

From:
Sent: 12 September 2017 18:42
To:
Cc:
Subject: RE: LBTT analysis

David

Aidan has asked me to reply on this.

Yes, I mentioned in the comments to your paper that our (static) modelling was 'broadly consistent' with what you had suggested in their paper. The figure I had in mind was our internal (now public, see below) estimate which was £32m (to lift the 10% threshold to £500k) with no behavioural response included. This estimate is getting on for a year old and will have risen since making it even more 'broadly consistent' with your figure though I said that more for your general reassurance rather than for it to be directly compared.

Here's my comments to FAI:

In terms of a link to a publication, there isn't one – though our figure is in the public domain. That came about, when Aidan and Mr Mackay were at the Finance Committee on 26 October last year when Mr Mackay referred to our (static) modelling estimates in his exchanges with Willie Coffey, MSP. The link to the official report is here:

<http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10583&i=97386&c=1940750>

And the text itself is here given this is a long document:

* Derek Mackay:

There will always be differential impacts on different parts of the country because of the economy and more localised issues. The headline for LBTT is that it has been delivered effectively and responsibly. We have inherited the powers, and we have a sound policy approach and efficient management. The committee has heard from Revenue Scotland, which I think everyone appreciates runs a slick and efficient operation.

I remember the debates around this tax policy and how it should be implemented and who should operate it. Modelling was done on how best to do that, and the creation of Revenue Scotland has been vindicated. It was suggested that HM Revenue and Customs or somebody else could operate the tax, but we considered that setting up Revenue Scotland would be the most efficient way to do it, and that has turned out to be true.

With regard to the overall headline for Scotland, I have highlighted that the tax has resulted in higher than expected revenue performance in the first year, in addition to the policy benefits. The exact figure is 93 per cent of house buyers paying less tax than under stamp duty land tax. That includes those who pay no tax at all under LBTT, which I am sure is welcome.

I have listened carefully to some of the commentary and the anecdotes around the upper end of the market, and I have explained that the evidence suggests that there is not an issue as has been suggested.

I have also seen alternative suggestions, and it is maybe helpful to make the committee aware of them. The Scottish Property Federation and Homes for Scotland have suggested changing the bands and the thresholds. It is reasonable for people to suggest how things could work differently. However, preliminary modelling—which cannot truly judge

behaviours—tells me that raised thresholds could lead to losses. The figures from the Scottish Property Federation modelling suggest an estimated loss of £32 million, and those from the Homes for Scotland modelling show an estimated loss of £44 million. Unless we got those amounts from elsewhere in the tax system, it would mean cuts somewhere. Given that modelling of the alternatives suggests that they would result in losses, I think that our balance is the right one. However, I will be happy to engage with stakeholders at the round-table meeting to which I referred.

I hope that what I have said covers the benefits of LBTT and shows that I have looked at alternative models. It would be wrong for the Government just to rule out other people's suggestions, but our study of them shows that they carry a significant risk of potential loss of income as we enter what might be a more difficult economic period.

So, there isn't a link I can provide apart from Mr Mackay's comments at Committee. We didn't publish any static modelling analysis in our methodology report which Aidan referred to below as that concentrated on explaining the 17-18 revenue forecast rather than costing policy changes.

Though we haven't published any figures, we would also 'broadly reassure' you that upper market transactions, in our estimation, would need to rise 'substantially' to make up for this loss of revenue following a shift in the threshold to £500k but we cannot currently find any evidence to show that anything like this might actually happen. When moving from the 'slab' SDLT system to the 'slice' LBTT system in April 2015, transactions certainly didn't double (in the lower market) or halve (in the upper market) as a result of the tax change. That would be the nearest property tax change we have as a comparison. There is not much alternative evidence either (currently) to suggest what the behavioural impact might be but, if you have any thoughts on this, we'd be very glad to hear them. This is exactly what we have said to stakeholders recently and what Mr Mackay has said separately to those seeking the tax change at a recent event in Edinburgh.

Hope that helps. Please let me know if you need further.

Jamie

Fiscal Responsibility Division | Directorate for Financial Strategy | Scottish Government
Telephone: |

From:
Sent: 12 September 2017 11:00
To:
Subject: FW: LBTT analysis

Jamie, can you provide details. I assume came from you (methodology report?)

From:
Sent: 12 September 2017 10:37

To:
Cc:
Subject: LBTT analysis

Hi Aidan

Thanks for comments on our report. The comments mention some government published work on revenue effects of changes to LBTT rates; please can you send a link?

Thanks
David

| Fraser of Allander Institute | Department of Economics
University of Strathclyde Business School

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