenue Scotland with at so early a stage in its operation.

After careful reflection of the information available I am not minded to introduce a grace period at this time. I will ask my officials to continue to monitor the position here and it will be kept under review as part of the Scottish Government’s on-going process of devolved tax management and planning.

113. The Committee invites the Government to confirm the expected timescales for its methodical review of the ADS and of any required refinements identified as a result.

Response: The Scottish Government has no current plans to undertake a specific methodical review of the ADS which has been in operation for less than a year. The position on refinements suggested by stakeholders is kept under review as part of the on-going process of devolved tax planning and management. Any potential changes will be considered in the round and taken forward as part of the Scottish Government’s overall approach to the devolved taxes.

Availability of Data

123. The Committee welcomes the Cabinet Secretary’s commitment to consider ways of harmonising the published data and looks forward to receiving an update of progress in this regard.

Response: Revenue Scotland and Registers of Scotland publish their data independently of Scottish Government. As explained in recommendation 7, two datasets are now published on a monthly and quarterly basis respectively.

124. The Committee recommends in particular, that Revenue Scotland explores the options for breaking down further the data in the £325 to £750k band and for providing a regional breakdown of its data. In so doing, the Committee remains mindful that any additional breakdown should be proportionate in terms of the efficient use of resources.

Response: Revenue Scotland has replied to the Committee on this point in their response to the Inquiry.

Non-Residential LBTT

126. The Committee recommends that Revenue Scotland explores the possibility of breaking down non-residential LBTT data between tax paid on purchases and tax paid on leases. In so doing, the Committee remains mindful that any additional breakdown should be proportionate in terms of the efficient use of resources.
Response: Revenue Scotland has replied to the Committee on this point in their response to the Inquiry.

Performance of Revenue Scotland

138. The Committee invites Revenue Scotland to respond to the suggestions from witnesses above for improving its administration and collection of LBTT, including in relation to the provision of opinions.

Response: Revenue Scotland has replied to the Committee on this point in their response to the Inquiry.

Inter-Institutional Relationships

144. The Committee asks the Scottish Government to respond to the view of the Law Society that there may be a case for Revenue Scotland having a greater role in the development of tax policy.

Response: As set out in the Chief Executive’s response to the Committee, Revenue Scotland is already making a significant contribution to the development of tax policy through their operational expertise.

There is close engagement between Scottish Government and Revenue Scotland officials to ensure that potential policy amendments or new policy proposals related to the fully devolved taxes take due cognisance of operational matters to and can be administered as efficiently and effectively as possible. In addition, this engagement enables Revenue Scotland to highlight operational issues which may impact on the Scottish Government’s tax policy.

Legislation

153. The Committee asks the Scottish Government to provide clarification regarding the role of Revenue Scotland in interpreting and communicating the application of LBTT legislation including publication of its views.

Response: As a Non-Ministerial Department, which is accountable to the Scottish Parliament, Revenue Scotland operates independently of the Scottish Government. It is therefore entirely a matter for Revenue Scotland as to how it interprets the legislation and communicates with its stakeholders.

Principles Based Approach

163. The Committee welcomes the Scottish Government’s principles based approach to tax policy and recognises that it provides a useful framework for monitoring the effectiveness of tax policy including LBTT.

Response: The Scottish Government welcomes this conclusion and notes that there will be an opportunity for further discussion on this in the context of the Committee’s separate inquiry on the Scottish approach to taxation.
Conclusion

164. The Committee considers that the transition to LBTT went well and that its first year has been operationally successful. The Committee considers that it is too early to draw any definitive conclusions on the impact of the rates and bands from the available outturn data but recommends that the SFC should continue to monitor the data on an on-going basis.

Response: Scottish Government notes these two key conclusions.

165. A key challenge faced by the Committee has been the lack of consistency in the presentation of data relating to LBTT. This has made it difficult to compare forecast and outturn data and to fully assess the impact of LBTT on the property market in Scotland. The Committee intends to consider this issue further during its scrutiny of Draft Budget 2017-18.

Response: As described above, breakdowns of transactions data from Registers of Scotland and transactions and tax revenue data from Revenue Scotland by price band are now published on their respective websites. The statistics are collected for different purposes, and therefore will differ in some details. We note the Committee’s intention to consider this issue further and we are open to working with Revenue Scotland on ways to improve the transparency of statistics.