

Supplementary Costings Update:  
Coronavirus (Scotland)(No. 2) Bill  
20 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 updates our 11 May costing of the Additional Dwelling Supplement (ADS) policy in the Scottish Government's Coronavirus (Scotland)(No. 2) Bill as a result of a change made at Stage 2 of the Bill. This change further extends the time period for certain ADS repayments. We estimate the change to ADS will now reduce ADS revenues by £4 million in 2020-21, by £8 million in 2021-22 and by £3 million in 2022-23.

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

Professor Alasdair Smith

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20 May 2020

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

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# ADS policy costing

## Introduction

- 1 The Coronavirus (Scotland)(No.2) Bill forms part of the Scottish Government's response to COVID-19. The Additional Dwelling Supplement (ADS) policy was amended at Stage 2 of the Bill on 19 May and this publication provides an updated estimate of the cost of the policy.
- 2 The draft Bill published on 11 May proposed a temporary change to ADS. In the absence of the Bill, anyone who paid ADS following the purchase of a second property between 24 September 2018 and 24 March 2020 would have had the opportunity to reclaim their ADS payment if they sold their previous primary residence within 18 months. The Bill originally extended the window for claiming repayment to 27 months. In a report published on 11 May we estimated the total cost of this proposed policy change at £10 million.<sup>2</sup>
- 3 The Stage 2 amendment further extends the repayment claims window to a total 36 months. This document presents our updated costing of the policy change.

## Measure description

- 4 The amended ADS policy change increases the period in which eligible taxpayers can transfer their main residence and claim a repayment of the ADS by 18 months, from 18 months to 36 months.
- 5 The policy change is retrospective and affects transactions with an effective date between 24 September 2018 and 24 March 2020 on which ADS was paid.

## Baseline for costing the policy

- 6 Our baseline is the same as in our previous report.

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<sup>2</sup> Scottish Fiscal Commission (2020) Supplementary Costings – Coronavirus (Scotland)(No. 2) Bill – May 2020 ([link](#))

- 7 The cost of the policy arises from sales of previous primary residences 18 to 36 months after the purchase of a new primary residence and 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 repayments of ADS to occur following the sales of previous primary residences, lowering tax revenues for the Scottish Government.

## The cost base

- 8 The cost base is those transactions that occurred between 24 September 2018 and 24 March 2020 for which ADS was paid, where the buyer transfers their previous main residence 18 to 36 months after the ADS transaction occurred, and claims back the ADS paid.

## The costing

- 9 We estimate the full cost of the temporary extension of the ADS repayment claims window to 36 months that is part of the Coronavirus (Scotland)(No.2) Bill. This includes the original policy to extend to 27 months, and the Stage 2 amendment to extend this to 36 months. For information, we also provide a breakdown of these two intermediate steps.
- 10 First, we account for those transactions that pre-COVID-19 would have transferred a main residence 18 to 36 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 18 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 36.
- 11 We estimate that around 31 per cent of the ADS originally paid could be reclaimed within the full 36 month period compared to around 26 per cent within the 18 month ADS repayment claim window – an increase of 5 percentage points.
- 12 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 18 month extension period. We estimate that of the 26 per cent of gross ADS revenue that would normally be reclaimed within the 18 month window, around 1 percentage point's worth is displaced into months 19 to 36 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.

- 13 Combining the steps above we estimate the total amount of ADS repayments that will fall into the extended 18 month window. This gives us our estimate of the additional ADS repayments that are made as a result of the policy change. Table 1 shows the policy costing. For information, we show our original cost estimate prior to Stage 2 amendment, the effect of the Stage 2 amendment, and our final total policy costing.

**Table 1: Policy costing for temporary extension of ADS repayment period**

£ million	2020-21	2021-22	2022-23	2023-24
Original cost estimate prior to Stage 2 amendment – 27 month repayment claims window	-4	-6	-1	
Additional cost of Stage 2 amendment – additional 9 month extension	0	-2	-3	0
Total cost of policy – 36 month repayment claims window	-4	-8	-3	0

Source: Scottish Fiscal Commission

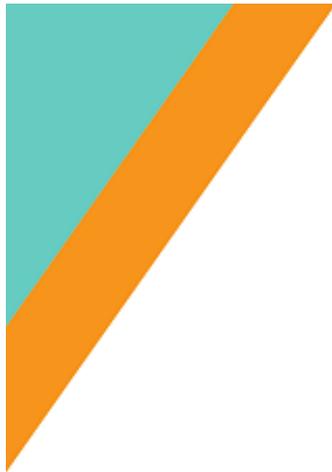
Figures are rounded to the nearest million. Unrounded figures can be found in the accompanying charts and tables.

## Behavioural responses

- 14 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.

## Uncertainty

- 15 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.



# 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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