LBTT INQUIRY: REVENUE CONSEQUENCES OF CHANGING THE LOWER 10% RESIDENTIAL LBTT THRESHOLD

The Cabinet Secretary's comments on the revenue consequences of changing the threshold of the 10% residential LBTT band were based on preliminary modelling, as he pointed out to the Committee. This indicates that raising the 10% threshold above £325,000 will reduce revenues overall. Broadly, the methodology we follow to arrive at these 'policy costing' estimates is:

- Fitting a probability distribution to the historic Scottish house price distribution
- Forecasting key housing market parameters – in particular the mean and median house price for Scotland as a whole, and the total number of sales
- Applying this distribution to these forecast parameters to produce a forecast house-price distribution
- Applying the relevant tax rates and thresholds to this distribution to estimate the tax revenues associated with particular tax policy changes

The policy costings quoted in respect of the two stakeholder proposals were calculated by applying revised rates and thresholds to the estimated number of transactions which would fall within the affected price ranges in 2017-18. Of course the actual revenue impact in 2017-18 of such changes would depend not only on the proposed changes but also on what actually happens to house prices and sales volumes in 2017-18.

We consider these estimates to be preliminary because the methodology and therefore the forecasts it produces remain subject to scrutiny by and discussions with the Scottish Fiscal Commission. The impact of any revised rates and thresholds that may be included in the Draft Budget would need to be discussed formally with the Commission as part of the pre-publication process under which the SFC scrutinises forecast revenue effects of any changes proposed to devolved taxes.

An analytical note setting out the final forecast methodology will be published by SG alongside the Draft Budget. Also, as part of the scrutiny process, the forecasts contained in the previous Budget will be assessed against the outturn data as it becomes available over the course of the fiscal year.

Directorate for Financial Strategy

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