

Bruce Crawford MSP
Convener
Finance Committee
The Scottish Parliament
Edinburgh
EH99 1SP

24 November 2016

Dear Convener,

The Scottish Fiscal Commission will today release its commentary on the initial outturn data for the Additional Dwelling Supplement (ADS). I attach a copy of the commentary which will also now be published on the SFC website.

This commentary compares the forecast for revenues from ADS to the initial outturn data, while recognising that a proper picture of outturn revenues against actual forecast can only be made once full information is available on receipts. In the case of ADS, this will be 18 months after the end of the financial year, by which time all potential refunds should have been made.

The key findings from the commentary are:

- The absence of data for the number and value of additional dwelling transactions made it very difficult for forecasters to gauge the potential size of the tax base to which the ADS applies.
- Initial outturn data suggest that the typical price of properties for which ADS is ultimately liable is lower than for other residential LBTT transactions. However, the volume of ADS transactions appears to be higher than inferred from buy-to-let mortgage data. Combining realised price and volume data for the year-to-date and recomputing expected revenues using the SG's forecasting model suggests that the model performs well. Therefore the underprediction of revenues is largely driven by the inability to estimate accurately the size of the tax base due to the lack of information available on additional properties at the time the forecast was produced.
- While it is difficult to disentangle forestalling effects from other sources of forecast error, it appears that the forestalling estimates applied to LBTT in

2015-16 were not unreasonable in terms of their absolute size, but were slightly overstated when applied to ADS in 2016-17.

- Finally, it is not possible to definitively assess the extent to which there is an ongoing behavioural response to the new tax. There is simply insufficient information on the size of the tax base prior to the introduction of the tax to be able to assess how it has responded to the tax. Data on buy-to-let mortgages for the UK as a whole suggest that these have not yet recovered to pre-March 2016 levels which could be consistent with an ongoing behavioural response, although it may reflect other factors weighing on the market.

My colleagues and I on the Scottish Fiscal Commission would be happy to discuss this commentary with the Committee, whether at the session on December 21st following the publication of the Scottish Government's Draft Budget, or subsequently.

As I always do, I am copying this letter to the Cabinet Secretary for Finance and the Constitution.

Best wishes,

A handwritten signature in blue ink that reads "Susan Rice".

Susan Rice CBE