The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 8 May 2013

Session 4

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FINANCE COMMITTEE
14th Meeting 2013, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)
*Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)
*Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)
*Michael McMahon (Uddingston and Bellshill) (Lab)
*Jean Urquhart (Highlands and Islands) (Ind)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Edward Troup (HM Revenue and Customs)
Sarah Walker (HM Revenue and Customs)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 6

Scottish Parliament

Finance Committee

Wednesday 8 May 2013

[The Convener *opened the meeting at 09:30*]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Welcome to the 14th meeting in 2013 of the Finance Committee of the Scottish Parliament. I remind everyone to turn off mobile phones, tablets and other electronic devices.

Agenda item 1 concerns a decision to take item 4 in private. Do we agree to take that item in private?

Members *indicated agreement.*

Scotland Act 2012

09:30

The Convener: Under item 2, we will take evidence from Edward Troup, who is the tax assurance commissioner and second permanent secretary of Her Majesty's Revenue and Customs, and Sarah Walker, deputy director and head of HMRC's devolution team.

Welcome to the committee. I invite you to make a brief opening statement.

Edward Troup (HM Revenue and Customs): Thank you for inviting us to speak to you. As you said, I am the second permanent secretary at HMRC. I am also the additional accounting officer for Scotland and for matters relating to the Scottish rate of income tax.

Sarah Walker is responsible for the devolution team in HMRC and for the detailed work that is involved in the Scottish rate of income tax. She sits on the programme board and the project board that are taking forward the detailed arrangements.

My responsibilities involve ensuring that the Scottish rate of income tax is implemented effectively. As commissioner, I am answerable to the United Kingdom Parliament for the collection and management of taxes generally, which obviously includes income tax, of which the Scottish rate of income tax is part. I am as answerable for the proper collection of the Scottish rate of income tax as I am for the balance of income tax across Scotland and the rest of the UK.

From the annual report that was published on 25 April, the committee will be aware of the progress that we have made. I am happy to go through that and give you a bit of the detail of what we have done and what we expect to do in the period up to implementation.

My overarching comment is that we have had extremely good working relationships with the Scottish Government. As the committee will have seen from the memorandum of understanding, the relationship is based on openness and transparency, and it is working in that way. I am happy to say that, so far, we have not encountered and do not foresee any major problems in the run-up to implementation.

The Convener: Thank you for those remarks.

Edward Troup: May I take my jacket off, convener?

The Convener: Of course you can. I was thinking something similar. It is really hot in here—it is not usually like this.

Edward Troup: I am not used to encountering heat north of the border.

The Convener: Feel free to make yourself comfortable.

I will ask questions primarily on the memorandum of understanding. The introduction makes it clear that, although the Scottish rate of income tax is not a devolved tax,

"Scottish Ministers will be responsible for the tax rate but not for any other element of the tax nor for its administration."

It goes on to say that the

"document has been agreed by the Scottish and UK Governments"

but

"has no formal legal force."

Some of the questions that I will ask you have been asked of other people. One or two might be political or quasi-political. If you feel uncomfortable answering them, you do not need to.

The document came into effect following royal assent to the Scotland Act 2012 and

"will be reviewed at the request of either party and at the end of the two- or three-year transitional period referred to in the Command Paper",

which would mean April 2018 or 2019. Is there any further indication of which of those two years it will be?

Edward Troup: Not that I am aware of, but Sarah Walker might be able to answer that.

Sarah Walker (HM Revenue and Customs): Do you mean when the end of the transitional period will be?

The Convener: We have been told that the transitional period will be two or three years, but no one seems to be able to tell us whether a decision has been made about whether it will be two or three years. Will there be a suck-it-and-see process, or will a decision be made before the implementation of the tax?

Sarah Walker: That is a matter for the Treasury, because it is really about how the block grant works. I think that the period has been left open deliberately because it will depend on experience of how predictable the revenues are from the Scottish rate. That will drive the decisions about when the safety net of the block grant should be withdrawn. However, it is very much a matter for the Treasury.

Edward Troup: As Sarah Walker says, the transitional period is a safety net to ensure that things work as expected and that there are no unexpected glitches in relation to the difference between the forecast and the received revenues when the system is running.

The Convener: What will determine the extent of the transition period?

Edward Troup: As Sarah Walker says, it will be a political matter once we have seen how the numbers turn out for the first and second years of the operation of the Scottish rate.

The Convener: The memorandum of understanding states that the

"HMRC will invoice"

the Scottish Government

"for agreed items of expenditure"

and that the Scottish Government

"will make payment ... for amounts invoiced for agreed items".

Has anything not been agreed and what would the mechanism be if people were invoiced where there was no agreement?

Edward Troup: Amounts have to be agreed before they are invoiced. If it is not possible to reach agreement, there are various mechanisms in the memorandum of understanding, including a particular mechanism that relates to information technology costs, as you have seen. Ultimately, any disagreements will be escalated and matters could come to the Joint Exchequer Committee if they cannot be agreed on.

The Convener: I understand that there is a dispute resolution process. The memorandum covers that in paragraph 4.6, which states:

"If agreement is not reached"

on some of the issues, the matter

"will be brought to the Joint Exchequer Committee for discussion and agreement by Ministers, whose joint decision will be final."

Our budget adviser looked at the matter and said that it was not clear

"whether such a collegiate approach can be guaranteed".

Will the UK Government ultimately take such decisions?

Edward Troup: Such things can never be guaranteed—an agreement to agree is never completely enforceable. We have worked in a spirit of openness and transparency and so far we have managed to agree. I have every expectation that we will continue to do so, but it is not possible to say with absolute certainty that there will not be some matter that gets escalated to the Joint Exchequer Committee. It is well above my pay grade to say what would happen if a matter went to the JEC and could not be agreed on.

The Convener: Okay, but the UK Government has the majority on that committee and the ultimate powers.

Edward Troup: I believe so.

The Convener: There is obviously concern that the self-employed, who mainly pay under the self-assessment system, could change their incorporation status in response to differentials between the Scottish rates and the rest-of-the-UK rates of income tax. Clearly, all sides wish to ensure that no tax avoidance occurs through that. Will you talk us through some of the measures that are being taken to ensure that that does not happen?

Edward Troup: I will step back a bit, because you are absolutely right that the tax system contains a number of incentives. Even before the introduction of the Scottish rate, there are incentives and differentials that encourage individuals to incorporate rather than to be employed or self-employed.

The UK Government has been aware for some time that there is a considerable trend, and a significant number of businesses have been established to benefit from the tax advantages of incorporation as well as, of course, the commercial advantages. That incentive exists in Scotland for an individual who is subject to UK income tax and who is looking at the choice of whether to operate as a self-employed individual or through a company. I have no doubt that residents of Scotland have already made choices and incorporated in response to that incentive.

Were the Scottish rate to vary from 10 per cent, so that—let us say—the aggregate rate of income tax was 22 per cent or 18 per cent rather than 20 per cent as it is at the moment, that would change the incentives, although fairly marginally, for individuals. That might have some impact on the number of individuals who choose or do not choose to incorporate.

It is very difficult for us to assess the exact amount of tax-motivated incorporation compared with genuinely commercially motivated incorporation. We are aware of the issue and there are quite a few statutory measures that target the most abusive forms of tax-motivated incorporation, but the UK Government's approach has largely been to accept that an individual or group of individuals is free to make commercial choices and to take tax into account in such decisions.

As a result, there is nothing specific to prevent a self-employed individual from choosing incorporation if that is the right thing to do. As I have said, there might be a marginally different incentive to do so if the Scottish rate were to vary from 10 per cent, but I do not envisage the need for any additional measures to counter that incentive nor would I see any significant differential impact on the tax yield as a result. However, there might be some very small marginal effect one way or the other.

The Convener: I realise that such things are guesstimates as much as they are estimates, but has HMRC measured the effect of a difference of 1p, 2p or 3p in tax either up or down on bringing people into Scotland or the opposite?

Edward Troup: I am not sure whether you are still asking about incorporation—I suspect that someone, somewhere in the organisation has views on how the differential incentive would work—or whether you are asking about location decisions. After all, if the rate changes from 10 per cent—

The Convener: I am talking more about incorporation. I imagine that, unless they live only a couple of miles from the border, people will be very unlikely to up sticks and move as a result of a 1 or 2 per cent difference in income tax.

Edward Troup: There will be some differential incentive but, as I said, it is likely to be quite small. I have no figures or calculations in that respect and I do not think that we have carried out any assessments with regard to the UK or specifically Scotland on what the differential incentive would be. However, it is perfectly possible that we might have something on that and I am happy to go back and see what we can say about the position of the UK as a whole, from which it might well be quite easy to extrapolate the impact on Scotland.

The Convener: Obviously, if the Scottish Government is to set a Scottish rate of income tax, it will be useful to have any available information on what the impact in such circumstances might be.

Edward Troup: If you are going to increase the tax rate from 10 per cent, you will want to forecast the increased revenues that you will get. The incorporation effect will be part of that forecasting assumption; I will hazard a guess that the amount will be rather small. If you—or your equivalent of the Office for Budget Responsibility—are looking at what you would raise from an additional 1p, 2p or 3p, the amount that would be forecast would be very marginally affected by the differential from a decision to incorporate. Similarly, if you were to reduce the tax rate, I would not have thought that you would make much of a saving from the reduced incentive to incorporate. I doubt that you would be able to disaggregate those figures from the wider forecasting work that would need to be done for any change in the rate.

The Convener: That was very helpful.

If the Scottish Parliament has not determined the tax codes by the end of November, HMRC will have to work on an agreed assumption for the issuing of tax codes. How would such an assumption be made?

Edward Troup: This is not a new issue but a practical issue that comes out of the operation of the pay-as-you-earn system, in which we need to issue codings to individuals from the end of the year onwards to allow employers to go into the next tax year with the ability to make the right deductions from employees' pay to reflect the year's tax rates and tax codes. We have always had to do that in November and December but, if the Chancellor of the Exchequer has not set the UK rates and codes for the year ahead, we simply roll forward the previous year's assumption. If in the following November an announcement is made—typically in the budget—to change that, we issue revised codes. The PAYE system then corrects employees' deductions over the course of the year.

In a sense, we are happy to be guided by whatever the Scottish Parliament says to us. If, by the end of November, the Parliament has said nothing, I imagine that we will simply roll forward. Sarah Walker was the expert leader on that in one of her previous roles.

Even if there was no formal decision, we could, if we were told that the rate was expected to be set at a certain level and the Parliament was prepared to say that in public—of course, it would become public once we put it in the codes—come up with a different assumption. It does not really matter what the assumption is—we just need to put something in the codes, and we are conscious that they would have to be changed if what was in them was not the final answer.

09:45

The Convener: I understood that that would be the case, but it is important to clarify those issues.

Edward Troup: It is not that we are not telling you anything; we just have to run the system with whatever information we have at the time.

The Convener: Indeed. I do not want to make assumptions about the assumptions—I would not assume that we should do so.

Edward Troup: I would not presume to challenge you on that.

The Convener: Indeed. I will switch to the disapplication of stamp duty land tax in Scotland. The project team has focused on analysing the ways in which existing HMRC systems will be affected by the disapplication of the tax in Scotland and on identifying stakeholders who will be affected by the change. What progress has been made on that?

Edward Troup: I will have to hand that one over to Sarah Walker.

Sarah Walker: We need to look at the changes that we will have to make to operate the tax after the change. One obvious point is that we want to change our systems so that they will reject any attempt to pay stamp duty on a transaction in Scotland. We will check a postcode and, if someone tries to pay stamp duty, we will say, "No—you have to pay the land and buildings transaction tax instead."

First, we have to check through the existing systems—as we do for all our taxes—to ensure that we know which bits might be affected. Things such as forms and guidance will be affected, so we have to identify the bits that need to be changed. For the IT system, we have to go through a formal process to get estimates for the change in order to ensure that our supplier can make the change in time and make plans in a fairly formal way. We are just starting what we call the viability stage, in which we enter into discussions with our IT supplier to determine the exact changes that need to be made to the systems and get a good estimate of what those will cost.

At the same time, we will consult outside, particularly with the legal profession, which is very much involved in such transactions. We are working closely with Registers of Scotland, and with the Scottish Government as revenue Scotland is being set up, to ensure that we co-ordinate our changes with the introduction of the new land and buildings transaction tax. We need to ensure that our communications with customers are coherent and consistent and that a single message goes out to people.

The Convener: The memorandum of understanding goes into great detail about costs and how they would be allocated and so on. I understand that it was estimated in November 2010 that the cost of setting up the new taxation systems following the 2012 act could be between £40 million and £45 million. We have heard from previous witnesses that that is a ballpark estimate. What are the most up-to-date estimates of the likely costs for the process?

Edward Troup: I would not like to use the word "ballpark"—the estimates were very provisional, because at that stage we did not know exactly what type of work would be involved. We have not yet been able to produce a revised figure. I hope that that number will prove to be on the high side, but I will not say that it is anything other than our current best estimate.

The figure of £40 million to £45 million still stands. It was developed through the same processes by which we cost all internal changes in

HMRC, using the impact assessors who go through the systems, people, communications and other changes that are needed. We estimate that a quarter of that amount—approximately £10 million—will be used for IT costs, and the rest will be used for the operational work that is needed to communicate and deal with a significant number of taxpayers. I am afraid that we do not have a better figure than that at present.

The Convener: It is just that, last year, HMRC told the committee:

> "we hope that expenditure will be significantly less than £45 million."—[*Official Report, Finance Committee*, 30 May 2012; c 1290.]

Edward Troup: I certainly hope that it will be.

The Convener: I just wondered whether you have been given any indication—any hints, nudges, winks or nods—that that will indeed be the case.

Edward Troup: I am holding nothing back. This is a relationship of openness and transparency. As soon as we feel that we have a better figure—which I hope will be lower—we will share it with you.

The Convener: There is no indication that it will be higher than £45 million.

Edward Troup: No, there is definitely no indication that it will be higher. As I said, I hope that it will be lower. That is not a promise—it is a hope, which I hope will move towards being an expectation soon. We will see.

The Convener: With that teaser, I will open up the session to the rest of the committee. The first member to ask questions will be Jamie Hepburn.

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): I would like Mr Troup to clarify whether HMRC will continue to collect SDLT right up until the switch-over to LBTT.

Edward Troup: Yes, it will.

Jamie Hepburn: In the submission that you provided to the committee on the Land and Buildings Transaction Tax (Scotland) Bill, you said:

> "The 'effective date' of a transaction for SDLT purposes is normally the date of settlement (completion) of the contract but may be earlier if 'substantial performance' occurs".

What will happen when a completion date falls under the LBTT regime but an assessment is made that "substantial performance" occurred before the switch-over?

Edward Troup: Sarah Walker may or may not be able to answer that. The intention is that only one tax charge should arise for any particular transaction. You allude to the fact that we have a number of specific rules on SDLT that are designed to prevent people from deferring SDLT by not moving to formal completion—by doing everything other than the final document. The rule to which you refer says that SDLT must be paid at the point at which substantial performance of the contract occurs. We have applied that.

In the past, SDLT rates have changed, and that has been like moving from one tax to another. We have had to ensure that we know on which side of the line a tax charge has arisen so that we can apply the correct rate. In effect, the UK rate will be reduced to zero for Scotland after the implementation date.

Given that we have an existing set of SDLT rules, it will be for the LBTT rules to ensure that a charge is not imposed when a UK charge has already been imposed. The UK charge will continue to apply until the termination date. If the rules overlap, I would not rule out the possibility that the UK Parliament might be willing to change its rules to exclude the UK charge, but I suspect that it would be more likely to look to the Scottish Parliament to ensure that an LBTT charge is not applied when a UK charge has already been applied.

It is clear that quite tricky and technical issues of SDLT law must be looked at. I do not know whether Sarah Walker has looked at any of those.

Sarah Walker: I do not want to go into the details of stamp duty law, because I am not an expert. I just draw Jamie Hepburn's attention to the document to which he refers, which says that there will have to be transitional rules to deal with specific cases. We are working closely with revenue Scotland and the Scottish Government to ensure that there is clear guidance and clear rules to avoid any double tax charges.

Jamie Hepburn: That answer is helpful in so far as no one here would want to suggest that any individual or entity should be taxed twice for the same transaction. I suppose that the question that must be asked is who determines whether substantial performance has occurred.

Edward Troup: Given that that is a matter of UK tax law at the moment, it is an operational matter for HMRC—we must interpret the law and apply it to the facts to determine whether there has been substantial performance. We do that in cases in which attempts are made to defer a charge. Our SDLT experts determine whether there has been substantial performance in particular cases.

Jamie Hepburn: Does the potential exist for HMRC to seek payment after someone has settled an LBTT bill?

Edward Troup: I am trying to think about the circumstances. I think that you are asking quite a detailed question about the ability to reopen transactions under SDLT.

If an SDLT assessment was made and we later discover that it was done using incorrect facts or was based on an incorrect application of the law, the SDLT provisions—I am sorry that I am not familiar with them—will, I am sure, give us the right to go back and reopen for a certain period. I am not sure what would happen if, by then, there had already been an LBTT assessment.

Sarah Walker referred to the need to talk through the transitional arrangements with revenue Scotland, and that is perhaps one of the issues that it needs to talk through. As with everything, having an open relationship with revenue Scotland on the establishment of the taxes and their operation will provide some way of sorting such things out between us.

The relationship is no different, except that it is rather closer than our relationships with other jurisdictions when there is some conflict of tax laws and we need to sit down with representatives of another jurisdiction to work out which rules prevail or whatever the position is. I expect that, in practice, we will need to provide for that in particular cases, whether they involve LBTT or the landfill tax.

Jamie Hepburn: Can HMRC provide the committee with figures that demonstrate the circumstances in which an assessment is made in one tax year under SDLT rules, with substantial performance in previous years and with a payment subsequently being sought?

Edward Troup: I do not think that I can commit to that. It rather sounds as if I would have to ask somebody to trawl though the several million SDLT transactions to pick out one that fits with what you describe.

Jamie Hepburn: So that is not readily recorded now.

Edward Troup: I am happy to inquire whether we have that information, but I would not get your hopes too high that we do. That does not sound like management information that we would routinely keep as part of our SDLT management. I am happy to ask the question, but I do not want to undertake that we will provide such information if we do not have it already, as it sounds like rather a lot of work to do that.

Jamie Hepburn: I appreciate that. However, the matter is important. I would like to be clear, as would other committee members, that the figures are fairly steady and that there will not be some dramatic increase in claims under the transitional arrangements.

Edward Troup: That is very unlikely. I have not looked at the substantial performance rules for some time but, as far as I recall, the rules to which you refer are not used very much. They are an anti-avoidance mechanism, and they effectively say, “Don’t bother putting off your completion to save stamp duty. If you have done everything else, you will still have to pay it.” The rules are there to ensure that people complete their transactions. Therefore, we do not have to invoke them. I am hazarding a guess, but I am pretty sure that I will be right: there will be very few applications of those rules, as they are there to deter rather than to operate.

Jamie Hepburn: That is helpful. I wish to explore the costs associated with the switch-over. I am acutely aware that they are significantly less than those that have been cited for the Scottish rate of income tax, but I am still interested in them. HMRC has provided indicative figures of around £500,000 for the change to LBTT. I note that that primarily relates to switching off your systems for SDLT. We might bandy that term around, but what does it mean?

Edward Troup: It is very much as Sarah Walker has described. It is not £500,000 to take a light bulb out, as it were. I do not wish to repeat what Sarah has already covered—she may wish to add something about the switch-off.

Sarah Walker: The main thing is identifying transactions that might come through in future and that will no longer be liable to SDLT. Because the system is automated, it needs something built into it that identifies a Scottish postcode or whatever and sends out a message saying, “Don’t pay us, pay the Scots.”

Jamie Hepburn: I know that it is only an indicative figure, but where did the £500,000 come from?

Sarah Walker: That figure was a very early estimate—as was the £40 million—of the IT cost of the changes to our systems. Those changes are not just to do with rejecting Scottish transactions; they also involve changing the automatic outputs, the automatic letters and the forms. There will be some costs on top of that £500,000 that are associated with staff costs but were not included in the estimate, but we still think that £500,000 is a reasonable ballpark figure for the total cost.

10:00

Edward Troup: I do not want the committee to feel that we are being cavalier in some way because we are not able to give firm figures. We gave figures early on because we thought that it was important to do so and you wanted the figures. As you know, Sarah Walker and I appeared before the Public Audit Committee in

November, and it is, quite rightly and understandably, interested in the costs. The Auditor General and the National Audit Office will also look closely at them. The MOU includes a process that makes sure that the costs are agreed and that we will provide sufficient evidence to explain what all the costs relate to, as we do for all our costs and we have to do for the NAO for our own accounts. I expect this committee and the Public Audit Committee to be able to see what we are doing as those costs develop and not some time later when we suddenly present you with a bill. That will be part of the agreed programme and will include IT changes and the staff costs that we incur. When staff costs have been incurred, they will be subject to audit in the normal way.

Although we are talking about a ballpark figure or an estimate at the moment, you will have a lot more detail before the agreement has to be settled.

The Convener: Just to follow on from that, will we get the costings through the annual implementation report or as they happen?

Edward Troup: Sorry?

The Convener: Will we get the costings that we just discussed through the annual implementation report or as they happen? When the change is finalised, will the committee be told?

Sarah Walker: As they are incurred, the actual costs will be invoiced quarterly and I believe that the Scottish Government will make those figures available. We expect to include the forecast of the total cost and the future cost in the annual implementation report.

Edward Troup: As we are now giving a more accurate forecast for the year that we are currently in, we will be able to do that year by year even though the costs will increase as the programme develops.

Gavin Brown (Lothian) (Con): Could I follow up with a couple of questions on income tax? I heard your answer about the set-up costs of between £40 million and £45 million. At the same time last year, we were told that the annual running costs were estimated to be £4.2 million each year. I suspect that I might know the answer to this question. Was that your best estimate at the time and, if so, does it remain your best estimate?

Edward Troup: It was a best estimate. I will not say that it was more accurate than the previous estimate but, once the system is running, we will have a better idea of what will be involved. I will not say that I have more confidence in the other figure, but it is less of a ballpark figure—although, as I said, it is not a ballpark figure; it is a best estimate.

Gavin Brown: The figures so far are very small. In 2012-13, the cost from HMRC to the Scottish Government was £165,000.41, and I am told that the estimated cost for the current financial year will be £1.5 million. Those are quite small amounts compared with the £40 million to £45 million. Do the amount that was spent last year and the amount that is predicted for the next financial year tie up with your original estimates or are they higher or lower?

Edward Troup: I am not sure.

Sarah Walker: Last year and this year, we have been and will be spending money on the planning costs, programme organisation, and all the experts getting together to scope and design the system.

The bulk of the £40 million to £45 million and the SDLT cost is made up of both the cost of the IT change and—certainly for the income tax change—the operational cost of identifying Scottish taxpayers before April 2016. A bulk of the £40 million is therefore going to be spent on contacting potential Scottish taxpayers, telling them that they are going to be Scottish taxpayers, giving them an opportunity to object, and setting up a helpline to deal with questions. That is where that large amount of money will be spent. What we have spent so far is just on the people in head office, if you like, who are doing the planning, and the sums do not really relate to the bulk of the operational expenditure that will probably happen in 2015-16.

Gavin Brown: Let us move away from costs and return to the rate change decision. You have to do work just after the end of November and you will base it either on what you are told or on what you previously understood to be the case. However, you made the point that, if the Parliament decides in February or March to change the rate to 18p or 22p, you simply have to issue different notices. Let us assume that the Parliament decided that the rate would be 18p or 22p—obviously, I prefer 18p, but that is neither here nor there. How big an administrative task would it be for you to implement that change if the decision was made in March as opposed to November?

Edward Troup: Sarah Walker is the expert on that. Our systems are set up to do it. It is just a matter of churning out coding notices, issuing them and dealing with any follow-up queries. Whenever we send anything out, people pick up the phone, although we are increasingly trying to get them to use the internet instead. The cost is broadly the cost of that work, because printing and posting letters has a cost, but I do not think that there is a great deal more.

Sarah Walker: No. It is not that long since the UK tax rates were set in the budget in March. We had a normal exercise between March and April to issue new tax codes. People started the tax year with one tax code in March and then had a new one in April after we issued new codes. It is not something that we do not do. The cost is, exactly as Edward Troup says, the cost of issuing tax coding notices; it is the cost of postage and communicating with employers. There is, obviously, a cost for employers as well, because they have to implement the new codes on their payroll systems.

Gavin Brown: That is helpful. Thank you.

You said that one of the biggest costs will be the exercise to identify Scottish taxpayers and issue notices to them. Is there any update on that work? Have you come across obstacles that you did not expect to come across? Is it proving slightly easier than you anticipated? It is one of the key parts of your project. Will you give us a brief update on where you are on it?

Edward Troup: We have been trying—and we will continue to do so this year—to establish how good an indication of Scottish residence our data will give and, hence, the degree of accuracy that we can expect from using our own data sets. I am not sure whether we have any results from that work yet.

Sarah Walker: We plan to do a scan of our systems. We will get all the addresses out and really examine them. We need to consider factors such as how many people have given us post office box numbers for their tax correspondence and how out of date our data sets are. We can check our address data against third-party sources—there are other databases available that have people's addresses—to see how much they match.

We will do that to determine the accuracy of our existing address data, but we then need to design a process for contacting people, how they could dispute a ruling from us about whether they were within the Scottish rate and what sort of checks we might want to do against external sources to try to check when people were not necessarily giving us the right answer.

Edward Troup: To expand on that a bit, if, once we have done the data scan, we feel that our own data will give us, say, 98 per cent plus accuracy for Scottish residents, that will lead to one approach to capturing the other 2 per cent. If the data scan suggests that we will capture only 90 per cent from internal data sources because of changes of addresses, PO box numbers or whatever, we will probably have to adopt a somewhat different system, because that would be a much larger number of Scottish taxpayers whom we would be unable to capture immediately. We would need more of a publicity campaign or a more comprehensive correspondence campaign, for example.

We are doing the data scan to work out what we need to do for the next stage. I have to accept that that will affect the costs of that next stage.

Gavin Brown: Okay. That is helpful.

Jean Urquhart (Highlands and Islands) (Ind): I want to ask about the forecast figures that the Office for Budget Responsibility has supplied to us so far. From the evidence that we took from the OBR, it seems that we do not really have clear Scottish figures—this is new work, if you like—and the forecasting has been fairly erratic in some cases. In his foreword to the first annual implementation report, Michael Moore refers to OBR information that suggests that the Scottish rate of income tax might effect great change and account for quite a high percentage of the income tax take in Scotland. Do you know on which figures he based that statement?

Edward Troup: No, I do not, but let me make a number of comments. First, I am afraid that I have not read the OBR's evidence to the committee, so there may be material in there that I should refer to.

Secondly, as I said in response to the convener's opening comments, one advantage of the transitional period is that it will allow us to calibrate the initial forecasts against the actual receipts. That will allow us to establish whether the receipts are erratic against what was forecast, which is obviously of great concern to the committee.

Thirdly, a more general point is that, as with any new tax base for which the OBR provides a forecast, the process will involve an extensive dialogue between the OBR and my colleagues in our analysis unit who are responsible both for analysing existing tax receipts and for producing our own internal forecasts of tax receipts. We need to ensure that we have the necessary data sets and information to allow us to do that. The process for producing forecasts for any budget involves that extensive dialogue between the HMRC analysts and the OBR, on which the OBR then bases its forecasts.

I anticipate that, as the information develops—partly when we establish who the Scottish taxpayers are and do our own analysis of that—we will be able to develop greater clarity at least about the degree of uncertainty. I hope that we will also be able to reduce the uncertainty of the forecasts and work with the OBR to ensure that we can have a degree of confidence in the forecasts. Obviously, we will let you know—or the OBR will let you know—to what extent we feel there is some uncertainty in the forecasts. That will all be part of the iterative process of developing the tax.

As I said, the two or three-year transitional period will provide a safety net or cushion if we go into that period feeling that we cannot reduce the uncertainty below an acceptable level.

Jean Urquhart: Does that mean that we should not pay any attention to that statement, as it is not founded on anything that we can have confidence in?

Edward Troup: Sorry, can you just read again what the statement says?

Sarah Walker: Are you referring to the forecast that the Scottish Government will be able to fund around a third of its expenditure from its own resources?

Jean Urquhart: Yes.

Sarah Walker: I think that the level will be around a third. We can have reasonable confidence in that.

Edward Troup: There are levels of uncertainty and there are levels of uncertainty. I do not think that there is a huge uncertainty about the level of income tax collection from Scotland and what will be collected under the Scottish rate, but all forecasts involve a degree of uncertainty. Sorry, I thought that you were implying that the OBR had said—as I said, I have not read the OBR's evidence—that it was particularly uncertain.

Jean Urquhart: I am just saying that, in the evidence that we have had so far, the OBR's figures have been difficult to reconcile even with its own forecasts. Within months, the figures have swung fairly dramatically—

Edward Troup: Sorry, are you saying that the OBR has given different figures at different points in time?

Jean Urquhart: Yes, within months.

Sarah Walker: That is for the smaller taxes, I think, rather than for income tax.

Edward Troup: I did not know that the OBR had forecast the Scottish income tax.

Jean Urquhart: No, it has not forecast the Scottish income tax—

The Convener: Yes it has.

Jean Urquhart: Sorry, the OBR has forecast the Scottish income tax.

I guess that what I am saying is that the figures in the OBR's forecasts have varied enormously. Can we therefore assume that, as the foreword to the first annual implementation report states,

"these measures will enable the Scottish Government to fund around a third of the spending it controls"?

That figure seems dramatically high. We have accepted that—certainly the cabinet secretary has suggested that.

10:15

The Convener: On a point of information, the OBR changed its prediction between March 2012 and March 2013 on UK tax receipts. It downgraded that by around £18.1 billion and the share under the SRIT for Scotland by around £650 million. If memory serves me right, that was downgraded from around £5.3 billion or £5.4 billion to around £4.65 billion. That is what Jean Urquhart is referring to.

Edward Troup: I fear that we are straying into territory that is for the OBR rather than us. I therefore refer back to what I said about our analysts working with the OBR.

The convener has pointed out that the OBR's forecasts have changed dramatically in the past year, which is substantially due to economic factors that are outside most of our control.

Jean Urquhart: I accept that. However, the report states, under the section on "Block Grant Adjustment", that

"the work to be carried out by the Office of Budget Responsibility would be critical."

There is a lack of clarity. For example, the OBR showed an increase in landfill tax income when all the Scottish Government policies are about reducing landfill and we would therefore expect to collect less and not more tax.

Edward Troup: Yes. I have the current figures, although I have not seen how they have changed. As I say, that is very much a matter for the OBR. We will collect the tax that is due, as we do for all taxes. If that is not as much because of less landfill tax or economic activity, then I am afraid that that is how it falls out.

John Mason (Glasgow Shettleston) (SNP): Up until now, the Parliament and even this committee have been quite relaxed about how much tax comes in because we only spend it and do not collect it. However, now our thinking will change. I want to ask about how HMRC is maximising the tax take. For example, we have mentioned the self-employed. In the past, you have had quite a push to ensure that people who claimed to be self-employed were in fact self-employed and not employed. Such a situation would affect us, because if people paid more tax, we would get a share of that. Are you still working on that?

Edward Troup: I will step back a bit and just say that we are keen on maximising the tax take. That is our responsibility. As a commissioner, I am charged by Parliament with the collection and management of taxes, and that is what we seek to do. We collect the taxes for the whole of the UK. I remind you that the Scottish rate of income is a Scottish rate, and that the income tax is a UK income tax. Therefore, my and the other commissioners' responsibility to collect income tax in Scotland applies as it does to all other taxes.

In the 2010 spending review, HMRC, although it took a significant cut in its base spending, received reinvestment of £917 million to improve compliance and collection. We are on target to meet the £19 billion additional compliance return target over the spending review period. Indeed, we were given further money in the autumn statement and we have undertaken to increase the compliance return, which is what we get through interventions and action rather than what comes in through the door, to £22 billion over that period. We have been working extremely hard across all taxes to improve voluntary compliance and chase down those who do not want to comply voluntarily.

A significant part of the tax gap comes from the self-employed. That is not so much due to avoidance; rather, it is from non-declaration, mistakes and those—we call them ghosts—who do not appear on the tax system. We have a series of programmes and campaigns to chase up various elements and aspects, which are driven by intelligence and risk analysis. They are applied without fear or favour across the whole of the UK—in Scotland as in England, Wales and Northern Ireland. That will continue. I do not have any particular figures on how much of our compliance is related to Scotland, but we will continue to apply all our compliance efforts across all the taxes to maximise returns.

John Mason: That is reassuring. Is there good communication from the police, say, if they find a rogue trader? Will they give you information if that person is not paying tax? Will councils give you information when they do licensing work?

Edward Troup: Yes, there is very good communication and we join up with other enforcement agencies. Increasingly, our compliance work is based on analytics and a tool that we call Connect, which matches a series of databases, including databases from local authorities, the Driver and Vehicle Licensing Agency or wherever, with our databases, to identify individuals and businesses from whom we perceive a greater risk of non-compliance. We use that in campaigns and in normal risk-based work to follow up.

I cannot answer a specific question about what we get from the police, but we share information. We have a series of gateways through which we share our information with and receive information from other agencies. We use those gateways to carry out our compliance work and assist other law enforcement agencies in their work.

John Mason: That sounds positive. You said at the beginning that you have a very good relationship with the Scottish Government. I would hope that if there were areas from which you wanted more information, or if you wanted some kind of assistance with information, the Government would hear about it.

Edward Troup: Absolutely. If you know of any good citizens who can help us, please pass on the information that they have.

John Mason: I will bear that in mind.

In some areas, tax is black and white, but in other areas there is room for negotiation. One would be a situation in which a struggling employer has deducted PAYE from employees and is in danger of going bust. I understand that you then have a certain amount of latitude over whether to keep that business going in the hope of extracting the PAYE from them over time, or to say that the situation will not get any better and stop the business. I seek clarification. I assume that that would affect us. If a business goes bust and PAYE is not paid, the Scottish take will be less.

Edward Troup: The liability should always be black and white, although the law is not always clear and there can be differences of opinion. The actual amount of PAYE due should be determined by the amount of salary paid. Where there is scope for discussion with us is not over the amount but over the terms of payment.

In the example that you give, of a business that has employed people and generated a PAYE liability and then found itself in difficult financial circumstances, it is open to that business to approach our debt management people and say, "Look, I know how much I owe you, but I am having trouble paying. What can you do?" As long as we believe that it is in the best interests of the collection and management of taxes, it is in our discretion to give a business or an individual time to pay, but we will do so only if we believe that that will allow the business to trade out of difficulties, pay the debt and get back on its feet. We will not allow time to pay if we think that the business is basically bust and will never pay us. In those circumstances we would enforce. We would give time to pay if we thought that it would help us get the money, and that would generally help the business recover.

If the tax is not collected, it will have an impact on income tax receipts overall and, to the extent that those income tax receipts contain an element of the Scottish rate, it will impact on the Scottish Government's receipts.

John Mason: I am thinking of a situation in which a major employer in Scotland is struggling—we have had a few of them in recent years—and the Scottish Government is trying to help them while HMRC is looking to extract maximum tax, which we would completely support. Would that approach be joined up? Could it be more joined up?

Edward Troup: There is an interesting question as to whether, in those circumstances, we could engage with the Scottish Government. I return to the fact that the commissioners of HMRC are appointed by Parliament for the collection and management of taxes. Ministers express their views about concerns that a business might go bust in a particular area of the country and ask whether we can do anything about it, but we cannot be influenced by ministerial or political considerations. We have to act in the best interests of the collection and management of taxes. However, that does not mean that we cannot communicate with the UK Government or, as the case may be, the Scottish Government about a particular taxpayer that is in difficulties and try to take into account any concerns. We have to take seriously our statutory duties to collect tax and our answerability to Parliament rather than to the ministers of the day, whether they are UK or Scottish ministers.

John Mason: My next question is on a slightly different issue. As I understand it from our consideration of who would operate the replacement for stamp duty land tax—the land and buildings transaction tax—HMRC could have operated the system but the Government decided to go ahead with revenue Scotland. I understand that the decision was made partly on the basis of costs. Can you comment on that? Are HMRC's costs at a pretty reasonable level? I hesitate to say "competitive", because you are not really competing with anybody.

Edward Troup: I cannot comment on that. I do not have any familiarity with the circumstances surrounding the decision to use revenue Scotland rather than HMRC. It is an unusual circumstance for us to collect a tax for another Government. I do not even know whether we gave a quote for that, but I would like to think that, if we did, it would have been on good terms, because we believe that we are rather good and expert at collecting stamp duty land taxes.

If Sarah Walker feels that there is anything worth saying, I ask her please to do so.

Sarah Walker: We gave the Scottish Government an estimate of the cost and it made its own estimate of the cost of setting up revenue Scotland. On the basis of those figures and, I am sure, other considerations, the Scottish Government decided to go with revenue Scotland. It was perfectly free to do so. We will see how it all turns out.

John Mason: Yes—we shall see. I am sure that the Finance Committee will consider that. If revenue Scotland is cheaper on land and buildings transaction tax, the question that that raises in my mind is: how can we be convinced that we are getting the best deal from HMRC on the Scottish rate of income tax?

The Convener: I think that, when he says "cheaper", he means that it gives better value.

Edward Troup: I will make two overarching points about that. First, as I said, the Scottish rate of income tax is not a separate tax. Secondly, I remind the committee that all that you are paying for is the marginal costs of collection—that is, the additional costs over and above what it costs us to collect income tax generally. Therefore, in a sense, you are getting the core collection for free.

All our infrastructure, collection mechanisms and compliance work are paid for by HMRC and the UK Government. The only costs that the Scottish Government has to pay are the additional costs of dealing with Scottish taxpayers. To the extent that we run anti-fraud campaigns or have to set up IT systems to collect tax from Scottish employers, none of that is paid for by the Scottish Government. I would like to think that that is extremely good value for you, quite apart from being a function of how the tax works.

John Mason: Before the convener comes in, I just comment that Scottish taxpayers are actually paying HMRC, so I presume that you have responsibilities to both Governments.

If another new tax was introduced, which the Scotland Act 2012 provides for, would HMRC be open to operating it?

Edward Troup: That is a hypothetical question. I am sure that we would be happy to receive the invitation, but our response would depend on what the tax is, the other pressures on us at the time and what else is going on generally.

Michael McMahon (Uddingston and Bellshill) (Lab): Mr Troup has basically answered my question in his response to John Mason's final point, but for clarity I will ask it nonetheless. HMRC's submission on LBTT mentions IT switch-off costs as well as the costs of business changes, publicity and guidance publication. However, you say:

> "costs will be refined as the work on the project develops and will be shared with the Scottish Government."

Is it the information or the costs that will be shared?

10:30

Edward Troup: The switch-off costs will be paid for by the Scottish Government, and the information will definitely be shared.

Michael McMahon: Thank you. That clarifies the point.

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): When you described the exercise that you are carrying out to establish who would be a Scottish taxpayer, you suggested that there could be problems if someone had only a PO box address or whatever. Once you have done the work, will you know the number of people in respect of whom it will be genuinely difficult to decide whether they are a Scottish taxpayer? I presume that difficulties might arise if someone has an address in both countries, but I do not have a sense of whether there will be a lot of people about whom the matter will be contentious or whether the issue will be clear-cut in the vast majority of cases.

Edward Troup: I would hope that the number will be relatively small. Do we have any idea of that at the moment, Sarah?

Sarah Walker: I do not think that we have specific numbers but the definition is designed to make things very straightforward for as many people as possible. Most people have one main home where they live and which they consider to be their base, and that will determine their status as a Scottish taxpayer.

We are expecting difficulties to arise with people who are not permanently based in the UK in the first place. For example, they will be in the UK for a short period and, in that time, will spend time in different parts of the country. In those cases, we will have to take account of the known number of days in a year that they spend either in or outside Scotland.

This is a new thing for us; it will be the first time in the UK that people's addresses will potentially determine the amount of tax that they pay. Over the next few months, we will need to get to the bottom of exactly those questions: what are the difficult cases going to be and what will be the best way of identifying and dealing with them and making things clearer for the people involved?

Malcolm Chisholm: I want to look at the issue from the other side—the decisions that individual taxpayers will make. None of this will matter very much if there is no difference between income tax rates. Of course, the rate might go up or down or stay the same, but I imagine that if it went up people would have an incentive to do something about their status as a Scottish taxpayer. What problems might we face if the Scottish rate of income tax went up? You have already discussed incorporation and the potential increase in people trying to incorporate, but what range of things would constitute a risk to Scotland in such a situation?

Edward Troup: Of course, this is all quite speculative. When we discussed incorporation, I briefly mentioned location, and it seems to me that choices on those two issues are the most obvious that are open to an individual. With regard to location, if a person had one place of residence, they would have to move to change status. In a sense, that would be quite straightforward; after all, people will move from Scotland to England and vice versa all the time, and our systems will have to cope with that.

Although I would hazard that these moves would involve a pretty small number of people, there are individuals, perhaps in the financial services industry, who will have homes in both London and Edinburgh and who might switch the number of days that they spend in one or other residence to ensure that the majority test fell in favour of, say, England rather than Scotland if they felt the alternative to be disadvantageous. However, I would have thought that only a vanishingly small number of people would do that and that a pretty small number would have the incentive or opportunity to do so. We shall see.

Malcolm Chisholm: Am I right in thinking that you implied that quite a lot of the estimated £45 million in costs would be spent on finding out who is a Scottish income taxpayer?

Edward Troup: It would not necessarily be spent on dealing with hard cases; it would be spent just on working out people's current place of residence.

Malcolm Chisholm: Will that work account for a majority of the money? I had thought that a lot of it would be for changing the IT systems and so on.

Sarah Walker: We think that £10 million of our £40 million to £45 million estimate will be for IT change. The other £30-odd million will be for non-IT work, which is not necessarily the clever stuff of determining who is a Scottish taxpayer but the bulk communication that we will have to carry out with people—in other words, sending them letters and dealing with responses, inquiries and potential disputes. That kind of mass-market activity costs money.

Edward Troup: We have not worked out exactly what we will do, but let us say that we will write to everyone whom we think is a Scottish taxpayer to say, "We believe you're a Scottish taxpayer. If you are, this is what will happen. Please take whatever action is needed"—it might be inaction if they are a Scottish taxpayer but action if they are not. That process will involve a lot of hard communication—we will have to produce several million letters—and it will generate quite a lot of activity in relation to people for whom we have the wrong address, people who happen to have a temporary address in Scotland and people who do not like or understand what we have said and want to get in touch with us. I think that the bulk of the cost will come from chasing things down until we have a dataset of genuine Scottish taxpayers that we feel is sufficiently accurate.

Sarah Walker: We will try to make information available on the internet. There will potentially be an online test that people can go through to determine for themselves whether they come within the definition of a Scottish taxpayer. We will potentially consider whether we will communicate with people and allow them to register themselves digitally, given that we are increasingly looking at digital solutions for much of our work. That will affect the IT change that we want to do.

Edward Troup: I emphasise that, quite apart from our responsibility to the Scottish Parliament to keep costs as low as possible, it is in our interests to do the work as cheaply and efficiently as possible, because we have finite resources. I am not talking just about financial resources; we have finite people and finite systems, and we want to devote as little as possible of our systems to any particular task. We have responsibilities, but we also have an incentive to do everything in the most efficient way, consistent with the level of accuracy that is needed.

Malcolm Chisholm: Will all that money—or less, as you hope—be spent by 2016? After that, you will need money to keep going. Is that the smaller sum that you talked about?

Edward Troup: The £4.2 million includes the cost of care and maintenance.

Sarah Walker: Yes, it includes the cost of maintaining the records.

Malcolm Chisholm: It appears that the Scottish Government will have the opportunity to test the IT systems that you are developing. The efficient running of those systems will be essential in reducing the risk of maladministration. How will assurance procedures operate? What assurance of the systems' successful operation can be provided to the Scottish Government or, indeed, us?

Edward Troup: All that is set out in paragraphs 2.1 and 2.2 of the memorandum of understanding—you might be reading that at the moment. As I said, additional provisions relate to IT and your opportunity to request an independent assessment of the costs.

You said that you will have the opportunity to test the IT; I do not think that that is quite right. We will test the IT, but you will be involved in the programme and the project board, and you will be able to participate, in the sense that you will be able to see our testing and reassure yourselves that the system shows the results and functionality that you expect of it.

Malcolm Chisholm: On costs more generally, how will there be sufficient transparency and accountability in relation to the expenditure that you are undertaking?

Edward Troup: Your colleagues on the Public Audit Committee are exceptionally interested in the matter, I am happy to say. They want as much detail as we can provide, in as real time as we can do it, of all the costs that we are incurring.

There are limits to the extent to which we can break down costs. We are subject to the oversight of the National Audit Office, as I said, and you will have read that next year's finance bill will contain provision requiring the NAO to be answerable to the Scottish Parliament in respect of its oversight of our work on the Scottish rate. As with everything to do with our systems, there is a trade-off between running our systems effectively and providing any given level of management information. We want to ensure that you and the auditors get information that is sufficient to reassure you on the costs, without providing so much detail that we impede the sensible running of the tax system. The dialogue in that regard will continue between us and the NAO—and between the Public Audit Committee and me, because I have undertaken to come back to that committee as the project develops.

Malcolm Chisholm: My final question is about the flow of income tax into HM Revenue and Customs. This is possibly more relevant to us than to the UK Government, which has wider borrowing powers. How much income tax comes in within the financial year in which it is due and how much comes in within the following financial year or even later?

Edward Troup: Gosh—that is a good question. I do not have that information. The PAYE money comes in during the financial year or within a few weeks of the end of the financial year. We get in-year payments for half of self-assessments and payments for the other half in the following July.

As you imply, a fair amount of yield is collected through interventions after the end of the year, but I do not know what the split is. About 97 or 98 per cent of the total cash receipts that we receive for taxes come in without any intervention. Given that most tax payments are received in year or soon after, about the same proportion of income tax should come in in year, but that is an extrapolation from the total. I do not have a breakdown for income tax.

Sarah Walker: Under the arrangements for the Scottish rate, that cash-flow effect does not feed through to the Scottish Government. The Scottish Government will be able to draw down funds in year up to the total of the OBR forecast for the yield from the Scottish rate of income tax for that year. There is then a reconciliation 12 months after the end of the year that takes account of the actual receipts, which may be higher or lower than the OBR forecast. The money coming through to the Scottish Government is not determined by the rate at which it comes through to us.

Malcolm Chisholm: Is that just for the transitional period or for ever? Nothing is for ever, but you know what I mean.

Sarah Walker: I believe that it is the intended permanent relationship.

The Convener: Thank you. That completes the questions from committee members, but I have one or two points to raise before we finish the session.

Our budget adviser has said that about 84 per cent of tax is collected within the financial year and about 16 per cent is collected in the subsequent year. There has been a lot of concern about the accuracy of OBR forecasts, which you just mentioned. If the OBR gets its forecast wrong, we have to borrow up to £200 million or £500 million a year—

Edward Troup: So does the UK Government.

The Convener: Indeed. We then have to pay at least 1.1 per cent interest on what we borrow, which could run to several million pounds if the OBR's forecasting is not accurate.

We have talked about forecasting in relation to Jean Urquhart's questions. The OBR's paper "Forecasting Scottish taxes", which was produced in 2012, states:

> "To consider the appropriate methodology for forecasting Scottish taxes we have worked closely with analysts at HM Revenue and Customs (HMRC). We have also discussed the approach with officials from HM Treasury and the Scottish Government. The forecasts will be produced by analysts at HMRC."

You will be providing those reports and forecasts. Will that extend to receipts for the landfill tax and for the land and buildings transaction tax as well as for the SRIT?

Edward Troup: I assume not, as we are not responsible for those taxes.

The Convener: Will revenue Scotland deal with that?

Sarah Walker: I believe so. The reason why we produce the forecasts now is that we have the data. In the future, revenue Scotland will have the data for the land and buildings transaction tax and the Scottish landfill tax and there will be no point in our trying to be involved in that forecast.

The Convener: Thank you for that clarification.

My second point relates to the geography of taxpayers, which Malcolm Chisholm asked about. If there is a dispute about where someone has their residence, what is the default position? If you cannot decide whether someone is a Scottish or a rest-of-the-UK resident, will the default position be that they are considered to be a UK taxpayer?

Edward Troup: They would have to be a UK taxpayer to get into this.

The Convener: But you know what I mean.

Edward Troup: Yes, sorry. Would they be a non-Scottish taxpayer? I cannot remember whether we have circulated this rather useful flow chart, which takes someone through whether they are a Scottish taxpayer, but I would be happy to do so.

The Convener: I do not think that we have that. It might be helpful to see it.

Edward Troup: It is a useful crib. Once an individual has been identified, if they have one place of residence and it is in Scotland, that is it—they are a Scottish taxpayer. If they have a place of main residence—which is an established test that we have under UK tax law at the moment—and there is any dispute about that, the matter will go to an appeal.

If an individual's main place of residence is in Scotland, they are a Scottish taxpayer. If we cannot identify a main place of residence—for instance, because the individual is non-UK most of the time but they are still a UK tax resident or because they live out of hotels because they are a worker who spends time here—we simply do a day count to determine where in the UK they spend most days. We have to do that at the moment for non-residents who are here to determine where they are resident, and in some cases we ask for hotel receipts and evidence that they have come to and left the country on particular days. We then add those days up and count them. In marginal cases, we would do the same.

It is difficult to see where the dispute would be, apart from on the question of where someone's main residence is. As I say, UK tax law already provides a number of tests for that and if someone has a dispute with HMRC they go through the normal tribunal process of taking their case, putting the facts and accepting a decision. We think that there will be only a small number of people in whose cases we will start worrying about the flow chart, let alone have a dispute with them.

The Convener: Also, as Malcolm Chisholm said, it would become an issue only if the rate were different—if it were significantly higher or lower.

Edward Troup: Yes, although one cannot rule out the possibility that, notwithstanding the fact that there is no change in rate, certain individuals will be particularly determined to be—or not be—Scottish taxpayers for other reasons.

The Convener: Indeed.

Thank you very much; that has been a very helpful evidence session. I wish you a safe journey home.

That completes the public part of the meeting.

10:46

Meeting continued in private until 11:19.

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