

# Revenue Scotland

Annual Report and Financial Statements

for the year ended 31 March 2017

Devolved Taxes Account

RS/2017/02

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

Revenue Scotland  
PO BOX 24068  
Victoria Quay  
Edinburgh  
EH6 9BR

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## Statement from the Chair

In this, our second year of operation, I am delighted to publish the *Annual Report and Financial Statements of the Devolved Taxes for 2016-17* which provides details of our operational performance in the collection of the taxes, and highlights key activities delivered over the last 12 months.



The report shows Revenue Scotland consolidating its operational performance to improve on the already highly effective service in administering and collecting the devolved taxes on behalf of the Scottish Parliament and the Scottish people.

The second year of operation saw Revenue Scotland pass a number of significant milestones. Not only did this include the collection of over £1bn of tax revenue since our establishment but also the successful collection of the Additional Dwelling Supplement for Land and Building Transaction Tax (LBTT), the first significant change to our taxes introduced through a fast-tracked legislative process by the Scottish Parliament in 2015-16. In addition, the year also saw Parliament consider and approve, through primary legislation, changes which will see Revenue Scotland collect and manage a further devolved tax called Air Departure Tax (ADT). This is a huge vote of confidence in our organisation.

I believe that our success is built on the professionalism, flexibility and resilience of our staff and also the strength of our partnership working –none of which we take for granted. In the last 12 months, the organisation has further strengthened key partnerships with the Scottish Environment Protection Agency and Registers of Scotland to underpin the administration and collection of LBTT and Scottish Landfill Tax (SLFT), and with key stakeholders across Scotland’s tax and financial landscape. Further, in preparing for the introduction of ADT, we have forged completely new relationships with a new set of stakeholders, including aircraft operators and airline industry organisations, consulting them at an early stage to support delivery of the new ADT system. We believe that early investment in these relationships will bring dividends in the future.

We are already well into the 2017-18 tax year which represents the end of our first corporate planning period. In the course of the year, I will have the privilege of presenting our second corporate plan to the Scottish Ministers and then, subject to their approval, of laying this plan before Parliament. Core themes which will continue to run through our work are our commitment to maintaining high standards, minimising tax avoidance and evasion, and delivering excellent public service for the people of Scotland.

The Revenue Scotland Board congratulates and thanks Elaine Lorimer and her team for their commitment and achievements over 2016-17.

**Dr Keith Nicholson – Chair of Revenue Scotland**

## The Performance Report

### Overview

This section of the annual report and accounts provides an overview of the performance of Revenue Scotland in delivering its general function which is the collection and management of the devolved taxes. The *Revenue Scotland Annual Report and Financial Statements - Devolved Taxes* provides the complete picture of the operation of Revenue Scotland in collecting the devolved taxes. Specific information regarding the operation of Revenue Scotland can be found in the *Revenue Scotland Annual Report and Financial Statements – Resource Accounts* for the financial year 2016-17.

### Statement from Chief Executive and Accountable Officer

The publication of the *Revenue Scotland Annual Report and Financial Statements of the Devolved Taxes 2016-17* is a significant milestone for Scotland's tax authority as it moves from an organisation starting up to a more mature state. It also represents the first full operational year for me as its Chief Executive and Accountable Officer.



Reflecting on the last 12 months, the organisation has undergone significant change and restructuring. This was a change designed in the light of operational experience to strengthen the day-to-day activities underpinning the management of Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) and to ensure we have capacity and the right organisational structure to deliver our statutory duties, including good operational processes and sound guidance. Implementing this change took longer than anticipated due to the challenges we faced recruiting the right people with the right skills and this contributed significantly to the underspend in our resource accounts.

All change brings with it a degree of challenge for any organisation and the restructuring required staff to be flexible, adaptable and resilient throughout the process in order to maintain delivery throughout the year. I was struck by the professionalism they adopted throughout the period of change and I want to thank them for that.

During the period, I am pleased to note that Revenue Scotland:-

- increased the amount of tax collected to £633m, including over £1m of additional revenue secured through robust compliance activity;
- improved its performance against most operational key performance indicators;
- delivered improved efficiency by reducing the cost of collection (as measured by Key Performance Indicator 10) from 0.9% to 0.7%; and
- successfully extended its role both in terms of administering LBTT Additional Dwelling Supplement and preparing for the collection of Air Departure Tax from April 2018

During the year, a key focus was on improving our business planning processes through on-going staff engagement and more robust reporting arrangements. We also further developed our workforce planning through the establishment of a People Strategy which was finalised in May 2017. Additionally, we enhanced our approach to the identification and management of risk and have taken action to embed good practices across the organisation.

An area of focus for the coming year will be to build more capacity and capability in terms of our staff to equip us for further change. With this in mind, we have been increasing staff engagement around the delivery of our People Strategy. Through this process I expect to see improvements in our Employee Engagement Score in 2017-18.

Further evidence of the maturing nature of our organisation and of the new fiscal framework is the first appeals to the Scottish Tax Tribunals<sup>1</sup>. In 2016-17 we had nine appeals notified to the tribunal. The tax tribunal has an important role to play in clarifying the law for Revenue Scotland and taxpayers and we look forward to considering its decisions as its role evolves.

The preparations for Air Departure Tax (ADT) once again highlight the importance to Revenue Scotland of effective collaboration to ensure our new systems and processes meet the needs of this new group of taxpayers and also support efficient and effective collection of the devolved taxes. This is at the heart of the organisation's ethos.

As part of its growth, the profile of our organisation has increased across the public body landscape. In parallel with the work to develop stakeholder relationships for ADT we have strengthened our links with the Scottish Parliament, our existing partnerships with key delivery organisations Scottish Environment Protection Agency (SEPA) and Registers of Scotland (RoS) and increased our engagement with HMRC and the tax authorities of other devolved administrations.

In terms of engagement with the Scottish Parliament, I was called by the Finance and Constitution Committee to give evidence on two occasions - responding to the Stage 1 scrutiny of the Air Departure Tax (Scotland) Bill and the committee's inquiry into the first year of operation of LBTT. I was pleased to note the positive endorsement of Revenue Scotland's performance.

I was also invited to be an external member of the Scottish Parliament's [Budget Process Review Group](#) which was commissioned to review the current parliamentary processes for budget scrutiny in light of the new fiscal framework in Scotland.

Revenue Scotland also engaged with the Scottish Fiscal Commission as it prepared to take up its new responsibilities for forecasting tax revenues. We recognise that the data Revenue Scotland holds is crucial to the work of the Commission and we look forward to a positive working relationship with the Commissioners and the staff who support them.

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<sup>1</sup> From 24 April 2017, the Tax Chamber, operating within the [Scottish Tribunals](#), was established and took on the functions of the former Tax Tribunals for Scotland.

We also continue to have regular engagement with our key stakeholders including the Law Society of Scotland, the Institute of Chartered Accountants of Scotland, the Chartered Institute of Taxation and others. These relationships are crucial to our work and the last 12 months has seen a range of activity supporting this, from face-to-face meetings with individual representatives to our tax technical forums held regularly throughout the reporting period.

More widely, regular meetings have been held with officials setting up the Welsh Revenue Authority as they prepare for the devolution of similar tax powers to Scotland. Our experience has proved useful in preparing them for the journey ahead.

The next section of this report provides the following:

- a statement of the purpose and activities of the organisation;
- a summary of key issues and risks with information about how we have managed these;
- a summary of our overall organisational performance in line with the KPIs set out in the corporate plan agreed with Scottish Ministers in 2015.

It is clear that Revenue Scotland has continued to serve Scottish taxpayers efficiently and effectively, improving on the services established in its first year, deepening our expertise in the devolved taxes and proving to be flexible and adaptable to the demands and challenges arising in Scotland's changing tax landscape. I have every confidence that 2017-18 will see this positive journey continuing.

**Elaine Lorimer – Chief Executive of Revenue Scotland and Accountable Officer**  
**13 September 2017**

## Revenue Scotland's Purpose and Activities

### *What is Revenue Scotland*

Revenue Scotland is responsible for the collection and management of Scotland's devolved taxes – currently Land and Buildings Transaction Tax (LBTT) and Scottish Landfill tax (SLfT). Subject to Parliamentary approval of secondary legislation, Revenue Scotland will also be responsible for Air Departure Tax from April 2018. Amounts received from the collection of the Devolved Taxes, less any permitted deductions, are paid into the Scottish Consolidated Fund in accordance with the Revenue Scotland and Tax Powers Act 2014.

The organisation was created by the Revenue Scotland and Tax Powers Act 2014 (RSTPA) which received Royal Assent on 24 September 2014. This created the legislative framework for devolved taxes in Scotland and led to the establishment of Revenue Scotland as a body corporate on 1 January 2015.

As a Non-Ministerial Department, Revenue Scotland is part of the Scottish Administration but is directly accountable to the Scottish Parliament to ensure the administration of tax is independent, fair and impartial.

Revenue Scotland delegates some of its legislative functions for the collection of SLfT to Scotland's principal environmental regulator the Scottish Environment Protection Agency (SEPA). Other functions in relation to LBTT are delegated to Registers of Scotland (RoS) to enable the processing of paper-based tax returns.

The Scottish Government is responsible for tax policy and the setting of tax rates. Responsibility for forecasting tax revenues was the responsibility of the Scottish Government but from 1 April 2017, the Scottish Fiscal Commission assumed responsibility for providing independent forecasts of tax revenue in line with the Fiscal Framework.

### *Governance Structure*

The Revenue Scotland Board comprises five members. Each member has been appointed by Scottish Ministers following a Public Appointments process, as detailed in the Remuneration and Staff Report in the *Annual Report and Accounts - Resource Accounts*.

The Board is responsible for the strategic direction, oversight and governance of Revenue Scotland. Board members provide specialist knowledge and also act as ambassadors, promoting the policies and values of the organisation.

The Board has two committees: the Audit and Risk Committee and the Staffing and Equalities Committee. Each committee provides detailed and specialist consideration of key areas of work and report these to the Board.

The Chief Executive is not a Board Member but is accountable to the Board and, in a personal capacity, is the Accountable Officer. The Chief Executive is responsible for the day-to-day operation of Revenue Scotland and leadership of the organisation.

Details of the activity and impact of the Board, the committees and staff are contained in the Performance Analysis and Accountability Reports which are found later in this report .

### *How Revenue Scotland is funded*

Revenue Scotland is funded from the Scottish Consolidated Fund. It is part of the Scottish Administration and has its own budget set out in the annual Budget Bill. When setting budgets in a Spending Review period, and as part of the draft Budget process, Revenue Scotland is invited to identify its resource needs. The Scottish Ministers consider these needs alongside those of other public bodies and portfolios when setting out their spending plans for the period under review. It is then for Scottish Ministers to determine the budget proposals to be submitted to the Scottish Parliament for consideration and approval within the Budget Bill, including the proposed budget for Revenue Scotland.

Subject to the limits imposed by the budget allocated to Revenue Scotland by Parliament and other applicable guidance from the Scottish Ministers, Revenue Scotland has full authority to incur expenditure on individual items.

Revenue Scotland is responsible for managing its budget for each financial year to enable it to meet its statutory functions and for ensuring that expenditure does not exceed the approved Parliamentary budget.

### *Revenue Scotland's Purpose and Strategic Objectives*

The Strategic Purpose of Revenue Scotland is set out in the Corporate Plan<sup>2</sup> which was approved by the Scottish Ministers and laid before Parliament in 2015. The following is an extract from the Corporate Plan 2015-18 which sets out what we plan to deliver over the period to March 2018 in the form of our purpose, ambition and strategic objectives.

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<sup>2</sup> [Revenue Scotland Corporate Plan 2015-18](#)

### **Our Purpose is:**

**To collect the devolved taxes which fund public services for the benefit of all Scottish citizens.**

### **Our Ambition:**

We will achieve our Purpose by:

Delivering excellent tax administration founded on Adam Smith's four principles of equity, certainty, convenience and efficiency, built on a modern digital platform, with all involved working together in good faith to ensure that the right amount of tax is paid at the right time.

Revenue Scotland achieves this by adhering to the principles set out in Adam Smith's *The Wealth of Nations* on equity, certainty, convenience and efficiency. In doing so we are reflecting the endorsement of these principles by the Scottish Government in their development of the Scottish Approach to Taxation.

- **Equity:** "Proportionate to the taxpayer's ability to pay: The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities."
- **Certainty:** "The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person."
- **Convenience:** "Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay."
- **Efficiency:** "Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state."

The principles also underpin the organisation's strategic objectives to ensure all those involved in the administration and collection of tax are working together to ensure the right amount is paid at the right time.

### **Strategic Objectives**

- collect the right amount of tax from the full taxpayer base for each of the devolved taxes, using online technology to best effect;
- ensure compliance in payment of the correct amount of tax at the right time, resolving disputes as cost-effectively as possible;
- build an effective, efficient tax authority with a reputation for high-quality public service to taxpayers and the people of Scotland; and
- attract, develop and retain a knowledgeable and skilled workforce who are engaged and motivated to deliver the functions of Revenue Scotland to the highest standards of professionalism and integrity.

## *National Performance Framework*

Revenue Scotland's purpose and ambition are fully aligned with the Scottish Government's Purpose:

- *to focus Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth*

and the National Outcomes as set out in the **National Performance Framework** (<http://www.gov.scot/About/Performance/scotPerforms>), in particular:

- National Outcome 1: *We live in a Scotland that is the most attractive place for doing business in Europe; and*
- National Outcome 16: *Our public services are high quality, continually improving, efficient and responsive to local people's needs.*

## **The Activities we undertake to deliver our Purpose**

### *Collecting Scottish taxes*

Revenue Scotland works in partnership with both RoS and SEPA to collect and manage LBTT and SLfT and has delegated functions under the Revenue Scotland and Tax Powers Act 2014 to them.

In the course of the year Revenue Scotland collected £633m (2015-16: £572m) of tax revenue of which £484m (2015-16: £425m) related to LBTT and £149m (2015-16: £147m) related to SLfT.

### *Efficient and Effective Collection of Tax*

Since it was established, Revenue Scotland has put digital innovation at the heart of its approach to tax collection. The success of the Scottish Electronic Tax System (SETS) continued in year two as shown in the Case Study below. Paper alternatives were available during the reporting period for those unable to submit returns electronically.

## Case study: Using digital innovation to deliver online tax returns

**Key Performance Indicator: 98.8% of tax returns submitted online in 2016-17 (target of 90%)**

The Scottish Electronic Tax System (SETS) is the web portal allowing taxpayers to submit their returns electronically.

A key element underpinning the creation of Revenue Scotland was to create a modern and digitally focussed tax authority which uses the very best of modern digital technology. The SETS system went live for the collection of tax on 1 April 2015, putting digital innovation at the heart of Scotland's approach to taxation. Revenue Scotland established an initial target for 90% of all tax returns to be submitted online during its first operational year. This was outperformed last year (98.1%) and increased to 98.8% for 2016-17.

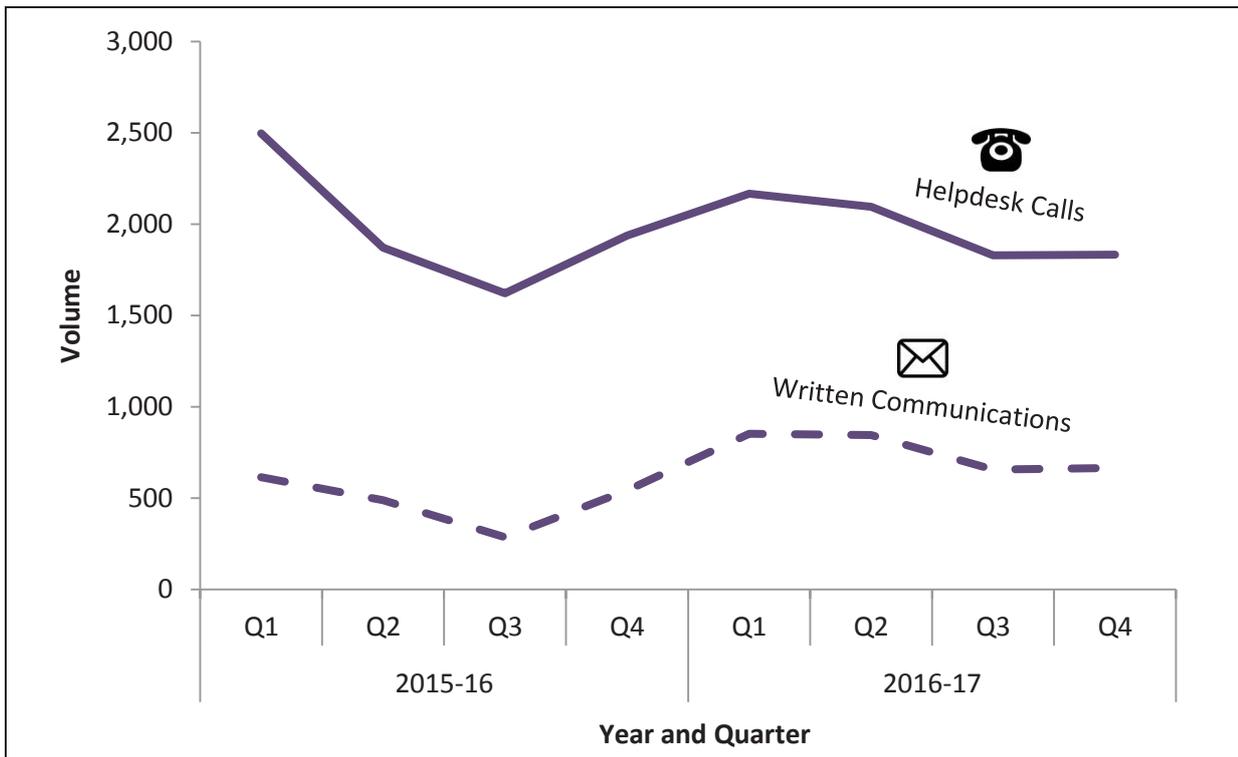
Revenue Scotland worked in partnership with agents, stakeholder organisations and other tax interest groups to develop the SETS system, ensuring it was secure, easy to use and met taxpayer needs. This work continued in 2016-17 as significant changes were introduced to accommodate the introduction of the Additional Dwelling Supplement.

### *Communication with taxpayers and agents*

Revenue Scotland seeks to make payment of the devolved taxes as convenient as possible given the legislative framework we work within. Our first mechanism to achieve this is through the preparation of easy to use legislative guidance, well-structured tax processes and the use of an effective and user friendly on-line return system (SETS). Over the course of the year, we continued to refine our guidance in response to feedback (e.g. from taxpayers and agents) and operational experience.

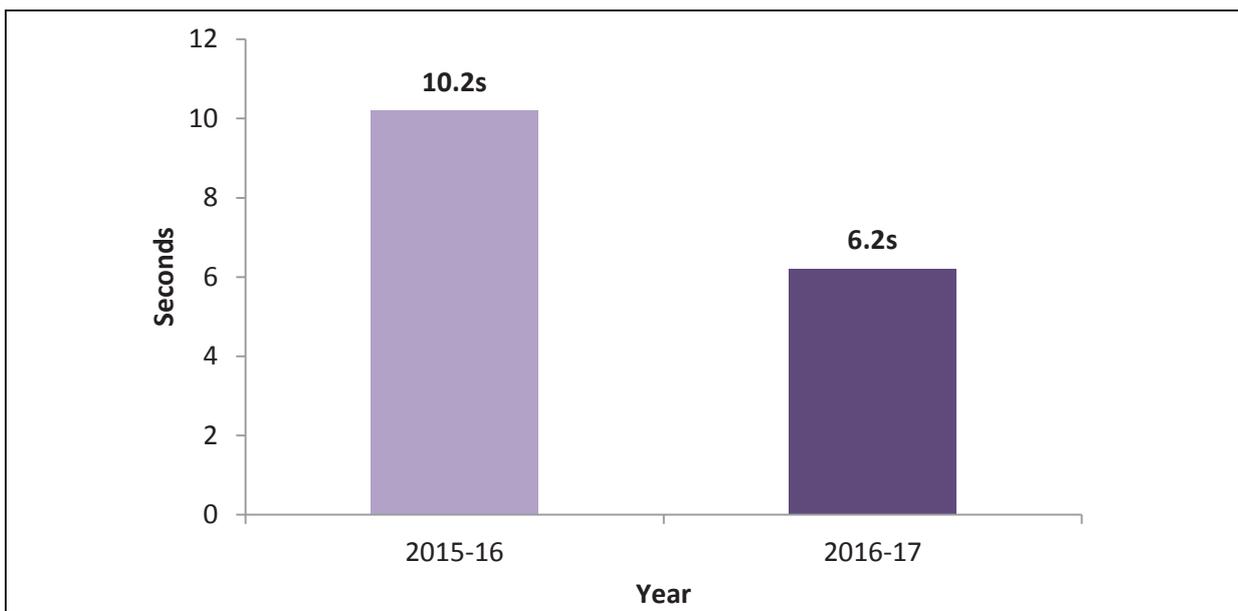
It is, however, recognised that there will be a requirement for taxpayers and agents to contact us. The organisation receives technical tax enquiries by email and post and aims to respond within 10 working days of receipt. As shown in **Graph 1** below, more than 3,000 written communications, including technical enquiries, were received during the second operational year, with 98% of these responded to within 10 days.

**Graph 1: Written Communication and Support Desk Calls**



Taxpayers and their agents can also phone the dedicated Revenue Scotland support desk for information and assistance relating to the devolved taxes. In 2016-17 the support desk received 7,926 calls, down very slightly compared to 7,929 in 2015-16.

**Graph 2: Helpdesk Average Call Waiting Times**



The average call waiting times for 2016-17 dropped to 6.2 seconds compared to 10.2 seconds for calls received in 2015-16.

## *Opinions Service*

Revenue Scotland offers an opinions service which is designed to deal with complex tax queries where a taxpayer or their agent has consulted the available guidance but remains uncertain about their tax liability for a specific transaction. The opinions service is intended to resolve genuine cases of difficulty or uncertainty rather than provide a checking service for all cases. **Table 1** shows that the number of opinions requested in this year more than doubled to 80.

**Table 1: Opinion Service Activity in 2016-17 and 2015-16**

	2016-17	2015-16
Cases b/fwd	2	0
Requests received	80	39
Finalised - taxpayer view supported	35	14
Finalised - taxpayer view not supported	37	23
Open/further information requested c/fwd	10	2

Feedback received indicates that taxpayers and their agents consider this an important and effective service which allows them to submit returns for more complex transactions with greater certainty.

## *Compliance activity*

Our role is to collect the devolved taxes, as levied by the Scottish Parliament. Revenue Scotland encourages a culture of responsible taxpaying, where the burden of tax is shared equally and people and businesses pay their taxes as the Scottish Parliament intended. The organisation works to make it as easy as possible for taxpayers to comply with their obligations and pay the right amount of tax, while detecting and deterring non-compliance.

The organisation is required by law to apply penalties to encourage timely payment of taxes and compliance. Penalties are potentially levied in a number of circumstances including, but not limited to: where a return has been submitted late; where tax has been paid late; where a tax return contains an inaccuracy; and where tax has been under-declared. The legislation provides for a basic flat rate penalty of £100 for a late return and escalating penalties for longer delays.

In 2016-17, Revenue Scotland issued notices charging penalties and interest of £507,000 (2015-16: £145,000).

The statutory obligations and powers of Revenue Scotland are set out in the Revenue Scotland and Tax Powers (Scotland) Act 2014 (RSTPA). This equips the organisation with various investigatory powers to make enquiries into submitted tax returns. Revenue Scotland takes a risk-based approach to its compliance activity and works closely with RoS and SEPA to fulfil its statutory duties efficiently and effectively.

In 2016-17, work was carried out to refine our approach to compliance focused around:

- early interventions: contacting taxpayers' agents when apparent errors have been identified;
- information requests: letters issued questioning aspects of returns submitted and requesting information to verify treatment, without using statutory powers to request information; and
- statutory enquiries opened under Section 85 RSTPA 2014 into both LBTT and SLfT tax returns.

The key performance indicator of direct compliance yield measures revenue raised as a direct result of determinations, assessments, adjustments and penalties where non-compliance has been identified. This has generated £1.529m of tax in the year 2016-17 (2015-16: £531,000) and £420,000 of penalties and interest (2015-16: £58,000).

In addition, Revenue Scotland's compliance activity has an impact on tax paid in subsequent tax returns following clarification of tax liabilities. Revenue Scotland's total compliance activity, including direct compliance yield, resulted in £2,029,000 of additional tax being returned in 2016-17 (2015-16: £1,065,000).

### *Governance Group and complex cases*

Revenue Scotland does not have criminal investigation powers and is not a specialist reporting agency. We have therefore established a multi-agency Governance Group which includes representatives of Police Scotland, HMRC, SEPA and the Crown Office and Procurator Fiscal Service. We meet with them on a regular basis to consider cases involving tax avoidance or tax evasion.

We seek the advice and support of our Governance Group to ensure the most appropriate sanctions are applied, ranging from civil penalties to criminal prosecution. We report cases involving tax fraud to Police Scotland and provide them with support to assist their investigation of crime.

### *Managing disputes*

There are three routes that may be taken by a taxpayer in the event of a dispute. Taxpayers may request a review, mediation or they can appeal decisions to the Tax Tribunal.

Information on the number of disputes and time to their resolution is contained in the Performance Analysis section of this report.

Before 24 April 2017 that right of appeal lay to the Scottish Tax Tribunals established under the Revenue Scotland and Tax Powers Act 2014 (RSTPA). As of 24 April 2017, appeals in relation to the devolved taxes can be taken to the Tax Chamber of the First-Tier Tribunal for Scotland, the Upper Tribunal for Scotland.

Decisions which may be appealed are listed in section 233 of the RSTPA. An appeal may be taken regardless of whether or not a statutory review of Revenue Scotland's decision has

been sought or if mediation has been entered into. Section 233 of the RSTPA also provides that certain decisions are not capable of appeal.

During year 2016-17 Revenue Scotland received notice of nine appeals to the First-Tier Tax Tribunal for Scotland. The Tribunal provided decisions in two of those cases. Four of the cases were resolved extra-judicially and were consequently withdrawn. Decisions are awaited in three cases.

More information about the Tribunals and the decisions taken can be found at: [www.taxchamber.scot](http://www.taxchamber.scot)

### *Stakeholder engagement*

During 2016-17 the Revenue Scotland Board approved the Communications and Stakeholder Engagement Plan for 2016-2018. The document set out strategic communications priorities for the reporting period and beyond to raise awareness and understanding of the organisation, its role and remit.

Priorities for the reporting period included building on the digital first approach for tax returns to increase the number of online returns through SETS, developing new stakeholder relationships, particularly with the Scottish Parliament and MSPs, and the development of a Board outreach and engagement programme.

Parliamentary engagement was strengthened during the reporting period through increased activity focused on the Finance and Constitution Committee. Senior staff gave evidence to the committee on two separate occasions – for the LBTT inquiry and for Stage 1 of the Air Departure Tax (Scotland) 2016 Bill. Written evidence was also submitted ahead of both appearances and to its Inquiry into the Scottish approach to Taxation. The Chief Executive was also invited to join the Budget Review Group formed to carry out a fundamental review of the Scottish Parliament’s budget process following the devolution of further powers in the Scotland Act 2012 and Scotland Act 2016. The Group published its report in June 2017.

The Revenue Scotland Board met with Board members from Registers of Scotland and the Scottish Environment Protection Agency as part of its evolving outreach programme and this will be further developed during 2017-18.

## Listening to the views of stakeholders

Since it was established, Revenue Scotland has placed effective stakeholder engagement at the very centre of its work, using various approaches to ensure taxpayers are kept informed and updated.

Technical tax forums are normally held every six months, bringing key stakeholders together for an event which is designed not only for Revenue Scotland to provide the latest tax updates but also to give agents and/or taxpayers an opportunity to discuss, debate and share views on common areas and issues.



These forums bring together almost 100 different organisations and individuals ranging from taxpayers and tax membership bodies to solicitors and accountants.

Recent LBTT forums have covered topics including Partial Charities Relief and Pension Fund *In Specie Transfers*. Following this, a new LBTT technical tax bulletin was developed and published for the first time, providing stakeholders with a detailed update on additions to Revenue Scotland's LBTT guidance. In parallel with the publication, the Revenue Scotland website guidance was also updated.

## *Changes in Tax*

### Land and Buildings Transaction Tax: Additional Dwelling Supplement

Revenue Scotland has collected and managed LBTT Additional Dwelling Supplement (ADS) since it was introduced on 1 April 2016. This was a significant change approved by Parliament in March 2016 and, as shown in the case study below, required Revenue Scotland to work expeditiously with stakeholders to implement effectively the required change by 1 April 2016.

#### **Case study: Effective consultation to raise LBTT Additional Dwelling Supplement awareness and understanding**

On 16 December 2015, the Cabinet Secretary for Finance announced in the Scottish Parliament that a supplementary tax – the Additional Dwelling Supplement (ADS) - would be introduced on the purchase of additional residential properties in Scotland with effect from 1 April 2016.

The draft Bill was published at the end of January 2016, giving Revenue Scotland a narrow timeframe to put in place new ADS guidance for taxpayers and agents, new operational processes and policies and to update the SETS system to accommodate the new tax.

Revenue Scotland involved stakeholders in user testing of the ICT system and in reviewing draft guidance. Roadshows and Webinars were made available to inform stakeholders about the new tax.

In the early part of the 2016-17 reporting period, the Revenue Scotland support desk received a high number of ADS-related telephone queries and enquiries were also submitted through the organisation's website. These reduced during the first quarter of the reporting period as a result of proactive awareness-raising activity.

**The 2016-17 devolved tax accounts include £107m of ADS tax declared on 20,800 returns and nearly 2,000 repayment claims totalling £14m.**

### Scottish Landfill Tax: Qualifying Material Order 2016

Scottish Ministers took the decision to implement a statutory requirement for loss on ignition testing for qualifying waste fines. This new testing regime came into force on 1 October 2016 as part of the new Qualifying Material Order 2016. The legislation requires that fines produced as part of a waste treatment process may not be treated as qualifying material, unless they have been subjected to a test in which the material is heated to a temperature of 440°C for a minimum of 5 hours and where the loss on ignition percentage threshold does not exceed more than 10%.

Throughout 2016, Revenue Scotland worked collaboratively with stakeholders to develop operational tax guidance that would allow taxpayers to implement the new statutory requirements. This guidance includes a prescriptive testing methodology, a frequency of testing requirement and documents to aid taxpayers in identifying when waste fines qualify for the lower rate of tax. This new guidance was well received by taxpayers, who commended Revenue Scotland's stakeholder engagement throughout the policy development process, commenting that this allowed them to be sighted on the changes sufficiently in advance of the legislation coming into effect, enabling them to prepare for the changes.

### Introduction of Air Departure Tax

The Scottish Government introduced the Air Departure Tax (Scotland) Bill to the Scottish Parliament in December 2016. This was in line with the agreement between the UK and Scottish governments, as set out in the Fiscal Framework, for future tax collection powers to be devolved to Scotland as set out in the Scotland Act 2016. The Bill received Royal Assent on 25 July 2017 and the Scottish Government is currently preparing secondary legislation which seeks to ensure that the tax will replace UK Air Passenger Duty from 1 April 2018.

Section 1 of the Act states that Revenue Scotland will be responsible for the collection and management of Air Departure Tax (ADT) when it is introduced. During the reporting year, Revenue Scotland established a programme to design and implement the new systems and processes required to collect and manage ADT when it is introduced. A business case for the work was approved by the Revenue Scotland Board and Scottish Ministers in September 2016 and the team has built on best practice principles and experience of delivering change over the previous two years. The business case was informed through engagement with aircraft operators and the programme team has continued to engage with operators, airports and stakeholder groups to ensure the approach to collecting and managing the tax is as convenient and efficient as possible for taxpayers.

Revenue Scotland has supported the work of the Scottish Government in bringing the required legislation for scrutiny by the Scottish Parliament, working closely with officials to provide input from an operational perspective, and providing assistance from tax specialist staff to develop the legislation.

In February 2017, the Chief Executive and ADT Programme Manager appeared before the Scottish Parliament's Finance and Constitution Committee to give evidence during the Bill scrutiny process and the programme remains on schedule to deliver the replacement tax in April 2018

### Other tax changes

The Scottish tax system does not currently have an annual change process comparable to the UK Finance Bill. Minor changes to legislative references and terminology have been made throughout the SLfT guidance following The Scottish Landfill Tax (Administration) Amendment Regulations 2017, which came into force on 29 May 2017. This instrument amended the Scottish Landfill Tax (Administration) Regulations 2015, to align references and provisions in the landfill tax regulations with other UK and Scottish legislation. Taking effect from 1 April 2017, the Scottish Landfill Tax (Standard Rate and Lower Rate) Order 2017 revised the standard rate and lower rate of SLfT applicable. Prior to the new rates coming into force, a mailshot was sent to taxpayers and a tax update was published on the Revenue Scotland website to highlight the changes. Following the increase in SLfT rates, references to the rates were amended to reflect the new amounts throughout the guidance.

### *Scottish Landfill Communities Fund*

The Scottish Landfill Communities Fund (SLCF) is a tax credit scheme available to landfill operators, to encourage them to make financial contributions to environmental and community projects across Scotland. Contributions are paid to organisations (Approved Bodies) authorised by Scottish Environment Protection Agency (SEPA) to distribute these to eligible projects. Landfill operators can claim credit for 90% of the value of qualifying contributions, subject to a limit of 5.6% of their annual tax liability. The maximum percentage credit is agreed by the Scottish Parliament and announced annually in the Scottish Budget.

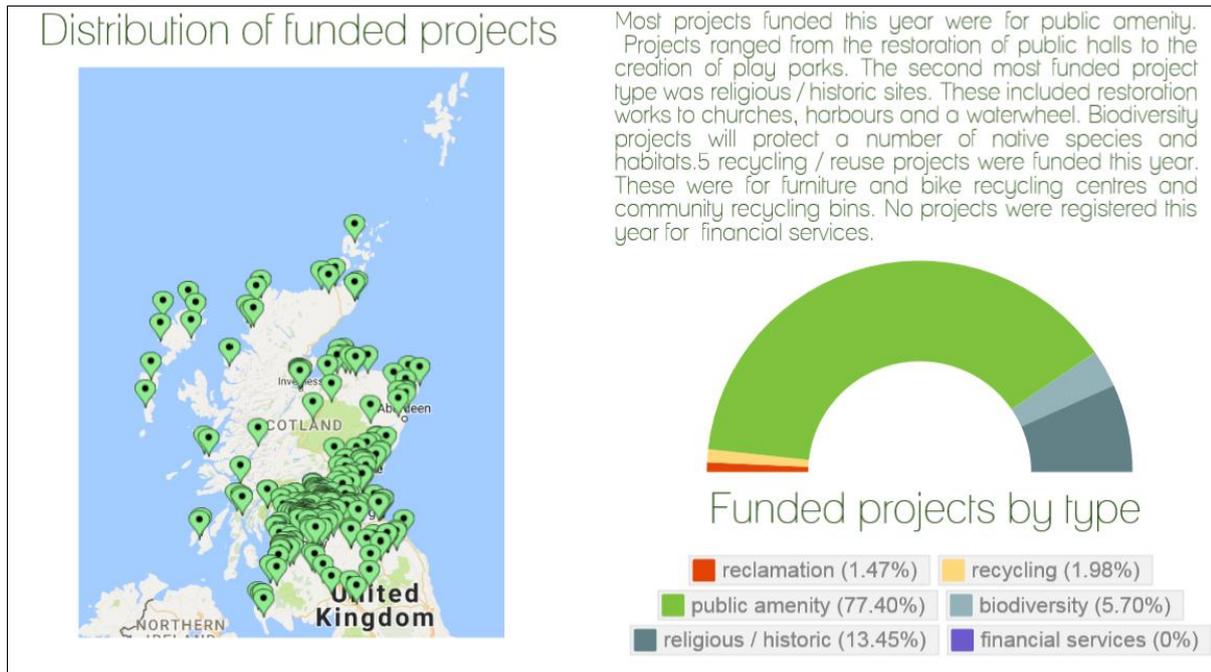
Revenue Scotland approves SEPA to carry out the regulatory functions of the SLCF by virtue of Regulation 32 (1) (a) of the Scottish Landfill Tax (Administration) Regulations 2015. This function is set out in Regulation 31 of the Scottish Landfill Tax (Administration) Regulations 2015.

SEPA provides quarterly comprehensive performance reports to Revenue Scotland providing details of regulatory activity in relation to the fund, including auditing the projects funded by approved bodies, and reports on the performance of the SLCF to Revenue Scotland. Within these quarterly reports, SEPA measures its performance as regulator against indicators agreed by both agencies. The performance of the SLCF is reviewed and considered at a senior management level within Revenue Scotland. Revenue Scotland advises the SEPA officers responsible for SLCF on legislative and compliance issues arising from the administration of the fund.

In 2016-17, Approved Bodies received £10 million of funds (2015-2016: £8m) from landfill operators which they will distribute to environmental and community projects. Projects which received funds in 2016-17 are dispersed across Scotland and a range of types as shown below:<sup>3</sup>

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<sup>3</sup> Scottish Environment Protection Agency: Scottish Landfill Communities Fund Report 2016-17



## Key issues and risks

Revenue Scotland operates a risk management framework in accordance with the Scottish Public Finance Manual to regularly assess key risks and controls. The approach is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives.

Risk management arrangements have been in place throughout the reporting year and significant activity by the Board and senior management has focused on ensuring that the approach is robust, fit for purpose and responsive to the tax authority's operational needs.

The Risk Management Framework (the Framework) was revised in December 2016, ensuring that the risk management process was proportionate, effective and focused given the scale of Revenue Scotland as an organisation and its stage of development. Key elements of this approach are:

- a requirement for the Chief Executive and Senior Leadership Team (SLT) to have effective mechanisms in place for assessing, monitoring and responding to any risks. This includes considering the risk register regularly and risk owners reviewing risks monthly;
- the Audit and Risk Committee of the Board receiving updates on the application of the Framework and on the assessment of corporate risks at each of its meetings; and
- the Board retaining ultimate responsibility for overall ownership of risk, overseeing the Risk Management Framework and reviewing the Corporate Risk Register at least twice a year.

The Corporate Risk Register highlights 10 key risks for the organisation covering a range of issues including:

- workforce;
- effectiveness of legislation;
- ICT infrastructure;
- funding and effective working with delivery partners.

During the 2016-17 period, the Board and Senior Leadership Team had a particular focus on the following specific risks: people capacity & capability; corporate governance & internal controls; and management of key delivery partners.

The Board also assessed the extent to which risk management processes were embedding themselves into the organisation in terms of the Risk Maturity model contained in the framework. The exercise found that the organisation was “defined<sup>4</sup>” and that the next phase in its development would be to continue to focus on making the framework an integral part of the organisation.

### **Staff relations, equality and diversity**

The organisation has a Staffing and Equalities Committee to provide assurance to the Revenue Scotland Board on the establishment and maintenance of an effective framework and systems for remuneration, workforce planning, resourcing and recruitment strategy, staff development and performance, and the welfare of staff, including equality and diversity.

During 2016-17 the Staffing and Equalities Committee oversaw the restructuring of the organisation and ensured that the Revenue Scotland Board was informed and appraised throughout the process.

More generally, Revenue Scotland recognises the need to continue to integrate equalities into its operations, both as a service provider and as an employer. The first Revenue Scotland Mainstreaming Report and Equalities Outcomes were published in April 2016. The planned outcomes are:

- all information and external communications provided and delivered by Revenue Scotland are transparent, accessible and easily understood by all service users; and
- Revenue Scotland is an organisation which demonstrates an inclusive culture with all members of staff having clear understanding of and commitment to equality and diversity within the organisation.

The Staffing and Equalities Committee will maintain oversight of the planned activity and impact. Revenue Scotland’s next formal report is due in 2018.

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<sup>4</sup> Appendix 5 of [Revenue Scotland Risk Management Framework](#)

## Environmental

Revenue Scotland is based in the Scottish Government's Victoria Quay building in Edinburgh. Heating, lighting and water services are managed through a service-level agreement and carbon emissions are monitored and reported by the Scottish Government on a building-wide basis. As a result, Revenue Scotland does not have access to any detailed data setting out specific emissions targets for office energy consumption.

The organisation is committed to protecting the environment by working sustainably to minimise its carbon emissions, meet climate change duties and embed climate change action into the organisational culture. As part of this commitment, Revenue Scotland has three broad climate change objectives. These are:

- to manage and monitor business travel and encourage staff to use the most carbon efficient method of transport for all work-related travel;
- to minimise waste and reduce Revenue Scotland's paper use; and
- to reduce office energy consumption.

The Revenue Scotland Board is responsible for the scrutiny of environmental policies, strategies and compliance with climate change duties and monitored these objectives throughout the reporting period.

Revenue Scotland contributes to the Scottish Public Sector Bodies Climate Change report annually and the results of this for 2016-17 will be available from the Sustainable Scotland Network in early 2018.

## Performance Summary

Revenue Scotland has identified key activity and performance indicators against which performance is measured. These were set as part of our Corporate Plan which was agreed with Scottish Ministers in 2015. The following tables provide summaries of these indicators and the financial performance of Revenue Scotland and the Devolved Taxes which are explained further in the following pages.

**Table 2 Key Performance Indicators 2016-17 and 2015-16**

KPI Ref	Description	2016-17	2015-16
1	Proportion of tax returns submitted online	98.8%	98.1%
2	Tax payments - on time	93.1%	92.6%
	- within 3 months	99.6%	
	- within 1 year	99.9%	
3	Helpdesk - average call waiting time	6.2 seconds	10.2 seconds
4	Written communication - response within 10 days	97.9%	95.6%
5	Number of complaints	4	10
6	Number of security breaches	0	0
7	Direct compliance yield	£1,949,000	£589,000
8	Returns without intervention	99.0%	99.2%
9	Positive guidance feedback	Qualitative data only	
10	Running costs	0.7%	0.9%
11	Average duration of enquiries (days)	64	83
12	Tax liabilities	£1,500,000	£231,000
13	Disputes - completed	126	8
	- average days to resolution	52	5
	- open disputes at 31 March	13	5
14	Compliance feedback - calls received	7,926	7,929
	- website visitors	560,000	280,000
15	Employee engagement	55.0%	60.0%
16	Sickness - average working days lost (see Remuneration & staff report in the <i>Annual Report and Accounts - Resource Accounts</i> )	9.4 days	6.4 days

**Table 3: Revenue Scotland Financial Performance 2016-17**

	<b>Actual Total £'000</b>	<b>Budget Act Estimates Total £'000</b>
Financial Year 2016-17 Expenditure	4,532	5,221
Financial Year 2015-16 Expenditure	4,677	4,819

**Table 4: Devolved Taxes 2016-17**

<b>Revenue net of repayments, excluding interest payable and revenue losses</b>	<b>2016-17 Tax, penalties &amp; interest receivable Total £'000</b>	<b>2016-17 Budget Act Estimates Total £'000</b>	<b>2015-16 Tax, penalties &amp; interest receivable Total £'000</b>
Land & Buildings Transaction Tax	483,598	538,000	424,874
Scottish Landfill Tax	149,098	133,000	147,045
Penalties & interest	342	0	311
<b>TOTAL</b>	<b>633,038</b>	<b>671,000</b>	<b>572,230</b>

In this our second year of existence and against the background of increasing activity, we are pleased to report improved performance against the majority of key activity and performance measures. Where this is not the case, action is underway to address this.

As part of our work to develop our new corporate plan for 2018-21, we are looking to review our KPIs and develop targets against which we can measure our performance as an organisation. The new corporate plan will be agreed with Scottish Ministers.

## Performance Analysis

This section of the Annual Report and Accounts provides more detailed information on the performance of Revenue Scotland in the collection and administration of the devolved taxes in 2016-17.

The Revenue Scotland Corporate Plan, which was agreed with Scottish Ministers in 2015, identifies key activity and performance indicators (KPIs) to which our success is measured throughout the year. This information is summarised below .

### 1. Proportion of tax returns filed online

	Total Number of Returns	Total Number of Returns Submitted Online	2016-17 Percentage of Returns Submitted Online	2015-16 Percentage of Returns Submitted Online
Quarter 1	28,110	27,714	98.6%	97.5%
Quarter 2	30,309	29,956	98.8%	97.9%
Quarter 3	31,066	30,724	98.9%	98.2%
Quarter 4	23,744	23,487	98.9%	98.6%
<b>Total</b>	<b>113,229</b>	<b>111,881</b>	<b>98.8%</b>	<b>98.1%</b>

When Revenue Scotland was established, it was anticipated that 90% of returns would be submitted online using SETS. However, the accessibility and user-friendly design has led to increased confidence amongst agents and taxpayers in using the online system and an associated rise in online returns. The percentage of returns submitted online in 2016-17 was 98.8% compared to 98.1% in 2015-16.

### 2. 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	2016-17 Percentage of Payments Made On Time	2015-16 Percentage of Payments Made On Time
Quarter 1	14,852	13,849	93.2%	93.5%
Quarter 2	17,901	16,575	92.6%	91.7%
Quarter 3	18,435	17,118	92.9%	92.6%
Quarter 4	13,630	12,795	93.9%	93.0%
<b>Total</b>	<b>64,818</b>	<b>60,337</b>	<b>93.1%</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 on time.

The proportion of all payments received within three months was 99.6% (all returns to end December 2016) and the proportion of all payments within one year (all returns to end March 2016) was 99.9%

At the end of the financial year, 99.7% of tax due on all tax returns submitted during the year had been paid either within the financial year or within five days of the year end.

### *3. Call waiting times*

All calls to Revenue Scotland's support desk are monitored in terms of the length of time taken to answer the call.

	<b>Calls Received</b>	<b>Mean Waiting Time (seconds)</b>	<b>Median Waiting Time (seconds)</b>	<b>Maximum Waiting Time (seconds)</b>
Quarter 1	2,167	6.7	5.0	367.0
Quarter 2	2,096	5.5	5.0	369.0
Quarter 3	1,830	5.7	5.0	264.0
Quarter 4	1,833	6.9	5.0	425.0
<b>2016-17 Total</b>	<b>7,926</b>	<b>6.2</b>	<b>5.0</b>	<b>425.0</b>
<b>2015-16 Total</b>	<b>7,929</b>	<b>10.2</b>	<b>6.0</b>	<b>749.0</b>

The number of calls fell in the second and third quarters compared to the first two quarters. This reflected a high level of calls early in the reporting period as taxpayers and agents sought to familiarise themselves with ADS.

Mean call waiting time dropped overall in 2016-17 compared to 2015-16.

#### 4. Response time for correspondence

All correspondence with Revenue Scotland is monitored in terms of the length of time taken to respond. This includes technical tax queries, complaints, Freedom of Information requests and correspondence from MSPs.

	Taxpayer Initiated Communication	Responses by 10 Days	Responses by 11- 25 days	Responses over 25 days
Quarter 1	853	99.1%	0.7%	0.2%
Quarter 2	846	97.2%	1.9%	0.9%
Quarter 3	656	98.6%	0.4%	1.0%
Quarter 4	665	96.8%	3.2%	0.0%
<b>2016-17 Total</b>	<b>3,020</b>	<b>97.9%</b>	<b>1.5%</b>	<b>0.6%</b>
<b>2015-16 Total</b>	<b>1,931</b>	<b>95.6%</b>	<b>3.7%</b>	<b>0.7%</b>

Over the course of the year, Revenue Scotland answered 97.9% of all written communications within 10 working days.

#### 5. Number of complaints

Complaints are expressions of dissatisfaction about the organisation's action or lack of action, or about the standard of service provided by Revenue Scotland or on its behalf. They are distinct from tax disputes. Where complaints arise we seek to learn from these to improve our operational procedures and processes.

The organisation's complaints handling procedure reflects Revenue Scotland's commitment to valuing complaints. It seeks to resolve taxpayer dissatisfaction as close as possible to the point of service delivery and to conduct thorough and impartial investigations of complaints so that, where appropriate, evidence-based decisions can be made on the facts of the case. The procedure introduces a standardised approach for complaints handling which complies with the Scottish Public Services Ombudsman's (SPSO) guidance on a model complaints handling procedure allowing for two opportunities to resolve complaints internally: stage 1 - frontline resolution; and stage 2 - investigation.

	Number of Complaints	
	2016-17	2015-16
Quarter 1	1	2
Quarter 2	1	2
Quarter 3	1	1
Quarter 4	1	5
<b>Total</b>	<b>4</b>	<b>10</b>

During 2016/17 Revenue Scotland saw a reduction in complaints received on the previous year. Of the four received, three were outwith the organisation's control and were resolved at stage 1. These related to:

- A procedural failure by the applicant's agent,
- IT problems using SETS due to local email systems,
- Concerns about legislation.

One other complaint, regarding possible procedural failures, progressed to stage 2 and, following a thorough investigation, a definitive response was issued. Independently of the complaint, improvements were made to the quality of mailbox responses and supporting assurance processes which addressed the issue raised.

No complaints were escalated to the Scottish Public Service Ombudsman in 2016-17.

### *6. Number of data security breaches*

No security breaches were reported in the 2016-2017 reporting period.

### *7. Direct Compliance Yield*

Direct compliance yield measures all money received as a result of assessments, determinations and decisions. It includes those that are made using the General Anti-Avoidance Rule, those that result from direct compliance activity delivered by SEPA in the execution of their delegated functions, interest and penalty charges, and the value of liabilities reported following a Revenue Scotland opinion where greater than the value originally suggested by the taxpayer. It provides an indication of the extent to which the right amount of tax has been collected from the full taxpayer base over the course of the year, but is not a direct measure of that.

In 2016-17, direct compliance activity accounted for £1,529,000 of additional tax (2015-16: £531,000) and £420,000 of penalties and interest (2015-16: £58,000).

### *8. Proportion of tax returns requiring no Revenue Scotland intervention*

A high proportion of tax returns being accepted as right first time will indicate that taxpayers are clear about the amount of tax that they ought to pay. The figures shown for 2016-17 are provisional as some corrections may not be made for several months after submission of the original tax return.

	<b>Total number of returns submitted</b>	<b>Total number of returns without intervention</b>	<b>2016-17 Percentage of returns without intervention</b>	<b>2015-16 Percentage of returns without intervention</b>
Total number of returns	113,229	112,124	99.0%	99.2%

## 9. Stakeholder feedback on guidance

Guidance forms a critical part of Revenue Scotland’s engagement with stakeholders and the organisation places a high priority on the quality and continuous development of this documentation.

To ensure the guidance is fit for purpose and meets the needs of users, Revenue Scotland uses a collaborative approach, analysing feedback on clarity and content from end-users via the Revenue Scotland support desk and website. The feedback regularly informs amendments to the structure and content of the guidance.

During the reporting period, updates to guidance were highlighted to stakeholders through email and, for the first time, through a technical tax bulletin issued to customers. Feedback about the bulletin was positive and it is intended that similar documents will be produced on a regular basis to support business needs.

## 10. Running costs

Revenue Scotland aims to be an efficient organisation in terms of its operating costs compared to the amount of tax paid over to the Scottish Consolidated Fund and the amount contributed to the Scottish Landfill Communities Fund.

	<b>2016-17</b>	<b>2015-16</b>
	<b>£000</b>	<b>£000</b>
Net expenditure incurred	4,532	4,677
Scottish Consolidated Fund payments	636,239	509,719
Scottish Landfill Communities Fund contributions	9,889	7,958
<b>Total</b>	<b>646,128</b>	<b>517,677</b>
Percentage	0.70%	0.90%

The OECD publishes “cost of collection” data for a range of countries across the globe. This is calculated as being the administrative costs as a percentage of net revenue collections. The latest publication provides data from 2013 which ranges from 0.29 in Switzerland to 1.74 in Japan. Although not strictly comparable due to the scale of taxes being collected by Revenue Scotland in comparison to other national tax authorities and our reduced benefits of scale as a result, we compare well with Ireland (0.85%), Netherlands (0.95%) and the United Kingdom (0.73%).

## 11. Average duration of enquiries

Revenue Scotland has the power to enquire into anything contained or required to be contained in a tax return. Formal notices are issued to the taxpayer on the opening and closing of an enquiry. The analysis below gives the mean, median and maximum number of days between enquiries being opened and closed.

	2016-17	2015-16
Mean (days)	64	83
Median (days)	39	92
Maximum (days)	360	115
Number of enquiries closed during the year	52	3
Number of enquiries open at 31 March 2017	42	26

### ***12. Value of tax liabilities identified as a consequence of corrections, amendments, assessments, determinations and enquiries.***

This indicator covers charges made rather than payments received. It provides a measure of the extent to which Revenue Scotland is delivering its duty to identify the right amount of tax that taxpayers should be paying. It differs from direct compliance yield in that it includes some unpaid liabilities but does not include interest and penalty charges or yield arising from Revenue Scotland opinion work.

In 2016-17, £1,500,000 (2015-16: £231,000) was charged as a result of compliance interventions.

### ***13. Number of disputes and time to resolution***

Where a taxpayer disagrees with a decision made by Revenue Scotland and contests this, our dispute resolution process is triggered. The time to resolution is defined as the number of days between the date the taxpayer requests a review and the date on which Revenue Scotland gives notice of the conclusion.

	2016-17	2015-16
Number of disputes initiated	134	13
Average time to resolution (days)	52	5
Number of open disputes at 31 March	13	5

The increase in average time to resolution in 2016-17 reflects a fuller complement of case work and the fact that some cases have gone to tribunal in the year. As reported earlier, Revenue Scotland received notice of nine appeals to the First-Tier Tax Tribunal in 2016-17, with decisions provided in two of those cases. A further four cases were resolved extrajudicially and were consequently withdrawn. As of the end of March 2017, decisions are awaited in three cases. One appeal notice which had been received in 2015-16, was also withdrawn in 2016-17.

Revenue Scotland also received two requests for mediation in 2015-16 but these did not proceed. No such requests were received in 2016-17.

#### ***14. Stakeholder feedback on Revenue Scotland's compliance with the Charter of Standards and Values***

The Revenue Scotland Charter of Standards and Values sets out the minimum level of service stakeholders can expect from the organisation.

During the second operating year, Revenue Scotland received and answered almost 8,000 calls and the website was visited on more than 560,000 separate occasions, indicating that the organisation's communication channels were frequently used, particularly the website.

#### ***15. Employee engagement***

Revenue Scotland staff participated in the UK Civil Service People Survey published in November 2016. The survey received a 100% response rate which is a significant achievement. The results showed the organisation had an overall engagement index of 55%, a drop of 5% from the previous year's score.

The survey results reflected the need for strong and consistent leadership and a better understanding of job roles and business needs. It also called for an improved organisational structure, clear career paths and learning and development opportunities to be better articulated. Over the course of the year a range of actions have been taken to respond to the evolving business and staff including the development and implementation of a three year People Strategy. Work is underway with the leadership group to strengthen the leadership capability. The Staffing & Equalities Committee has oversight of the strategy and early indications are that the new structure has improved clarity of job role and functions. The activities undertaken will have a positive impact on engagement in 2017.

#### ***16. Sickness – average working days lost***

This indicator measures the average working days lost per employee. This has increased by 3 days in 2016-17. This is due to the extended absence by a small number of staff. While we expect performance against this indicator to improve in 2017-18, the underlying causes are being kept under review and appropriate action taken.

## Devolved Taxes Financial Performance

Revenue net of repayments, excluding interest payable and revenue losses	2016-17 Tax, penalties & interest receivable  Total £'000	2016-17 Budget Act estimates  Total £'000	2015-16 Tax, penalties & interest receivable  Total £'000
Land & Buildings Transaction Tax	483,598	538,000	424,874
Scottish Landfill Tax	149,098	133,000	147,045
Penalties & interest	342	0	311
<b>Total</b>	<b>633,038</b>	<b>671,000</b>	<b>572,230</b>

The values in the above table are for tax returns and amendments submitted during 2016-17 and adjusted for the value of LBTT and SLfT returns received during April and May 2017 which relate to the period up to the 31 March 2017. The returns submitted during 2016-17 may include adjustments to returns originally submitted in 2015-16. However, unless these adjustments were received in April or May 2016 and were therefore accrued into the financial statements, these are accounted for in the year of receipt.

The LBTT tax revenue raised in 2016-17 is dependent on performance of both the residential and non-residential property markets within Scotland. The SLfT tax revenue raised in 2016-17 is dependent upon categories and tonnage of waste deposited in landfill sites within Scotland.

Revenue Scotland is not responsible for the forecasting of expected tax revenues. Scottish Ministers were responsible for preparing revenue forecasts for the devolved taxes in 2016-17 and the Scottish Fiscal Commission is responsible for providing independent forecasts of tax revenue from 1 April 2017.

The Scottish Government published a Devolved Taxes Forecasting Methodology paper in December 2015, explaining the basis of the forecasts underpinning the 2016-17 Budget (<http://www.gov.scot/Publications/2015/12/7589>). The Scottish Ministers forecast revenues of £671 million in 2016-17.

**Elaine Lorimer – Chief Executive of Revenue Scotland and Accountable Officer**  
13 September 2017

## Accountability Report

### Corporate Governance Report

#### The Directors' Report

#### *Revenue Scotland Board 2016-17*

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.

In the financial year 2016-17 the Board met on seven occasions (2015-16: eight).

#### *Board Members 2016-17*

##### **Dr Keith Nicholson – Chair**

Dr Nicholson has more than 30 years' experience in statistical analysis and data modelling. His specialist background is in transactional websites, cyber security and technology.

##### **Lynn Bradley – Chair of Audit & Risk Committee**

Lynn Bradley is an accountant with more than 30 years' experience in the Scottish public and private sectors. Previous roles include Director of Corporate Programmes and Performance at Audit Scotland and Chair of CIPFA Scotland.

##### **Jane Ryder OBE – Chair of the Staffing & Equalities Committee**

Jane Ryder is a qualified solicitor and now specialises in corporate governance and regulation across the public, private and third sectors. Previous roles include being the first Chief Executive of the Office of the Scottish Charity Regulator (OSCR) and Deputy Chair of the Seafish Industry Authority. She is currently Chair of Historic Environment Scotland.

##### **Ian Tait – Member of Audit & Risk Committee**

Ian Tait is Director of Network Regulation at the Water Industry Commission for Scotland. A regulatory specialist, he has advised the Scottish Government on the development of regulatory structures. Previous posts include Strategic Planning Manager and Transmission System Manager at Scottish and Southern Energy.

##### **John Whiting CBE - Member of Audit & Risk Committee and Staffing & Equalities Committee**

John Whiting is a non-executive director of HMRC and, until March 2017, was Tax Director of the UK's Office of Tax Simplification (OTS). Other previous roles include Tax Policy Director of the Chartered Institute of Taxation, many years as a tax partner with PricewaterhouseCoopers and membership of the first-tier Tax Tribunal.

#### *Board Members' Interests*

Further information about the interests of Board Members can be found on the Revenue Scotland website ([www.revenue.scot](http://www.revenue.scot)).

## *Senior Leadership Team 2016-17*

### **Elaine Lorimer - Chief Executive**

Elaine has 20 years of experience working at senior management and board level in the civil service in London and, prior to that, in local government in Scotland. She is a Scottish solicitor and public finance accountant.

### **Stephen Crilly – Head of Legal Services**

Stephen is a Scottish solicitor and is responsible for the legal advice provided to Revenue Scotland. He previously worked within the HMRC Division of the Office of the Advocate General for Scotland in a role which carried out a broad spectrum of advisory and litigation work for HMRC in Scotland.

### **Andrew Fleming – Head of Strategy and Corporate Functions**

Until July 2016 Andrew was responsible for the implementation of new devolved taxes and oversight of Revenue Scotland's ICT function. From August 2016 he became responsible for leading Revenue Scotland's strategic and corporate functions. He has considerable experience within the Civil Service and particularly in the design and delivery of strategic improvements across a range of public policy areas.

### **Chris Myerscough – Head of Tax**

Chris was appointed as Head of Tax on 22 August 2016, having joined Revenue Scotland as Director of Operations for a temporary six-month period to 30 June 2016. She moved from HMRC where she gained 25 years of tax experience in various technical, compliance and policy roles.

### **Susan MacInnes – Head of Corporate Services and Finance**

Susan led the Corporate Services Team as a member of the Senior Leadership Team until August 2016. She is a lawyer by profession and practised as a property lawyer for over 20 years. She left Revenue Scotland in December 2016.

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

Under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, the Scottish Ministers have directed Revenue Scotland to prepare, for each financial year, a statement of accounts in the form and 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 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 (FRoM) 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 (FRoM) have been followed and disclose and explain any material departures in the financial statements; and

- prepare the accounts on a going concern basis.

The Chief Executive of Revenue Scotland is designated as the Accountable Officer for the devolved taxes 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.

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

## Governance Statement

In the paragraphs below, I report on the governance arrangements in place within Revenue Scotland.

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 function. The Board's work includes, but is not confined to:

- considering the annual business plan and corporate plan;
- receiving reports from the Chief Executive on progress in meeting targets;
- receiving quarterly reports on the financial performance of Revenue Scotland;
- receiving reports from the Audit & Risk and Staffing & Equalities Committees;
- considering reports in relation to the operation of tax compliance;
- reviewing action on risk management;
- planning for new taxes;
- reviewing the performance of key business partners; and
- strategy development.

In the course of the year, I can report that the Board made a number of significant decisions on LBTT and SLfT, in line with the Scheme of Internal Delegation, based on information presented to it by the Senior Leadership Team. In addition to this, the Board has overseen improvements in core governance framework, covering business planning, risk management, improvements to delivery structure and key delivery partnerships such as with SEPA and RoS. The Board has also taken forward work to enhance its strategic relationships with the Scottish Parliament, Scottish Ministers and the Scottish Fiscal Commission. Further it has also overseen recent and proposed changes to the work of Revenue Scotland, including the recent changes to LBTT brought about by the introduction of the Additional Dwelling Supplement, and the approval of a business case setting out how Revenue Scotland would take on the administration and collection of Air Departure Tax. The business case was presented to Scottish Ministers and received their approval.

The Board aims to set an example of good practice in terms of learning and development, and benefits from presentations from and discussions with external presenters. In accordance with good practice, I can report that the Board reviewed its own effectiveness and the Chair has conducted individual Board appraisals. In the course of the year, the Board has also reviewed the remit of both the Audit & Risk and Staffing & Equalities Committees.

As the Chief Executive of Revenue Scotland, I am employed by and accountable to the Board of Revenue Scotland for the day-to-day running of the organisation and its operational performance.

I have assessed our corporate governance arrangements and confirm 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;
- considering and monitoring of responses to recommendations from internal & external auditors and other bodies;
- 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.

In the course of the year, the Audit and Risk Committee oversaw the review of the Corporate Risk Register. Working within the context of the current risk management framework, this work was focused on our statutory obligations and on-going delivery of our Corporate Plan objectives. The output of this process, which was reviewed and approved by the Board, resulted in the rationalisation of the key risks from 23 risks to 10.

The current risk register includes identified high-level risks relating to the impact of legislative changes on our resources, organisational culture and capacity, ICT infrastructure, business continuity & disaster recovery capability, stakeholder engagement and governance & internal controls.

Within the year 2016-17, significant work focused on:

- addressing people capacity and capability issues with considerable activity focused on recruitment of staff and development and retention of a knowledgeable and skilled workforce who are engaged and motivated to deliver the functions of

Revenue Scotland to the highest standards of professionalism and integrity. A key output of this work has been the development of an organisational wide People Strategy. Linked to this has been the promotion of a positive organisational culture to create a supportive and positive working environment;

- improving the structure and management of ICT infrastructure with work focused on maintaining and developing our overall resilience and security;
- improving business continuity controls in respect of the Scottish Electronic Tax System (SETS) through the establishment of a verified ESCROW arrangement which will permit the independent rebuilding of the system in the event of failure or the supplier going out of business;
- improving Corporate Governance and internal controls by ensuring that key governance and internal control processes were in place and being implemented effectively to deliver compliance with our legal duties and the expectations of a public body; and
- finally, enhancing our management of key delivery partners to ensure that they, SEPA, RoS and Scottish Government, undertake work effectively fully cognisant of our statutory duties

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 Strategy & Corporate Functions, the Head of Tax, representatives of internal and external audit as well as other staff members as required.

The committee met five times in 2016-17 (2015-16: four).

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

I have assessed our risk management arrangements and confirm that they accord with the guidance set out in the Scottish Public Finance Manual. I can report that the overall assessment of our performance has been assessed as "defined" against the Risk Maturity Model provided for in the Revenue Scotland Risk Management Framework. This means that risk governance is in place across the organisation but that further work is required to ensure consistency of application. This work has been actioned.

### *Staffing and Equalities Committee*

The Board of Revenue Scotland established a Staffing and Equalities Committee in June 2015. The Board comprises two Board members, Jane Ryder (Chair) and John Whiting, with staff membership comprising the Chief Executive, Head of Strategy & Corporate Functions and the Head of Tax. Individual staff attend depending on the items being discussed.

The primary objective of the committee is to provide assurance to the Revenue Scotland Board on the establishment and maintenance of an effective framework and systems for the remuneration, performance, evaluation and welfare of staff, including equality and

diversity. The terms of reference for the committee are published on Revenue Scotland's website ([www.revenue.scot](http://www.revenue.scot)).

The committee met twice during 2016-17 (2015-16: twice) providing the Chief Executive with challenge and support through the process of restructuring, the response to the People Survey and subsequent development of the People Strategy. The Committee approved a programme of staff engagement work to support development of the response to the staff survey. This included a discovery phase to build greater understanding about People Survey findings followed by an all staff event in January to identify and agree the response needed. The outcome of this work has informed development of the comprehensive People Strategy, tailored to Revenue Scotland requirements and a detailed workplan to implement the Strategy. The committee assisted with planning for our annual Staff Conference to launch the strategy, as well as a follow-up Pulse Survey to measure progress on People Survey scores. The Committee also oversaw development of our strategic approach to recruitment and workforce planning, a critical element of the People strategy, with key vacancies filled over the period.

### *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), held by the Head of Strategy & Corporate Functions.

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. These policies and procedures aim to ensure that the requirements of confidentiality, integrity and availability are maintained.

The IAO 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.

At Revenue Scotland we manage, maintain and protect all information according to the requirements of the Data Protection Act and other legislation, notably the RSTPA. We also adhere to our own information policies and government best practice.

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

### *Internal Audit*

Internal Audit is provided by the Scottish Government Internal Audit Directorate (SGIAD). The Audit and Risk Committee reviewed and approved the audit plan produced by SGIAD. Regular updates on progress of this plan were presented by SGIAD at Audit & Risk Committee meetings during the year.

During the year SGIAD reviewed:

- budgetary management;
- business continuity planning;
- tax compliance.

Reports received in relation to these and their overall Annual Report for the year, rated assurance as reasonable, the second highest possible rating. This means that there were some weaknesses in risk, governance and/or control procedures but not of a significant nature.

They additionally carried out follow-up reviews on audits performed in 2015-16 and reported improvements in controls in:

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

### *External Audit*

External Audit is provided by Audit Scotland. Mark Taylor is appointed under the Public Finance and Accountability (Scotland) Act 2000 to carry out the external audit of Revenue Scotland. During the year, the Audit & 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, data and 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. They reviewed and tested a wide range of key controls covering the main financial systems and followed up on matters raised in its 2015-16 Interim Audit Report. Audit Scotland identified good progress had been made across a range of the matters raised. No significant control weaknesses were identified on key financial systems. A limited number of matters were identified and an action plan was agreed.

There were no significant internal control or risk management breaches during 2016-17.

### *External scrutiny*

As a Non-Ministerial Department, Revenue Scotland is accountable to the Scottish Parliament and, as such, can be called to appear before parliamentary committees to provide updates on operational matters, give evidence on tax-related matters or provide written statements.

During the reporting period, I gave evidence to the Finance and Constitution Committee's LBTT inquiry in October 2016 with the Head of Tax. I also appeared before the committee in

February 2017 with the ADT Programme Manager to give evidence during the Stage 1 scrutiny of the Air Departure Tax (Scotland) Bill.

Revenue Scotland's corporate plan, supporting legislation and this annual report are published documents. The corporate plan 2015-18 was approved by Scottish Ministers and laid before the Scottish Parliament. Work will begin during the 2017-18 reporting period to develop a new corporate plan for 2018-21.

The corporate plan, annual reports and accounts and minutes of the Revenue Scotland Board meetings are published on the organisation's website at

<https://www.revenue.scot/about-us/publications>

### *Assurances provided to the Chief Executive*

I have received written assurances from members of my Senior Leadership Team who have responsibility for operation and effectiveness of internal controls within the Tax, Legal, Strategy, Change and Corporate Functions teams.

Additionally I have received assurance from the Scottish Government's Acting Director General Finance in respect of the financial systems shared with Revenue Scotland and from the Scottish Government's People Director in respect of the human resources and payroll systems shared with Revenue Scotland.

In conclusion I can confirm that, based on the aforementioned governance arrangements, there were no control weaknesses in the period under review.

### *Further information*

More information on the governance arrangements of Revenue Scotland, its Board and sub-committees is available on Revenue Scotland's website ([www.revenue.scot](http://www.revenue.scot)) including the Framework Document - Agreement between the Scottish Ministers and Revenue Scotland, Revenue Scotland Standing Orders, a Scheme of Internal Delegation and other policies.

## **Remuneration & Staff Report**

Staff are employed by Revenue Scotland and information on remuneration, pension benefits, Civil Service early departure compensation schemes, staff composition and absence are shown in the *Annual Report and Financial Statements for the Resource Accounts 2016-17*.

**Elaine Lorimer – Chief Executive of Revenue Scotland and Accountable Officer**  
13 September 2017

## Independent Auditor's Report

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

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 120 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.

### Report on the audit of the financial statements

#### Opinion on financial statements

I have audited the financial statements in the annual report and financial statements (Devolved Taxes Account) for the year ended 31 March 2017 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. 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 2016/17 Government Financial Reporting Manual (the 2016/17 FReM).

In my opinion the accompanying 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 account as at 31 March 2017 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 2016/17 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.

#### Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the account in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **Responsibilities of the Accountable Officer for the financial statements**

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## **Other information in the annual report and accounts**

The Accountable Officer is responsible for the other information in the annual report and financial statements. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to 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 or inconsistencies I consider the implications for my report.

## Report on regularity of expenditure and income

### 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.

### Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

## Report on other requirements

### Opinions on other prescribed matters

I am required by the Auditor General for Scotland to express an opinion on the following matters.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

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

I am required by the Auditor General for Scotland 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.

I have nothing to report in respect of these matters.

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

September 2017

## Devolved Taxes Account 2016-17: Financial Statements

### Statement of Revenue and Expenditure

For the Year Ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
<b>Revenue</b>			
<b>Taxes</b>			
Land & Buildings Transaction Tax	2.1	483,598	424,874
Scottish Landfill Tax	2.1	149,098	147,045
<b>Total taxes</b>		<b>632,696</b>	<b>571,919</b>
<b>Penalties and interest</b>			
Penalties	2.2	299	297
Interest	2.2	43	14
<b>Total Penalties and interest</b>		<b>342</b>	<b>311</b>
<b>Total revenue</b>		<b>633,038</b>	<b>572,230</b>
<b>Expenditure</b>			
Interest paid	3.1	(19)	0
Revenue losses	4.2	(24)	(24)
<b>Total expenditure</b>		<b>(43)</b>	<b>(24)</b>
<b>Net revenue for the Scottish Consolidated Fund</b>	7	<b>632,995</b>	<b>572,206</b>

There were no recognised gains or losses accounted for outside the above Statement of Revenue and Expenditure.

The notes on pages 47 to 54 form part of these financial statements.

## Statement of Financial Position

as at 31 March 2017

	Note	2016-17 £000	2015-16 £000
<b>Current assets</b>			
Receivables	4	7,635	8,565
Accrued revenue receivable	4	46,129	44,919
Cash	5	7,710	9,032
<b>Total current assets</b>		<b>61,474</b>	<b>62,516</b>
<b>Current liabilities</b>			
Payables	6	2,231	29
Deferred revenue	6	0	0
<b>Total current liabilities</b>		<b>2,231</b>	<b>29</b>
<b>Net current assets</b>		<b>59,243</b>	<b>62,487</b>
<b>Total assets less current liabilities</b>		<b>59,243</b>	<b>62,487</b>
<b>Total net assets</b>		<b>59,243</b>	<b>62,487</b>
Represented by:			
<b>Balance due to the Scottish Consolidated Fund</b>	7	<b>59,243</b>	<b>62,487</b>

The notes on pages 47 to 54 form part of these financial statements.

The Chief Executive of Revenue Scotland and Accountable Officer authorised these financial statements for issue on 13 September 2017

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

## Statement of Cash Flows

For the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
Net cash flow from operating activities	A below	634,917	518,751
Cash paid to Scottish Consolidated Fund		(636,239)	(509,719)
<b>Decrease in cash in this period</b>	B below	<u>(1,322)</u>	<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		632,995	572,206
Decrease/(increase) in non cash assets		(280)	(53,484)
Increase/(decrease) in liabilities		2,202	29
<b>Net cash flow from operating activities</b>		<u>634,917</u>	<u>518,751</u>
<b>B Analysis of changes in net funds</b>			
(Decrease)/Increase in cash in this period		(1,322)	9,032
Net funds at 1 April		9,032	0
Net funds at 31 March		<u>7,710</u>	<u>9,032</u>

The notes on pages 47 to 54 form part of these financial statements

## 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 2016-17 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 - Taxation**

Taxes 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.

Repayments of Additional Dwelling Supplement are recognised when the taxpayer or agent submits a claim for repayment creating an obligating event, and the sale of the previous main residence falls within the reported financial year or earlier.

## **1.7 Revenue recognition – Penalties & Interest**

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

- A penalty or interest charge is validly imposed and an obligation to pay arises

Penalty and interest revenue is de-recognised:

- When a penalty is cancelled following the correction of a tax return arising from a minor error by the taxpayer or agent;
- Where a penalty is cancelled following a review by Revenue Scotland
- Where a taxpayer's appeal against the penalty is upheld by the Scottish Tribunals.

Where penalty and interest revenue has been previously recognised and is later deemed uncollectible for reasons other than those shown above, this is recorded as an expense at the date of the decision.

## 1.8 Receivables

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

## 2. Revenue and other income

### 2.1 Taxes

	2016-17 £000	2015-16 £000
Land & Buildings Transaction Tax		
Residential	213,816	207,878
Non-residential	176,991	216,996
Additional Dwelling Supplement (ADS)	107,056	0
Repayment of ADS	(14,265)	0
Total Land & Buildings Transaction Tax	483,598	424,874
Scottish Landfill Tax	149,098	147,045
	<b>632,696</b>	<b>571,919</b>

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

Additional Dwelling Supplement is payable on the purchase of additional residential properties in Scotland such as buy-to-let and second homes. It is repayable where the taxpayer's previous main residence is sold within 18 months of the purchase of the additional property.

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

### 2.2 Penalties and interest

	Year of Offence	2016-17			2015-16		
		Penalty £000	Interest £000	Total £000	Penalty £000	Interest £000	Total £000
Land & Buildings Transaction Tax	2016-17	117	3	120	0	0	0
	2015-16	123	5	128	297	14	311
	Total	240	8	248	297	14	311
Scottish Landfill Tax	2016-17	12	2	14	0	0	0
	2015-16	47	33	80	0	0	0
	Total	59	35	94	0	0	0
<b>Total penalties and interest</b>		<b>299</b>	<b>43</b>	<b>342</b>	<b>297</b>	<b>14</b>	<b>311</b>

Penalties are charged on the late receipt of tax returns, late payments or other reasons permitted under the RSTPA. Penalties are recognised when a penalty notice has been issued to the taxpayer.

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

### 3 Expenditure

#### 3.1 Interest paid

	2016-17 £000	2015-16 £000
Interest paid	19	0

Interest is payable by Revenue Scotland on the repayment of any tax or penalties.

### 4 Receivables

#### 4.1 Amounts due:

	Receivables £000	Accrued Revenue Receivable £000	2016-17 Total £000	2015-16 Total £000
Land & Buildings Transaction Tax	5,935	12,288	18,223	17,463
Scottish Landfill Tax	1,743	33,841	35,584	36,045
Totals before impairments	7,678	46,129	53,807	53,508
Less impairments (see note 4.3)	(43)	0	(43)	(24)
<b>Total</b>	<b>7,635</b>	<b>46,129</b>	<b>53,764</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 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 impairments £000	2016-17 Total £000	2015-16 Total £000
Land & Buildings Transaction Tax	5	19	24	24
Scottish Landfill Tax	0	0	0	0
<b>Total</b>	<b>5</b>	<b>19</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.

## 4.3 Change to impairments

	2016-17 £000	2015-16 £000
Balance at 1 April	24	0
Change in estimated value of impairments	19	24
<b>Balance at 31 March</b>	<b>43</b>	<b>24</b>

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 deduction of the estimated value of impairments. This estimate is based on debts where legal action has been initiated.

## 5 Cash

	2016-17 Total £000	2015-16 Total £000
Government Banking Service	4,172	6,540
Commercial Bank	3,538	2,492
<b>Balance at 31 March</b>	<b>7,710</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 2017 and which were paid over during 2017-18.

## 6 Payables

### 6.1 Amounts due:

	Revenue Repayable £000	Deferred Revenue £000	2016-17 Total £000	2015-16 Total £000
Land & Buildings Transaction Tax	1,518	0	1,518	29
Scottish Landfill Tax	713	0	713	0
	<b>2,231</b>	<b>0</b>	<b>2,231</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, including claims for repayment of Additional Dwelling Supplement, 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

	2016-17 £000	2015-16 £000
<b>Balance due to Scottish Consolidated Fund Account at 1 April</b>	£62,487	£0
Net Revenue for the Scottish Consolidated Fund	632,995	572,206
Less amount paid to Scottish Consolidated Fund	(636,239)	(509,719)
<b>Balance due to the Scottish Consolidated Fund Account as at 31 March</b>	<b>59,243</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

Contingent assets can arise as a result of a deferral being granted by Revenue Scotland or as a result of an enquiry into tax returns received.

	2016-17		2015-16	
	LBTT		LBTT	
	Deferrals £000	Total £000	Deferrals £000	Total £000
At 1 April	499	499	0	0
Additions	997	997	499	499
Amounts not materialising	(4)	(4)	0	0
Amounts charged	(43)	(43)	0	0
<b>At 31 March</b>	<b>1,449</b>	<b>1,449</b>	<b>499</b>	<b>499</b>

### Deferrals

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. The estimated timings are:

	2016-17		2015-16	
	No	£000	No	£000
Due within 1 year	13	410	5	59
Due within 2-5 years	22	575	11	298
Due in more than 5 years	25	464	11	142
	60	1,449	27	499

### Enquiries

Revenue Scotland has the power to open an enquiry which can cover anything contained, or required to be contained, in a tax return relating to:

- Whether the taxpayer is liable to pay tax, and
- The amount of tax due.

The enquiry has to be closed within three years of the filing date of the tax return where the filing date for LBTT is 30 days after the effective date of the transaction and for SLfT is 44

days after the end of the relevant quarter. At the conclusion of the enquiry Revenue Scotland will advise the taxpayer of the outcome and whether an amendment to the tax return and/or the tax due is required. When the enquiry is completed and a closure notice issued, any additional tax is recognised in the financial statements at the date of closure.

Revenue Scotland has a number of open enquiries into LBTT and SLfT tax returns but management are of the opinion that:

- some of these enquiries are at an early stage and it is not yet possible to assess with certainty the possible amount of additional tax that may be due;
- to disclose values of possible additional tax in these circumstances, may prejudice the outcome of those enquiries.

For these reasons a value for contingent assets relating to enquiries has not been disclosed in these financial statements.

## **9 Contingent liabilities**

Property buyers who have included Additional Dwelling Supplement in their LBTT tax return are entitled to seek a repayment of the supplement if they meet certain criteria, including selling their previous main residence within 18 months of the purchase of their new property. When they submit a claim then this is recognised in the accounts in accordance with our accounting policy.

However where no such claim has been received there is not an “obligating event” in terms of *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets* and as a result any amounts that may be due to taxpayers are treated as a contingent liability.

Taxpayers are invited to indicate their intention to sell their previous main residence and seek repayment of ADS when submitting their tax return. Where taxpayers have indicated in their tax return that it is their intention to sell their previous main residence but have not done so by the end of the financial year and submitted a claim, then the total potential refund is disclosed as a contingent liability. For 2016-17 all such amounts of ADS total £18.3m. It should be noted that this is an indicative figure, based on the information received from taxpayers in their original tax return.

## 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 (FReM), 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



