

# Supplementary Costings: Coronavirus (Scotland)(No. 2) Bill – May 2020

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# Foreword

The Scottish Fiscal Commission is the independent fiscal institution for Scotland. Our statutory duty is to provide independent and official forecasts of the economy, tax revenues and social security spending to inform the Scottish Budget. This report sets out our costings of the two policies in the Scottish Government's Coronavirus (Scotland)(No. 2) Bill related to the taxes and social security benefits we forecast. The first policy is the change in the time period for Additional Dwelling Supplement (ADS) repayments and the second is the one-off increase in the Carer's Allowance Supplement paid in June 2020.

Our objective is to ensure the Scottish Parliament has an independent estimate, known as a policy costing, of the effect of a policy change on revenues associated with any proposed legislation relating to taxes or benefits. As a result, we only cost policies announced at fiscal events or that accompany legislative changes introduced in the Scottish Parliament.

The COVID-19 pandemic means this policy costing comes during an exceptional time for Scotland. We provided an update on the effect of COVID-19 on the Scottish Budget in a Fiscal Update, published on 23 April 2020.<sup>1</sup>

Dame Susan Rice DBE

Professor Francis Breedon

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11 May 2020

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<sup>1</sup> Scottish Fiscal Commission (2020) Supplementary Publication: Fiscal Update – April 2020 ([link](#))

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# Chapter 1

## Introduction

### Introduction

- 1.1 The Coronavirus (Scotland)(No.2) Bill has been introduced to the Scottish Parliament. The Bill forms part of the Scottish Government’s fiscal response to COVID-19 and includes two legislative proposals for changes to taxes and social security benefits that we forecast.
- 1.2 The first of these changes concerns the Additional Dwelling Supplement (ADS). Previously, anyone who paid ADS following the purchase of a second property had the opportunity to reclaim their ADS payment if they sold their previous primary residence within 18 months. COVID-19 related disruption to the housing market may mean some of those intending to sell their previous primary residence and claim a repayment of ADS are not able to do so. This policy change aims to mitigate this effect by temporarily extending the window in which a previous primary residence can be sold to 27 months. The policy change is retrospective and will apply to all ADS transactions with an effective date between 24 September 2018 and 24 March 2020.
- 1.3 The second change is a one-off Coronavirus Carer’s Allowance Supplement of £230.10 to be paid in June alongside the regular Carer’s Allowance Supplement. This effectively doubles the payment made in June to £460.20.<sup>2</sup> Table 1.1 shows our estimate of the effect of these policy changes on the Scottish Budget. Negative numbers indicate a cost to the Budget.

**Table 1.1: Summary of policy costings**

£ million	2020-21	2021-22	2022-23
Temporary extension of ADS repayment period	-4	-6	-1
Coronavirus Carer’s Allowance Supplement	-19		
Overall effect of policy changes	-23	-6	-1

Source: Scottish Fiscal Commission

Figures are rounded to the nearest million. Figures may not sum because of rounding. Unrounded figures can be found in the accompanying charts and tables.

<sup>2</sup> Scottish Government (2020) Extra payment for unpaid carers – 06 May 2020 ([link](#))



# Chapter 2

## ADS policy costing

### Measure description

- 2.1 The Additional Dwelling Supplement (ADS) policy change increases the period in which eligible taxpayers can transfer their main residence and claim a repayment of the LBTT Additional Dwelling Supplement by nine months, from 18 month to 27 months.
- 2.2 The policy change is retrospective and affects ADS transactions with an effective date between 24 September 2018 and 24 March 2020.

### Baseline for costing the policy

- 2.3 We normally present policy costings as part of an updated forecast of total revenues. Given that our latest forecasts were published in February 2020 and did not include the full effect of COVID-19, it would not make sense to present this policy costing as an update to this pre-COVID-19 forecast. However, as explained in our Fiscal Update published on 23 April 2020, we will not be publishing updated forecasts at this time.<sup>3</sup> Nevertheless, we can provide a stand-alone costing of this policy without any forecast of total LBTT ADS revenues. When we next publish a forecast we will show the effect of this policy change on our forecasts of total LBTT ADS revenues.
- 2.4 The focus of this costing is specifically on ADS repayments and the effect of the policy change on the Scottish Budget. The cost of the policy arises from sales of previous primary residences 18 to 27 months after the payment of ADS. Without the policy change, these transactions would fall outside of the ADS repayment claims window and would not lead to repayment of ADS. The policy to temporarily extend the ADS repayment claims window enables repayment of ADS to be claimed on these sales of previous primary residences, lowering tax revenues for the Scottish Government.
- 2.5 As a result of the COVID-19 lockdown delaying property transactions, and without a change in policy, we might expect a small increase in ADS revenues

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<sup>3</sup> Scottish Fiscal Commission (2020) Supplementary Publication: Fiscal Update – April 2020 ([link](#))

as ADS payers cannot make a claim for repayment of ADS within the normal eighteen month window. This increase in net ADS revenue is not part of our policy costing, as it is an effect of the COVID-19 lockdown, rather than the policy change we are considering. Where the COVID-19 lockdown displaces some sales from the normal eighteen month window into the eighteen to twenty-seven month window, we only consider the cost of now allowing a claim for repayment of ADS in the extended window.

## The cost base

- 2.6 The cost base is those transactions that occurred between 24 September 2018 and 24 March 2020 for which ADS was paid and where the buyer intends to transfer their main residence, does so 18 to 27 months after the ADS transaction occurred, and claims back the ADS paid.

## The costing

- 2.7 First, we account for those transactions that pre-COVID-19 would have transferred a main residence 18 to 27 months after an ADS transaction occurred so no ADS repayment could have been claimed. With the policy change, the homebuyer is now able to reclaim ADS because of the nine month extension. We use data from Revenue Scotland on the amount of ADS reclaimed up to 18 months after the payment of ADS, to extrapolate repayment estimates for months 19 to 27.
- 2.8 We estimate that around 29 per cent of the ADS originally paid would be reclaimed within the full 27 month period compared to around 26 per cent within the 18 month ADS repayment claim window – an increase of 3 percentage points.
- 2.9 Second, we account for those transactions where buyers were planning to transfer their main residence within the pre-policy change 18 month window, but were prevented from doing so because of COVID-19 disruption, and now make a claim in the nine month extension period. We estimate that of the 26 per cent of gross ADS revenue that would normally take place within the 18 month window, around 1 percentage point's worth is displaced into months 19 to 27 because of COVID-19, adding to the overall cost of this policy. This estimate also includes an assumption that a small number of repayments that would have occurred in the original window may not take place in the new window because would-be sellers decide not to sell their previous main residence as result of COVID-19.
- 2.10 Combining the steps above we estimate the total amount of ADS repayments that will fall into the extended nine month window. This gives us our estimate of the additional ADS repayments that are made as a result of the policy change. Table 2.1 shows the policy costing.

**Table 2.1: Policy costing for temporary extension of ADS repayment period**

£ million	2020-21	2021-22	2022-23
	-4	-6	-1

Source: Scottish Fiscal Commission

Figures are rounded to the nearest million. Unrounded figures can be found in the accompanying charts and tables.

## Behavioural responses

2.11 We do not anticipate any significant behavioural response to this policy change. The extended window does not provide strong incentives to change behaviour, as it is designed to replace time lost because of the COVID-19 related disruption.

## Announced ADS measures that are not costed

2.12 The Bill includes provisions enabling Scottish Ministers to change via secondary legislation two dimensions of the policy. First, is the power to increase the nine month extension further for those transactions falling between 24 September 2018 and 24 March 2020. Second, is the power to broaden the range of transactions that are eligible for the longer repayment period.

2.13 These changes constitute enabling legislation and require further Ministerial decision and secondary legislation to come into effect. As explained in our Approach to Policy Costings publication, these provisions fall beyond the scope of this policy costing.<sup>4</sup> Should Ministers choose to exercise either or both of the above powers, we will cost those as separate policy changes.

## Uncertainty

2.14 These policy costings are subject to considerable uncertainty, given the uncertainty around the effect of COVID-19 on the housing market and the duration of the associated disruption. We will continue to monitor developments and may update our costings in future forecast publications.

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<sup>4</sup> Scottish Fiscal Commission (2019) Approach to Policy Costings ([link](#))



# Chapter 3

## Coronavirus Carer's Allowance Supplement

### Introduction

- 3.1 On 6 May 2020, the Scottish Government announced an additional one-off Coronavirus Carer's Allowance Supplement.<sup>5</sup> This is part of the Scottish Government's response to COVID-19 and is included in the emergency coronavirus legislation.
- 3.2 Carers will receive an extra £230.10 payment in June 2020. To be eligible, carers need to have been in receipt of Carer's Allowance on 13 April 2020.<sup>6</sup> The payment will be made automatically to Carer's Allowance recipients with no requirement for a separate application.

### Measure description

- 3.3 The policy change is effectively to double the £230.10 Carer's Allowance Supplement payment that is due to be made in June. This takes the total June payment to £460.20.

### The cost base

- 3.4 The cost base is people who were in receipt of Carer's Allowance on 13 April 2020, or who are subsequently paid Carer's Allowance in respect of a period including 13 April 2020.

### The costing

- 3.5 We estimate that the additional cost in 2020-21 for the Coronavirus Carer's Allowance Supplement is £19 million.
- 3.6 To produce this costing, we have estimated the number of people receiving Carer's Allowance in Scotland on the eligibility date. Consistent with our

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<sup>5</sup> Scottish Government (2020) Extra payment for unpaid carers ([link](#))

<sup>6</sup> Scottish Government (2020) Carer's Allowance Supplement guide ([link](#))

February 2020 forecast of the Carer’s Allowance Supplement caseload, we estimate that 83,000 carers would be eligible. We then multiply this by the payment amount of £230.10 to determine the total cost.

- 3.7 Table 3.1 shows the policy costing. We have attributed all the additional spending to financial year 2020-21, but it is possible that a small amount will be paid in 2021-22 to people whose underlying eligibility for Carer’s Allowance in April 2020 is not confirmed until later.

**Table 3.1: Policy costing for Coronavirus Carer’s Allowance Supplement**

£ million	2020-21
	19

Source: Scottish Fiscal Commission

## Behavioural responses

- 3.8 We do not anticipate any significant behavioural response to this policy change. Eligibility relates to a date that has passed, meaning that there is very little scope for people to change their behaviour in response to the additional payment.

## Uncertainty

- 3.9 The value of the payment is fixed so the only uncertainty for this policy costing is how many carers will be eligible. The latest statistics from Social Security Scotland show that 81,000 carers were paid Carer’s Allowance Supplement in respect of eligibility in April 2019, and that the Carer’s Allowance caseload has continued to rise since then.<sup>7</sup> Our estimate of 83,000 carers eligible for the additional payment is consistent with our February 2020 forecast. The cost of the policy would vary by around a quarter of a million pounds for every thousand carers who receive the payment.

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<sup>7</sup> Social Security Scotland (2020) Carer’s Allowance at August 2019 and Carer’s Allowance Supplement to October eligibility date 2019: statistics Table 1 ([link](#))



# Abbreviations

ADS	Additional Dwelling Supplement
COVID	Coronavirus Disease
LBTT	Land & Buildings Transaction Tax
UK	United Kingdom

A full glossary of terms is available on our website:

<https://www.fiscalcommission.scot/explainers/glossary/>

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