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*Dear Kenneth*

Thank you for your letter of 30 October, regarding your recent report on the implementation of the powers in the Scotland Act 2012. I thought it would be helpful to respond to some of the paragraphs referring to the OBR:

***The Committee notes that HMRC currently provides an estimate of SRIT outturn receipts based on the annual SPI. The Committee intends to write to the OBR inviting it to provide the reasons for any variation between this estimate of outturn receipts and its own forecast when publishing its Scottish tax forecasts and then between its forecast and the outturn receipts for SRIT once they become available***

Outturns based on the Survey of Personal Incomes are only available with a long lag. Since the initial forecast in March 2012, only an estimate for 2010-11 has become available. An estimate for 2011-12 will be available after our December 2013 forecast and will be incorporated into our March 2014 forecast.

The 2010-11 estimate was higher than we had initially forecast in the March 2012 forecast, but forecasts for subsequent years have been revised markedly lower. In our Scottish tax forecasts document, we provide diagnostics explaining the change in the forecast, distinguishing between the impact of changes in the Scottish share, changes due to the UK forecast and changes resulting from subsequent policy announcements. Table 1 shows the diagnostic for change in the Scottish income tax forecast between March 2012 and March 2013.

**Table 1: Forecasts of Scottish IT Liabilities from Scottish Rate**

	10-11	11-12	12-13	13-14	14-15	15-16	16-17
<b>March 2012</b>	4397	4375	4417	4542	4874	5265	5633
<b>March 2013</b>	4468	4330	4240	4246	4332	4649	4976
<b>Change</b>	71	-45	-177	-296	-542	-616	-657
	<b>of which:</b>						
<b>Scottish Share<sup>1</sup></b>	44	-4	49	-63	14	14	17
<b>Policy Measures</b>	0	0	1	-53	-119	-98	-76
<b>UK Forecast</b>	27	-41	-225	-180	-437	-532	-598

<sup>1</sup> Effect from changes in the Scottish share prior to adjustments for asymmetric effect of policy measures between the UK and Scotland

While policy measures announced in the 2012 Autumn Statement and Budget 2013 reduced the forecast, the main reason for lower receipts is a downgrade to the UK forecast. In particular, earnings growth has been lower than anticipated, which is linked to weak productivity. Receipts from self-assessment income tax have also been weaker than expected despite a significant rise in self-employment. Many of the newly self-employed appear not to be earning sufficient incomes to pay much tax.

***The Committee will ask the OBR to explain the extent to which its March 2012 and March 2013 forecasts for Scottish SDLT were based on available outturn data***

Our March 2012 and March 2013 forecasts for UK SDLT in 2011-12 and 2012-13 respectively were based on receipts outturns for the first ten months of the financial year. However, we did not have any in-year data for Scottish SDLT and therefore assumed that the Scottish share of UK SDLT receipts was unchanged from the previous year for residential SDLT and the average of the previous three years for non-residential SDLT. Table 2 shows that the proportionate error in Scottish SDLT was greater than that for the UK, which implies that Scotland's share of total SDLT fell relative to recent outturns. This may reflect the impact of higher prices and transactions for relatively expensive properties in London.

Table 2: Budget 11 and Budget 2012 forecasts for SDLT

	UK			Scotland		
	Forecast	Outturn	Error	Forecast	Outturn	Error
<b>March 2012 for 11-12</b>	6280	6125	-2.5%	319	275	-13.8%
<b>March 2013 for 12-13</b>	6941	6907	-0.5%	323	283	-12.9%

*The Committee will ask the OBR to provide details of the methodology it intends to use to forecast LBTT receipts and to provide the reasons for any variation between its forecast for SDLT/LBTT receipts and the outturn figures as they become available.*

*The Committee will also ask the OBR how and when it intends to forecast receipts for LBTT in 2015-16 when no outturn receipts for LBTT will be available*

We would aim to treat the introduction of the LBTT in much the same way that we treat policy changes announced by the UK government. A number of new taxes have been introduced since the Coalition government came into office in May 2010 (e.g. the bank levy and the extension of company tax credits to new areas such as high-end TV). In each case, we requested analysis from HMRC or the relevant department, looking at the size of the tax base, how the tax base would grow over time, the key tax parameters and any behavioural effects resulting from the introduction or extension of the tax.

In the case of the introduction of the LBTT, we would hope to discuss the same parameters with whichever body or bodies are responsible for design, administration and revenue forecasting for the new regime in Scotland – presumably the Scottish Government, Revenue Scotland or the proposed independent forecasting body.

At the end of the day, we will have to sign off our own initial costing of the LBTT, plus further forecasts at the time of each UK fiscal event, consistent with our own economic forecast. In doing so, I suspect that this will mean adopting or modifying the receipts forecasts produced by the Scottish authorities. We would be keen to ensure that we are transparent about how the forecasts will be generated and to provide

analysis of forecast errors – as I am sure the Scottish authorities will. I hope that we can cooperate as closely as possible in doing so and that our input may be in turn be helpful for the authorities in the always challenging task of forecasting the receipts from a new and hitherto untested tax.

I hope that this is helpful.

*Best regards,*

A handwritten signature in blue ink, appearing to read 'R. Chote', with a horizontal line underneath.

**Robert Chote**  
Chairman