



The Scottish Parliament
Pàrlamaid na h-Alba

FINANCE COMMITTEE

AGENDA

14th Meeting, 2013 (Session 4)

Wednesday 8 May 2013

The Committee will meet at 9.30 am in Committee Room 6.

1. **Decision on taking business in private:** The Committee will decide whether to take item 4 in private.
2. **Scotland Act 2012:** The Committee will take evidence from—

Edward Troup, Second Permanent Secretary, and Sarah Walker, Deputy Director and Head of Devolution Team, HM Revenue and Customs.
3. **Proposed Contingent Liability (in private):** The Committee will take evidence from—

Paul Wheelhouse, Minister for Environment and Climate Change, George Burgess, Deputy Director, Environmental Quality Division, and John Nicolson, Senior Policy Manager, Environmental Quality Division, Scottish Government.
4. **Annual report:** The Committee will consider a draft annual report for the parliamentary year from 11 May 2012 to 10 May 2013.

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The papers for this meeting are as follows—

Agenda item 2

Scotland Act 2012

FI/S4/13/14/1

Agenda item 3

PRIVATE PAPER

FI/S4/13/14/2 (P)

Agenda item 4

PRIVATE PAPER

FI/S4/13/14/3 (P)

Finance Committee

14th Meeting, 2013 (Session 4), Wednesday 8 May 2013

Scotland Act 2012 – HMRC

Introduction

1. HMRC officials gave evidence to the Committee on 30 May 2012 and stated that: “HMRC has a very important job to do in delivering the tax provisions of the Scotland Act 2012.” While Revenue Scotland will be responsible for the administration and collection of the Land and Buildings Transaction Tax (LBTT) and landfill tax, HMRC will continue to have responsibility for administering and collecting the Scottish rate of income tax (SRIT).
2. At its meeting on 5 September 2012 the Committee agreed to invite HMRC officials to give evidence on its progress in implementing SRIT on an annual basis.
3. Edward Troup (Tax Assurance Commissioner and Second Permanent Secretary, HMRC) was appointed Additional Accounting with responsibility for SRIT. He is accountable for the performance of the HMRC in establishing and operating the Scottish rate and will give evidence to the Committee at its meeting on 8 May. The UK Government also plans to require the National Audit Office (NAO) to report direct to the Scottish Parliament annually on HMRC’s administration of SRIT.
4. This paper addresses some of the issues in relation to HMRC’s role in the implementation of SRIT as well as the disapplication of SDLT and landfill tax in Scotland.

Implementation of SRIT

5. The UK Government has published its first annual report on the implementation and operation of the financial provisions of the Scotland Act 2012¹ and this is attached. This includes details of the progress which HMRC is making in implementing SRIT. Paragraph 6 of the report states that implementation “is led by an HMRC project with oversight provided by the programme board, made up of representatives from HMRC, HM Treasury and the Scotland Office as well as the Scottish Government.”

Memorandum of Understanding (MoU)

6. The SG and HMRC have agreed a MoU² concerning the Scottish Rate of Income Tax (SRIT) and this is attached. The Committee wrote to the SG on 12 December

¹ www.scottish.parliament.uk/S4_FinanceCommittee/UK_Scotland_Act.pdf

² www.scottish.parliament.uk/S4_FinanceCommittee/MoU.pdf

2012³ with its comments on the draft MoU and the letter is also attached along with the SG response⁴. The Budget Adviser also drafted a briefing for the Committee on the MoU and this is also attached⁵.

IT Systems

7. Paragraph 2.2 of the MoU states that “HMRC will develop and test the IT systems through its contracted IT suppliers and in accordance with its normal IT practice” and that it “will review with SG plans for testing the IT systems.” The MoU also states that: “To provide maximum assurance, SG may ask for additional audit work to be undertaken on systems testing and testing results.” The Budget Adviser states that: “the efficient running of these systems is essential to reduce the risk of maladministration in the application of SRIT.” He suggests that it would be useful if the Committee were “to better understand how these assurance procedures will operate and what assurance of their successful operation might be provided.”

8. The UK Government implementation report states that detailed work to implement the IT systems changes required for SRIT will begin in 2014 and take around two years.

Scottish taxpayers

9. Paragraph 3.2 of the MoU states that “HMRC will identify Scottish taxpayers, as defined in new section 80D of the 1998 Act, from information on its systems and by interaction with the taxpayers themselves.” HMRC will issue Scottish tax codes (S codes) to all Scottish tax payers within PAYE and their employers. The Budget Adviser suggests that the Committee may wish “to ensure that it is informed of HMRC practices in relation to cases where Scottish tax paying status is not clear cut.”

10. Paragraph 3.2 of the MoU also states that “the Self Assessment (SA) system will be adapted so that Scottish taxpayers within SA will declare their status as part of their annual return.” The Budget Adviser states that the Committee and the SG will need to be aware of “the potential for the self-employed, who mainly pay under the SA system, to change their incorporation status in response to differentials between Scottish and RUK rates of income tax.”

11. The UK Government implementation report states that HMRC will “develop an approach to identifying Scottish taxpayers, based on an examination of current HMRC data on taxpayers’ places of residence and potential additional sources of information.” HMRC expect to make potential Scottish taxpayers aware during 2015-16.

³www.scottish.parliament.uk/S4_FinanceCommittee/Convener_to_CSFESG_re_draft_SRIT_MoU_12.12.2012.pdf

⁴www.scottish.parliament.uk/S4_FinanceCommittee/CSFESG_to_Convener_re_SRIT_MoU_130213.pdf

⁵www.scottish.parliament.uk/S4_FinanceCommittee/SRIT_Memo_Understanding_Budget_adviser_paper.pdf

Setting the Rate

12. The Scottish Parliament is required to pass a *Scottish rate resolution* by 5 April each year. The MoU states that if the rate has not been determined by the end of November in the preceding year HMRC will have to work on an agreed assumption for the issuance of tax codes. The Budget Adviser states that the Committee may wish to investigate “how this assumption would be set, since errors in tax coding will have to be subsequently corrected with potential administrative and revenue costs to SG.”

Implementation Costs

13. The UK Government’s implementation report states in relation to SRIT that the “cost for the project has been estimated at £40m-£45m for implementation, including around £10m in IT costs.” Annual running costs are estimated to be £4.2m each year. HMRC officials stated in evidence to the Committee in May 2012 that this was an estimate when the bill was published and that “we hope that expenditure will be significantly less than £45 million.”⁶ The SG state in paragraph 25 of its implementation report that it “is too early in the work of preparing the detailed plans to say whether any savings will be possible on the original broad brush cost estimates.”

14. The UK Government implementation report states that the costs for the SG for 2012-13 are £165,141 and estimated costs for 2013-14 are £1.5m. The latter costs include work in relation to switching off SDLT and landfill tax as well as the implementation of SRIT.

15. The Budget Adviser states that in relation to the costs of implementing SRIT: “given that HMRC is the monopoly seller of these services to SG, it is essential that there is complete transparency and accountability for these costs to mitigate the risk of unforeseen additional costs to SG.”⁷

Accounting, Audit and Assurance

16. Paragraph 6.2 of the MoU states that: “Expenditure and receipts relating to SRIT will be identified separately in HMRC annual accounts, which are audited by the National Audit Office (NAO).” The Public Audit Committee (PAC) published an interim report on 25 April 2013 which outlines its initial views on the audit and accountability arrangements for SRIT⁸. The PAC is seeking views on the proposed audit framework.

LBTT

17. Paragraph 18 of the UK Government implementation report states that a HMRC project has been set up to manage the disapplication of SDLT in Scotland. The project team which includes representatives from the SG has focused “on analysis of how

⁶ Finance Committee, Official Report, 30 May 2012, Col 1290.

⁷ www.scottish.parliament.uk/S4_FinanceCommittee/SRIT_Memo_Understanding_Budget_adviser_paper.pdf

⁸ www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/62572.aspx

existing HMRC systems will be affected by the disapplication of the tax in Scotland from 2015 and the identification of stakeholders that will be affected by the change.”

18. HMRC provided a written submission to the Committee’s Stage 1 inquiry on the LBTT Bill and this is attached⁹. They state that they are “consulting fully with SG and RoS on the IT requirements and business changes for ‘switching off’ SDLT in Scotland.” HMRC also state that they “will shortly be consulting SG, RoS and Revenue Scotland on a first draft of guidance to taxpayers on the SDLT implications of the transition.”

Implementation Costs

19. HMRC advised in its submission to the LBTT inquiry that its costs for work related to the devolution of SDLT relate to two areas:

- IT and business changes to enable systems to be switched off;
- Communications, including publicity and guidance.

20. The submission states that the “costs will be refined as the work on the project develops and will be shared with the Scottish Government.”

21. In response to questioning from the Committee during its Stage 1 inquiry on the LBTT Bill the Cabinet Secretary stated that HMRC have provided an indicative figure of costs in excess of £500k. In its response to the Committee’s Stage 1 report on the LBTT Bill the SG confirmed that the £500,000 figure was an informal estimate for part of the work in switching off SDLT and Landfill Tax¹⁰.

22. The SG states in its implementation report that its costs for the SDLT switch-of project for 2012-13 are £18,153 and that “work is underway to provide an estimate of the full amount and the results are expected in 2013.”

Landfill Tax

23. Paragraph 23 of the UK implementation report states that a HMRC project has been set up to manage the disapplication of Landfill Tax. The project team which includes representatives from the SG has begun to identify potential Landfill Tax customers likely to be affected by the changes. It is unlikely that there will need to be technical changes to HMRC systems. A communications plan to provide information to stakeholders will also be developed.

Jim Johnston
Clerk to the Committee

⁹ www.scottish.parliament.uk/S4_FinanceCommittee/HM_Revenue_and_Customs.pdf

¹⁰ www.scottish.parliament.uk/S4_FinanceCommittee/LBTT_response.pdf