

# Revenue Scotland

Annual Report and Financial Statements  
for the year ended 31 March 2016

Devolved Taxes Account

Revenue Scotland is a Non-Ministerial Department of the Scottish Administration

Laid before the Scottish Parliament by Revenue Scotland in pursuance of the Revenue Scotland and Tax Powers Act 2014 on 8 September 2016

Annual accounts authorised for issue on 26 August 2016

Published by Revenue Scotland September 2016

**© Crown Copyright**

You may use and re-use the information featured on this website (not including logos) free of charge in any format or medium, under the terms of the [Open Government License v 3.0](#).

Any enquiries regarding the use and re-use of this information resource should be sent us at:

[info@revenue.scot](mailto:info@revenue.scot)

Revenue Scotland  
PO BOX 24068  
Victoria Quay  
Edinburgh  
EH6 9BR

## Contents

Performance Report .....	2
Overview .....	2
Statement from Chief Executive of Revenue Scotland .....	2
Introduction .....	3
Performance Indicators .....	7
Accountability Report .....	9
Corporate Governance Report.....	9
Statement of Accountable Officer’s responsibilities .....	9
Independent Auditor’s Report.....	15
Devolved Taxes Account 2015-16: Financial Statements .....	18
Statement of Revenue and Expenditure.....	18
Statement of Financial Position .....	19
Statement of Cash Flows .....	20
Notes to the Accounts .....	21
Accounts Direction.....	28

## Performance Report

### Overview

#### Statement from Chief Executive of Revenue Scotland

Following Revenue Scotland's first full year of operation, it is a pleasure to be publishing the first Annual Report and Financial Statements for the Devolved Taxes Account. This marks a major milestone in the journey of Scotland's devolved taxes and demonstrates a successful first year for Revenue Scotland in the collection and management of those taxes.

As this report shows Revenue Scotland has collected over £0.5 billion in taxes across both Land and Building Transactions Tax (LBTT) and Scottish Landfill Tax (SLfT). Revenues raised from the devolved taxes (including penalties and interest) are remitted to the Scottish Consolidated Fund. It is because of this, and the desire to have transparency about how the figures for the devolved taxes revenues which appear in the Scottish Consolidated Fund accounts have been determined, that it has been agreed with the Scottish Government that tax revenues should be reported separately from the operational performance and expenditure of Revenue Scotland.

A separate set of Annual Report and Accounts covering the operational performance and expenditure of Revenue Scotland for the financial year 2015-16 has been produced and will be laid before the Scottish Parliament contemporaneously.

*Elaine C. Lorimer*

**Elaine Lorimer – Chief Executive of Revenue Scotland**

## Introduction

This Annual Report and Financial Statements for the Devolved Taxes Account contains information regarding tax revenues and collection of Land and Buildings Transaction Tax and Scottish Landfill Tax for the financial year 2015-16. Information regarding the operational performance and expenditure of Revenue Scotland can be found in the Revenue Scotland Annual Report of the Resource Accounts for the financial year 2015-16.

Revenue Scotland was created by the Revenue Scotland and Tax Powers Act 2014 (RSTPA 2014). This was passed by the Scottish Parliament in August 2014, and received Royal Assent on 24 September 2014, creating the legislative framework for devolved taxes in Scotland. Revenue Scotland was established as a Non-Ministerial Department (NMD) on 1 January 2015 and is responsible for the collection and management of Scotland's two devolved taxes, Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT). Introduced in April 2015, LBTT and SLfT became the first national taxes collected in Scotland for over 300 years, replacing their UK equivalents (Stamp Duty Land Tax and Landfill Tax respectively).

As an NMD, governed by a Board, Revenue Scotland is part of the Scottish Administration, accountable to Parliament, not to the Scottish Government. This distinction helps to ensure the administration of tax is independent, fair and impartial.

Revenue Scotland is not responsible for the setting and forecasting of tax revenues. This is the responsibility of Scottish Ministers and the Scottish Government. Those rates are subject to Parliamentary scrutiny and approval, and the 2015-16 rates are provided below.

This devolved taxes account relates to the amounts collected in relation to LBTT and SLfT and subsequently remitted to the Scottish Consolidated Fund.

## **Land and Buildings Transaction Tax**

LBTT is a tax applied to residential and commercial land and buildings transactions where a chargeable interest is acquired. It has been designed as a progressive tax in that the charge increases in proportion to the price of the property. The tax rates and bands are set by Scottish Ministers and are subject to the approval of the Scottish Parliament. The rates and bands for 2015-16 for purchases were as follows:

Purchase price	Residential rate
Up to £145,000	0.0%
£145,001 to £250,000	2.0%
£250,001 to £325,000	5.0%
£325,001 to £750,000	10.0%
Over £750,000	12.0%

Purchase Price	Non-residential rate
Up to £150,000	0.0%
£150,001 to £350,000	3.0%
Over £350,000	4.5%

Leases of residential property are exempt from LBTT except for certain long leases which are treated as non-residential leases. Leases of non-residential property and any premium payable were subject to the following rates of tax for 2015-16:

Net present value of rent payable	Rate
Up to £150,000	0.0%
Over £150,000	1.0%

Premium	Rate
Up to £150,000	0.0%
£150,001 to £350,000	3.0%
Over £350,000	4.5%

## **Scottish Landfill Tax**

SLfT is a tax on the disposal of waste to landfill and is charged by weight on the basis of two rates: a lower rate for less polluting materials and a standard rate for all other materials. Operators of landfill sites are liable for SLfT and there is no legal requirement for them to pass this cost on to the local authorities and businesses who dispose of waste at the landfill sites.

The tax rates are set by Scottish Ministers and are subject to the approval of the Scottish Parliament. The rates for 2015-16 were as follows:

Rate per tonne	
Standard	£ 82.60
Lower	£ 2.60

### **Scottish Landfill Communities Fund**

The Scottish Landfill Communities Fund (SLCF) is a tax credit scheme available to Scottish landfill taxpayers to encourage them to make financial contributions to various environmental and community projects in and around Scotland. Contributions are paid to organisations (Approved Bodies) which have been authorised by the Scottish Environment Protection Agency (SEPA) to distribute these to eligible projects. Landfill operators may claim credit for 90% of the value of contributions, subject to a limit of 5.6% of their annual tax liability.

Revenue Scotland as the appointed tax authority responsible for the administration of Scottish Landfill Tax, approved SEPA to carry out the regulatory functions of the SLCF scheme. The functions that SEPA carry out as regulator of the fund can be found in Regulation 31 of the Scottish Landfill Tax (Administration) Regulations 2015. Revenue Scotland advises SEPA SLCF officers on legislative and compliance issues that arise from administration of the fund.

In 2015-16 landfill operators contributed £8m to Approved Bodies who will in turn distribute this to environmental projects.

### **LBTT Additional Dwelling Supplement & Further Devolution of Taxes**

The Land and Buildings Transaction Tax (Amendment) (Scotland) Bill was introduced to Parliament at the end of January 2016, and made provision for an additional amount of LBTT known as the Additional Dwelling Supplement (the ADS), which is due on the purchase of additional dwellings in Scotland, such as buy-to-let properties and second homes.

Under the Scotland Act 2016, further taxes are being devolved to Scotland and Revenue Scotland will become responsible for their administration and collection in due course.

### **Delegated Powers**

Under section 4(1)(a) and (b) RSTPA, Revenue Scotland has the power to delegate any of its functions in relation to the administration and collection of LBTT and SLfT to Registers of Scotland (RoS) and SEPA respectively .

The current functions delegated to RoS are:

- The processing of all paper LBTT Returns and amendments from receipt to submission or rejection. This includes LBTT returns received by post or hand delivered to RoS's customer service centres in Edinburgh and Glasgow.
- The processing of all LBTT cheque payments received by post or hand delivered.

The current functions delegated to SEPA are generally with regard to compliance and a full list of functions is available on our website.

Both LBTT and SLfT are self-assessed taxes and Revenue Scotland has sought to make it as easy as possible for tax returns to be submitted electronically via the Scottish Electronic Tax System (SETS). Taxpayers and their agents are supported through the provision of comprehensive guidance available on Revenue Scotland's website and also through a telephone support service.

The Scottish Parliament has provided Revenue Scotland with a range of investigatory powers which allows it to make enquiries into submitted tax returns. To encourage compliance with legislation, penalties may be imposed for failures in terms of liability or in submissions of returns.

Amounts collected by Revenue Scotland are transferred to the Scottish Consolidated Fund in accordance with section 5 of the RSTPA.

### **Risk management**

Risks relating to the administration and collection of the devolved taxes concern the operation of Revenue Scotland. In accordance with the Scottish Public Finance Manual, Revenue Scotland operates a risk management strategy. Risk management arrangements have been put in place throughout the year and significant effort by the Board and management has developed a system which is robust, fit for purpose and responsive to our needs. The risk arrangements cover not only the administration of Revenue Scotland but also the risks associated with the compliance and collection of devolved taxes.

Revenue Scotland's risk register includes current identified risks relating to the impact of legislative change on its resources, business continuity and disaster recovery capability, information security and the ongoing development of compliance processes.

### **Further information on Revenue Scotland**

More detail regarding the performance of Revenue Scotland can be found in Revenue Scotland's Annual Report and Accounts for the financial year 2015-16.



## Performance Indicators

Revenue Scotland has developed a series of Key Performance Indicators (KPIs) by which it measures its success throughout the year. Some of these KPIs relate directly to the submission of tax returns and collection of tax due. These KPIs are reproduced here:

### Proportion of tax returns filed online

	Total Number of Returns	Total Number of Returns Submitted Online	Percentage of Returns Submitted Online
Quarter 1	27,071	26,386	97.5%
Quarter 2	31,339	30,696	97.9%
Quarter 3	31,888	31,329	98.2%
Quarter 4	25,023	24,683	98.6%
<b>TOTAL</b>	<b>115,321</b>	<b>113,094</b>	<b>98.1%</b>

It was initially anticipated that 90% of returns would be submitted online using SETS. However the successful design and implementation of the system has led to increasing confidence amongst agents and taxpayers in utilising the online version .

### Timely receipt of payments

Taxpayers and their agents may settle their tax liability by electronic payment, cheque or by direct debit. Where a paper return is submitted, a cheque must be enclosed at the same time, however where a return is submitted online, taxpayers and their agents are given up to five working days to pay the tax.

	Total Returns with Tax Due	Total Number of Payments Received on Time	Percentage of Payments Made on Time
Quarter 1	12,610	11,790	93.5%
Quarter 2	15,230	13,960	91.7%
Quarter 3	15,210	14,090	92.6%
Quarter 4	10,900	10,140	93.0%
<b>TOTAL</b>	<b>53,950</b>	<b>49,980</b>	<b>92.6%</b>

The above table shows payments made within allowable terms. Where payments are not received on time, Revenue Scotland staff make every effort to contact agents and

taxpayers to expedite settlement. Where necessary Revenue Scotland will take more formal action to recover the outstanding debt. Penalties and interest charges are applied in accordance with legislation where payments are not received.

At the end of the financial year, 99.8% of all tax returns submitted had been paid either within the financial year or within five days of the year end.

### **Financial performance**

	<b>2015-16 Tax, penalties &amp; interest receivable Total £'000</b>	<b>2015-16 Budget Act Estimates Total £'000</b>
Land & Buildings Transaction Tax	424,874	391,000
Scottish Landfill Tax	147,045	117,000
Penalties & interest	311	0
<b>TOTAL</b>	<b>572,230</b>	<b>508,000</b>

Revenue Scotland is not responsible for the forecasting of expected tax revenues. Scottish Ministers are currently responsible for preparing revenue forecasts for the devolved taxes. The Scottish Government published a Devolved Taxes Forecasting Methodology paper in October 2014, explaining the basis of the forecasts underpinning the 2015-16 Budget ([www.gov.scot/Publications/2014/10/7664](http://www.gov.scot/Publications/2014/10/7664)). The Scottish Ministers originally forecast revenues of £498 million in 2015-16 and increased this estimate to £508 million in the 2015-16 Spring Budget Revision.

More information on KPIs is available on Revenue Scotland's website and in Revenue Scotland's Annual Report and Accounts for the financial year 2015-16.

*Elaine C. Lorimer*

**Elaine Lorimer – Chief Executive of Revenue Scotland and Accountable Officer**

26 August 2016

## Accountability Report

### Corporate Governance Report

#### **Revenue Scotland Board and Senior Management Team**

Revenue Scotland is responsible for the administration and collection of the devolved taxes. Information concerning the composition of the Board and Senior Management Team is included in Revenue Scotland's Annual Report and Accounts for 2015-16.

#### **Report on personal data incidents**

In line with the HM Government Security Framework requirements for appropriate security governance structure, Revenue Scotland has both a Senior Information Risk Owner (SIRO) and an Information Asset Owner (IAO). The SIRO role is to ensure information security policies and procedures are fit for purpose and are reviewed and implemented across all of Revenue Scotland's business functions including the administration and collection of the devolved taxes. These policies and procedures aim to ensure that the requirements of confidentiality, integrity and availability are maintained.

The Information Asset Owner's role is to understand what information is held by Revenue Scotland, what is added and what is removed and who has access and why – providing assurance to the SIRO and ensuring that the information is fully used within the law for the public good.

All Revenue Scotland staff and contractors are trained in and are aware of their responsibilities as set out in these policies.

Revenue Scotland manage, maintain and protect all information according to the requirements of the Data Protection Act and other legislation, notably the RSTPA. It also adheres to its own information policies and government best practice.

No security issues relating to personal data were identified during the year.

#### **Statement of Accountable Officer's responsibilities**

Under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, Scottish Ministers have directed Revenue Scotland to prepare, for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of the revenue, expenditure and cash flows for the financial year.

In preparing the accounts, the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- Observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- Make judgements and estimates on a reasonable basis
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual (FRM) have been followed and disclose and explain any material departures in the financial statements
- Prepare the accounts on a going concern basis

The Chief Executive of Revenue Scotland is designated as the Accountable Officer for the devolved taxes collected by Revenue Scotland, by the Permanent Secretary of the Scottish Government, as the Principal Accountable Officer for the Scottish Administration, in accordance with sections 14 and 15 of the Public Finance and Accountability (Scotland) Act 2000.

As Accountable Officer, the Chief Executive is personally responsible for safeguarding the public funds for which she has charge and for ensuring propriety and regularity in the handling of those public funds. The Accountable Officer has a duty to ensure that effective governance and operational arrangements are in place to secure internal control and risk management.

As Accountable Officer, the Chief Executive is personally responsible for ensuring that Revenue Scotland complies with the requirements of the Scottish Public Finance Manual (SPFM). The Chief Executive should act, and take steps necessary to ensure that Revenue Scotland corporately acts, in accordance with the principles of the SPFM and the terms of relevant guidance in the SPFM and other financial instructions and guidance issued by the Scottish Ministers.

The Accountable Officer may consult with the Scottish Government's Director General Finance on any aspects of the duties applying to Accountable Officers in the Scottish Administration. The Accountable Officer must consult the Director General on any action which she considers is inconsistent with her duties on financial, regulatory or propriety grounds, and specifically where she seeks written authority from the Scottish Ministers or a direction from the Board of Revenue Scotland.

In practice, the Chief Executive will delegate authority widely to other employees of Revenue Scotland but cannot, on that account, disclaim responsibility.

The Chief Executive is responsible for informing the Principal Accountable Officer about any complaints about Revenue Scotland accepted by the Scottish Public Services Ombudsman (SPSO) for investigation and about Revenue Scotland's response to any subsequent recommendations from the SPSO.

## **Accountable Officer Statement**

The accounts have been examined and scrutinised by auditors appointed by the Auditor General for Scotland. In my role as the accountable officer, I am confident that the auditors have been made aware of all relevant information. I have taken all steps required to make myself and the auditors aware of any relevant audit information. Further I confirm that this annual report and accounts is fair and balanced and that I take personal responsibility for them and any judgements that have been made in preparation are appropriate.

## **Governance Statement**

Revenue Scotland is responsible for the administration and collection of the devolved taxes. The relevant powers and duties of Revenue Scotland and of the Scottish Ministers are set out in the Revenue Scotland and Tax Powers Act 2014.

Scottish Ministers are responsible for appointing the Board of Revenue Scotland following a formal public appointment exercise regulated by the Commissioner for Ethical Standards in Public Life in Scotland. Ministers must not direct or otherwise seek to control Revenue Scotland in the exercise of its functions but they may give guidance. This guidance must be published and laid before the Scottish Parliament unless Ministers consider that to do so would prejudice the effective exercise by Revenue Scotland of its functions.

Scottish Ministers are responsible for setting rates, bands and thresholds relating to the devolved taxes, subject to the approval of the Scottish Parliament.

The Board of Revenue Scotland is collectively responsible for the leadership and direction of the organisation and for ensuring that it carries out its statutory functions effectively and efficiently. It may delegate any of its functions to an individual Board member, a committee, the Chief Executive or any other staff member but it will retain its responsibility for carrying out its functions.

The Chief Executive of Revenue Scotland is employed by and is accountable to the Board of Revenue Scotland for the day-to-day running of the organisation and its operational performance.

Revenue Scotland assessed its corporate governance arrangements and confirms that they comply with generally accepted best practice principles and relevant guidance.

## **Audit and Risk Committee**

The Board established an Audit and Risk Committee in March 2015 with a purpose to support the Board and Accountable Officer by reviewing the comprehensiveness,

reliability and integrity of the assurances produced in support of financial reports. This requires:

- Scrutiny of Revenue Scotland’s arrangements for risk management
- Regular liaison with internal and external audit, including scrutiny of their plans and reports
- Review of the governance statements produced by management as part of the financial reporting process
- Overseeing the financial reporting process.

The Committee has overseen the continuing development of a robust risk management system. It reviews the full corporate risk register at every meeting, monitors the action plan on risk management and provides feedback to operational management. At each Committee meeting a “deep dive” is conducted into a key risk.

The current risk register includes identified risks relating to the impact of legislative changes on our resources, business continuity and disaster recovery capability, information security and the ongoing development of compliance processes.

Significant risk-related matters which arose in 2015-16 included:

- Change of provider of the Government Banking Service

This was a mandatory change which required adjustments to be made to our internal financial systems and processes as well as communication of our new bank details to external customers. We monitored the implementation of the new internal processes and the success of the communication plan. The risk was closed after the changeover was completed when no further issues had been identified.

- Leases training

Leases are recognised as the most complex area of LBTT legislation and there was a risk that we did not have sufficient level of expertise to deal with lease enquiries from taxpayers and stakeholders. We mitigated this by creating compliance processes to review lease transactions and set up a lease working group to share knowledge. We provided more guidance and worked examples on our website which were also publicised to the legal profession at our regional roadshows.

The terms of reference for the committee are published on Revenue Scotland’s website ([www.revenue.scot](http://www.revenue.scot)). Members of the committee are Lynn Bradley (chair), Ian Tait and John Whiting. It is also attended by the Chief Executive, Head of Corporate Services & Finance, representatives of internal and external audit as well as other staff members as required. The committee met four times in this first year.

The committee reviews its effectiveness using the checklist set out in Scottish Government's Audit Committee Handbook. The committee had found no issues of concern which could affect its normal function.

The committee has received assurances from management in support of the 2015-16 financial statements and has accepted these.

Revenue Scotland assessed its risk management arrangements and confirms that they accord with the guidance set out in the Scottish Public Finance Manual.

### **Internal Audit**

Internal Audit is provided by the Scottish Government Internal Audit Directorate (SGIAD). During the year, the SGIAD has been subject to an internal review and is still in a period of change. This has had an impact on the service provided to Revenue Scotland, with work starting later than originally planned. The Audit and Risk Committee scrutinised the audit plan produced by SGIAD and made several recommendations for change. These recommendations have been positively received by SGIAD and the foundations have been laid for a productive working relationship in future.

During the year SGIAD audited

- The governance arrangements of Revenue Scotland
- The collection and debt management of the devolved taxes

Positive reports were received in relation to both audits.

### **External Audit**

External Audit is provided by Audit Scotland under the Public Finance and Accountability (Scotland) Act 2000. During the year, the Audit and Risk Committee scrutinised Audit Scotland's audit plan and received regular updates from them.

### **Internal Controls**

Revenue Scotland has developed a system of internal controls and policies which have been designed to safeguard its assets and data and to ensure the reliability of financial records in relation to operational and tax duties. These controls are subject to review by management on a regular basis and undergo formal review by both Internal and External Audit whose reports are made available to the Audit and Risk Committee.

Audit Scotland reviewed the operation of Revenue Scotland's main financial systems and ICT arrangements during 2015-16 and concluded that:

- Internal controls for Revenue Scotland’s business systems (operated on its behalf by Scottish Government) were effective and
- Internal controls for the tax collection system (the Scottish Electronic Tax System – ‘SETS’) were reasonable but identified areas for improvement.

There were no significant internal control or risk management breaches during 2015-16.

### **External scrutiny**

The Chief Executive and other senior members of staff are accountable to Parliament. As such, they can be called to appear before parliamentary committees to give statements and evidence. In the course of 2015 the Chief Executive appeared before the Public Audit and Finance Committees both in the run-up to the launch of Revenue Scotland and after to update committee members on the progress and operations of Revenue Scotland.

Revenue Scotland’s corporate plan, supporting legislation and this annual report are published documents. The corporate plan was approved by Scottish Ministers and laid before the Scottish Parliament. Board minutes are also published on Revenue Scotland’s website.

### **Assurances provided to the Chief Executive**

The Chief Executive has received written assurances from members of the Senior Management Team who have responsibility for operation and effectiveness of internal controls within the Tax, Legal, Corporate Services and Change teams. Additionally assurance has been received from the Scottish Government’s Director General Finance in respect of the financial systems shared with Revenue Scotland and from the Scottish Government’s Director of People, Communications and Ministerial Support in respect of the human resources and payroll systems shared with Revenue Scotland.

### **Further information**

More information on the governance arrangements of Revenue Scotland, its Board and sub-committees is available on Revenue Scotland’s website including the Framework Document - Agreement between the Scottish Ministers and Revenue Scotland, Revenue Scotland Standing Orders and a Scheme of Internal Delegation, and also in Revenue Scotland’s Annual Report and Accounts for 2015-16.

I authorised these accounts for issue on the date shown below.

*Elaine C. Lorimer*

**Elaine Lorimer – Chief Executive of Revenue Scotland and Accountable Officer**

26 August 2016



## Independent Auditor's Report

### **Independent auditor's report to the Auditor General for Scotland and the Scottish Parliament**

I have audited the financial statements of the Revenue Scotland Devolved Taxes Account for the year ended 31 March 2016 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of Revenue and Expenditure, the Statement of Financial Position and the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2015/16 Government Financial Reporting Manual (the 2015/16 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of Accountable Officer and auditor**

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the account's circumstances and have been consistently applied and adequately disclosed; the

reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of affairs of the collection of taxes, related expenditure and disbursements as at 31 March 2016 and of the net revenue for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

### **Opinion on regularity**

In my opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

### **Opinion on other prescribed matters**

In my opinion the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or

- the Governance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.



Mark Taylor CPFA  
Assistant Director  
Audit Scotland  
102 West Port  
Edinburgh  
EH3 9DN

## Devolved Taxes Account 2015-16: Financial Statements

### Statement of Revenue and Expenditure

For the Year Ended 31 March 2016

	Note	2015-16 £000
<b>Revenue</b>		
<b>Taxes</b>		
Land & Buildings Transaction Tax	2.1	424,874
Scottish Landfill Tax	2.1	147,045
<b>Total taxes</b>		<u>571,919</u>
<b>Penalties and interest receivable</b>		
Penalties	2.2	297
Interest	2.3	14
<b>Total Penalties and interest receivable</b>		<u>311</u>
<b>Total revenue</b>		<u><b>572,230</b></u>
<b>Expenditure</b>		
Interest paid	3.1	0
Revenue losses	4.2	(24)
<b>Total expenditure</b>		<u>(24)</u>
<b>Net revenue for the Scottish Consolidated Fund</b>	7	<u><b>572,206</b></u>

## Statement of Financial Position

as at 31 March 2016

	Note	2015-16 £000
<b>Current assets</b>		
Receivables	4	8,565
Accrued revenue receivable	4	44,919
Cash	5	9,032
<b>Total current assets</b>		62,516
<b>Current liabilities</b>		
Payables	6	29
Deferred revenue	6	0
<b>Total current liabilities</b>		29
<b>Net current assets</b>		62,487
<b>Total assets less current liabilities</b>		62,487
<b>Total net assets</b>		62,487
Represented by:		
<b>Balance due to the Scottish Consolidated Fund</b>	7	62,487

*Elaine C. Lorimer*

**Elaine Lorimer – Chief Executive of Revenue Scotland and Accountable Officer**  
 26 August 2016

## Statement of Cash Flows

For the year ended 31 March 2016

	Note	2015-16 £000
Net cash flow from operating activities	A below	518,751
Cash paid to Scottish Consolidated Fund		(509,719)
<b>Increase in cash in this period</b>	B below	<u>9,032</u>
<b>Notes to the Statement of Cash Flows</b>		
<b>A Reconciliation of net cash flow to movement in net funds</b>		
Net revenue for the Scottish Consolidated Fund		572,206
Decrease/(increase) in non cash assets		(53,484)
Increase/(decrease) in liabilities		29
<b>Net cash flow from operating activities</b>		<u>518,751</u>
<b>B Analysis of changes in net funds</b>		
Increase/(decrease) in cash in this period		9,032
Net funds at 1 April 2015		<u>0</u>
Net funds at 31 March 2016		<u>9,032</u>

## Notes to the Accounts

### 1. Statement of Accounting Policies

#### 1.1 Basis of accounting

In accordance with the accounts direction issued by the Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, these financial statements have been prepared in accordance with the 2015-16 Government Financial Reporting Manual (FReM), Section 8.2, issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The income and associated expenditure contained within these statements are those flows of funds which Revenue Scotland handles on behalf of the Scottish Consolidated Fund and where it is acting as agent rather than principal.

The devolved taxes account is prepared on a going concern basis, which provides that the organisation will continue in operational existence for the foreseeable future.

#### 1.2 Accounting convention

The Devolved Taxes Account has been prepared in accordance with the historical cost convention. Taxes (including repayments) are accounted for on an accruals basis. Where firm figures are not available, estimation techniques have been selected as the most appropriate for the purpose of giving a true and fair view in accordance with the principles set out in International Accounting Standard (IAS) 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

#### 1.3 New Accounting Standards

In accordance with IAS 8, changes to International Financial Reporting Standards (IFRS) that have been issued but not yet effective have been reviewed for impact on the financial statements in the period of initial application. The standards that are considered relevant to Revenue Scotland Devolved Taxes Account and the anticipated impact on the accounts are as follows:

##### IFRS 9 – Financial Instruments

This standard was issued in November 2014, and is effective from 1 January 2018. The adoption of this standard could change the classification and measurement of financial assets. The interpretation for the public sector is still under consideration for subsequent inclusion in the FReM by the Financial and Advisory Board (FRAB) and the impact has not been determined.

#### **1.4 The tax gap**

The tax gap is not recognised in the Devolved Taxes Account. The tax gap is the difference between the amount of tax that should, in theory, be collected by Revenue Scotland (the theoretical liability), against what is actually collected. The theoretical tax liability represents the tax that would be paid if all individuals and companies complied with both the letter of the law and Revenue Scotland's interpretation of the intention of the Scottish Parliament in setting law (referred to as the spirit of the law). Revenue Scotland undertakes compliance work in order to limit the tax gap.

#### **1.5 Financial Instruments**

Revenue Scotland collects tax revenue on behalf of the Scottish Ministers for the Scottish Consolidated Fund, therefore financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The only financial instruments within the accounts are financial assets in the form of receivables, and financial liabilities in the form of payables.

#### **1.6 Revenue recognition**

Taxes, penalties and interest are measured in accordance with IAS18. They are measured at the fair value of amounts received or receivable, net of repayments. Revenue is recognised when:

- A taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to the Scottish Consolidated Fund. A taxable event therefore occurs when a liability arises to pay a tax.
- A penalty or interest charge is validly imposed and an obligation to pay arises.

#### **1.7 Receivables**

Receivables are shown net of impairments in accordance with the requirements of IAS39.



## 2. Revenue and other income

### 2.1 Taxes

	£000	2015-16 £000
Land & Buildings Transaction Tax		
Residential	207,878	
Non-residential	216,996	
Total Land & Buildings Transaction Tax		424,874
Scottish Landfill Tax		147,045
		<b>571,919</b>

Land and Buildings Transaction tax is payable on the acquisition of a chargeable interest in, or over, land in Scotland.

Scottish Landfill tax is payable on disposals of waste material in Scotland made by way of landfill.

### 2.2 Penalties

	2015-16 £000
Land & Buildings Transaction Tax	297
Scottish Landfill Tax	0
	<b>297</b>

In terms of legislation, penalties can be issued for a number of reasons. The Board of Revenue Scotland decided that penalties for late registration, late returns and late payments would not be raised for the first six months of the operation of the new taxes to allow a period for taxpayers and agents to become familiar with our systems and processes. The figures above therefore represent penalties chargeable from 1 October 2016 taking account of that decision.

## 2.3 Interest

	<b>2015-16</b>
	<b>£000</b>
Land & Buildings Transaction Tax	14
Scottish Landfill Tax	0
	<u>14</u>

Interest is charged on late payment of tax returns or penalties.

## 3 Expenditure

### 3.1 Interest Paid

Interest is payable by Revenue Scotland on the repayment of any tax or penalties. In 2015-16 the total paid was less than £1,000 and is therefore not disclosed separately.

## 4 Receivables

### 4.1 Amounts due:

	<b>Receivables</b>	<b>Accrued Revenue</b>	<b>2015-16</b>
	<b>£000</b>	<b>Receivable</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Land & Buildings Transaction Tax	8,589	8,874	17,463
Scottish Landfill Tax	0	36,045	36,045
Totals before impairments	8,589	44,919	53,508
Less impairments (see note 4.2)	(24)	0	(24)
<b>Total</b>	<b>8,565</b>	<b>44,919</b>	<b>53,484</b>

Receivables represents taxpayer liabilities where a liability has been assessed and not paid for at the balance sheet date, including amounts due from those on whom financial penalties have been imposed prior to the balance sheet date, but not paid at that date.

Accrued Revenue Receivable represents taxpayer liabilities, including penalties and interest, which relate to the financial year but for which the liability had not been assessed as at the balance sheet date. These may include estimates made by Revenue Scotland of those activities.

## 4.2 Revenue losses

	Debts written off £000	Increase in impairments £000	2015-16 Total £000
Land & Buildings Transaction Tax	0	24	24
Scottish Landfill Tax	0	0	0
<b>Total</b>	<b>0</b>	<b>24</b>	<b>24</b>

Revenue losses are made up of revenue write-offs and the movement in the impairment of receivables.

Write-offs are debts that, after all reasonable action has been taken and following careful appraisal, have been considered to be irrecoverable. Amounts written off during the year are less than £1,000 and are therefore not disclosed separately.

Impairments are debts which are currently being pursued but which are considered likely to be irrecoverable in the longer term. Receivables in the Statement of Financial Position are reported after the estimated value of impairments.

## 5 Cash

	2015-16 Total £000
Government Banking Service	6,540
Commercial Bank	2,492
<b>Balance at 31 March 2016</b>	<b>9,032</b>

Cleared funds are paid over to the Scottish Consolidated Fund on a monthly basis. The above balances represent funds received from taxpayers which had not cleared as at 31 March 2016 and which were paid over during 2016-17.

## 6 Payables

### 6.1 Amounts due:

	Revenue Repayable £000	Deferred Revenue £000	2015-16 Total £000
Land & Buildings Transaction Tax	29	0	29
Scottish Landfill Tax	0	0	0
	<b>29</b>	<b>0</b>	<b>29</b>

Taxes are structured in such a manner that taxpayers are entitled to amend their return within twelve months of the effective date of the transaction and claim a repayment.

Revenue repayable relates to outstanding repayments, of tax or penalties, where the amount has been established at the balance sheet date.

Deferred revenue includes tax received in the current year that relates to future financial periods.

## 7 Balance due to the Scottish Consolidated Fund Account

	2015-16 £000
Net Revenue for the Scottish Consolidated Fund	572,206
Less amount paid to Scottish Consolidated Fund	(509,719)
<b>Balance due to the Scottish Consolidated Fund Account as at 31 March 2016</b>	<b>62,487</b>

Only cleared funds are paid over to the Scottish Consolidated Fund. The balance represents accrued income and amounts that remain outstanding or are uncleared funds at the year end.

## 8 Contingent Assets

Property buyers can make applications to Revenue Scotland to defer the LBTT payable on a land transaction where:

- the whole or part of the chargeable consideration is contingent or uncertain and;
- the chargeable consideration becomes payable more than six months after the effective date of the transaction.

This could include, for example, a situation where additional consideration is payable by the buyer if planning permission is obtained after the sale.

Where a deferral has been granted, the amount of tax due is not recognised within the financial statements until the chargeable consideration materialises. Deferrals have been granted in relation to the following:

	2015-16	
	Number	£000
Due within 1 year	5	59
Due within 2-5 years	11	298
Due in more than 5 years	11	142
	<b>27</b>	<b>499</b>

## Accounts Direction



### REVENUE SCOTLAND DEVOLVED TAXES ACCOUNT

#### DIRECTION BY THE SCOTTISH MINISTERS

In accordance with section 19(4) of the Public Finance and Accountability Scotland Act 2000, The Scottish Ministers hereby give the following direction:

1. Revenue Scotland will prepare, for the financial year ended 31 March 2016, and subsequent years, an account of the devolved taxes collected by Revenue Scotland in the exercise of its functions. The account shall show the amounts receivable from the collection of taxes, any deductions permitted and amounts paid to the SCF in accordance with the Revenue Scotland and Tax Powers Act 2014.
2. The account shall comply with the relevant accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRoM), which is in force for the year for which the account is prepared.
3. The account shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the accounts.

Signed by the authority of the Scottish Ministers



Dated 20 April 2016