

Revenue Scotland

Annual Report and Financial Statements
for the year ended 31 March 2018

Devolved Taxes Accounts

RS/2018/03



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

Laid before the Scottish Parliament by Revenue Scotland in pursuance of the Revenue Scotland and Tax Powers Act 2014 on 2 October 2018

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Foreword

Welcome to the Revenue Scotland *Annual Report and Financial Statements of the Devolved Taxes for 2017-18*. This is the third reporting year since the organisation began its operational activity in April 2015, and also the final reporting period of Revenue Scotland's 2015-18 corporate planning period.

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). 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 (RSTPA).

The organisation was created by the Revenue Scotland and Tax Powers Act 2014 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). This includes the regulatory functions of [the Scottish Landfill Communities Fund \(SLCF\)](#) – a tax credit scheme available to landfill operators. 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 revenues in line with the Fiscal Framework.¹

The format of this document and Revenue Scotland's *Annual Report and Financial Statements of the Resource Accounts for 2017-18* have changed from previous years to improve navigation.

This document sets out the financial information about the Devolved Taxes required under the terms of the revised [Accounts Direction](#) issued by Scottish Ministers (see page 27).

The *Annual Report and Financial Statements of the Resource Accounts for 2017-18*² provides detailed commentary on the performance of Revenue Scotland in delivering its statutory functions and also the performance of the devolved taxes.

This document includes Revenue Scotland's corporate governance arrangements and reporting for the Devolved Taxes Account, audit and risk arrangements, the Independent Auditor's report and the Financial Statements for the Devolved Taxes Account.

1 The Scottish Government Fiscal Framework governs how the Scottish Government is funded by the powers set out in the Scotland Act 2016 – <http://www.gov.scot/Topics/Government/Finance/fiscal-framework>.

2 <http://www.revenue.scot/about-us/publications/corporate-documents>

Foreword

Devolved Tax Revenue

These financial statements report income of £707m (2016-17: £633m).

Revenue net of repayments, excluding interest payable and revenue losses	2017-18 Tax, penalties and interest receivable Total £'000	2017-18 Budget Act Estimates Total £'000	2016-17 Tax, penalties and interest receivable Total £'000
Land and Buildings Transaction Tax	557,267	507,000	483,598
Scottish Landfill Tax	147,984	149,000	149,098
Penalties and interest	1,754	0	342
TOTAL	707,005	656,000	633,038

The values in the table above are for tax returns and amendments submitted during 2017-18 and adjusted for the value of LBTT and SLfT returns received during April and May 2018 which relate to the period up to the 31 March 2018. The returns submitted during 2017-18 may include adjustments to returns originally submitted in 2015-16 or 2016-17. However, unless these adjustments were received in April or May 2016 or 2017 respectively, and were therefore accrued into the financial statements of the relevant year, these are accounted for in the year of receipt.

The LBTT tax revenue raised in 2017-18 is dependent on performance of both the residential and non-residential property markets within Scotland. The SLfT tax revenue raised in 2017-18 is dependent on categories and tonnage of waste deposited in landfill sites in Scotland.

Revenue Scotland is not responsible for the forecasting of expected tax revenues. The Scottish Government was responsible for the production of Budget Act estimates for 2017-18. The Scottish Fiscal Commission became responsible for providing independent forecasts of tax revenue on 1 April 2017 and will provide forecasts for future years.

Accountability Report

Corporate Governance Report

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 as well as the state of affairs at the end of the financial year.

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

- observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the FReM 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 Chief Financial Officer on any aspects of the duties applying to Accountable Officers in the Scottish Administration. The Accountable Officer must consult the Chief Financial Officer 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 Scottish Ministers or a direction from the Board of Revenue Scotland.

Accountability Report

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 these annual report and accounts are 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 in relation to the devolved taxes.

Revenue Scotland is responsible for the administration and collection of the devolved taxes and the transfer of funds collected to the Scottish Consolidated Fund. 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;

Accountability Report

- receiving reports from the Audit and Risk and Staffing and 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;
- strategy development; and
- reviewing the annual reports and accounts and authorising the Accountable Officer to approve them.

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 executive. In addition to this, the Board has overseen other work including a review of the Revenue Scotland risk register, arrangements for governing the SLCF, the development of a new People Strategy, the procurement of a replacement SETS system and the three-year review of LBTT leases.

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 also reviewed the remit of both the Audit and Risk and Staffing and 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 including those related to revenues collected and paid over to the Scottish Consolidated fund. The Committee fulfils its role through:

- 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 and 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 including this Annual Report and Financial Statements.

Accountability Report

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.

Members of the committee are Lynn Bradley (Chair), Ian Tait and John Whiting. It is also attended by the Chief Executive, Head of Strategy and Corporate Functions, the Head of Tax, representatives of internal and external audit as well as other staff members as required. During the 2017-18 reporting period, Ian Tait stepped down from the Committee.

The committee met four times in 2017-18 (2016-17: five).

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

The terms of reference for the committee are published on Revenue Scotland's website (www.revenue.scot). More details about the work of this committee are available in Revenue Scotland's Annual Report and Financial Statements of the Resource Accounts 2017-18.

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 continues.

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 Information Asset Owners (IAO).

The SIRO role is to ensure information security policies and procedures are fit for purpose and are reviewed and implemented across all of Revenue Scotland's business functions. 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, 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.

Accountability Report

Revenue Scotland manages, maintains and protects all information according to the requirements of the Data Protection Act and other legislation, notably the RSTPA. The organisation also adheres to its own information policies and governance best practice.

During the year Revenue Scotland has reviewed its information handling processes to ensure compliance with the General Data Protection Regulations (GDPR) which came into effect on 25 May 2018.

There were no reportable instances identified during the reporting period.

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 and Risk Committee meetings during the reporting period.

During the year SGIAD reviewed:

- Performance reporting;
- Scottish Landfill Tax compliance; and
- Management of shared services.

Reports received in relation to these, and their overall annual report for the year, rated assurance as 'reasonable'. This is the second highest possible rating out of four Internal Audit Assurance Categories. This means that there were some weaknesses in risk, governance and/or control procedures but not of a significant nature.

SGIAD additionally carried out follow-up reviews on audits performed in 2016-17 and reported improvements in controls in:

- Budgetary management;
- Business continuity planning; and
- Land and Buildings Transaction Tax compliance.

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 and Risk Committee scrutinised Audit Scotland's audit plan and received regular updates from them.

Accountability Report

Internal Controls

Revenue Scotland has developed a system of internal controls and policies which have been designed to safeguard its assets and data, and ensure the reliability of financial records relating 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 and tested a range of key controls covering the main financial systems and followed up on matters raised in its 2016-17 Audit Report. Audit Scotland identified good progress had been made across a range of the matters raised. No significant control weaknesses were identified on the 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 2017-18.

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.

The First-tier Tribunal for Scotland and the Upper Tribunal for Scotland, collectively known as the Scottish Tribunals, provide an independent route for taxpayers to request a review, mediation or appeal a Revenue Scotland decision.

Revenue Scotland operates a complaints process for the services it provides. As with all public services in Scotland, complaints can be referred to the [Scottish Public Services Ombudsman](#) for independent investigation.

During the reporting period my formal engagement with the Scottish Parliament's Finance and Constitution Committee comprised a written submission for Stage 1 of the Air Departure Tax (Scotland) Bill and correspondence with the committee on preparations for Air Departure Tax.

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 in June 2015. A new corporate plan for 2018-21 was developed during the year. It was approved by Scottish Ministers and laid before the Scottish Parliament in April 2018.

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>.

Accountability Report

Assurances provided to the Chief Executive

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

Additionally I have received assurance from the Scottish Government's Chief Financial Officer in respect of the financial systems shared with Revenue Scotland, from the Scottish Government's Director for People in respect of the human resources and payroll systems shared with Revenue Scotland and from Scottish Government's Director of Digital in respect of digital corporate services shared with Revenue Scotland.

I have also sought and obtained assurance from the Director of Internal Audit in the light of a review of Scottish Government Internal Audit Directorate undertaken by Audit Scotland, which concluded that there were areas of non-compliance with Public Sector Internal Audit Standards, that reliance can be placed on the reports provided by Internal Audit for 2017/18. In addition, the Director of Internal Audit has also provided assurance as to the actions already underway and planned to ensure compliance with the full suite of professional standards expected of the function.

I have also received assurance from the Accountable Officers of Registers of Scotland and the Scottish Environment Protection Agency in respect of the duties delegated to them by Revenue Scotland.

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

Events after the Reporting Period

Between the end of the financial year and the date of signing these financial statements, Revenue Scotland concluded enquiries which resulted in the issuing of significant assessments of tax and penalties.

Further information is given in note 10 of the financial statements (page 26).

Further information

More information on the governance arrangements of Revenue Scotland, its Board and sub-committees, including the Framework Document - Agreement between the Scottish Ministers and Revenue Scotland, Revenue Scotland Standing Orders, a Scheme of Internal Delegation and other policies, can be found on the Revenue Scotland website (<https://www.revenue.scot/contact-us/freedom-information-guide/class-1-about-revenue-scotland>) and in the *Annual Report and Financial Statements of the Resource Accounts for 2017-18*.

Elaine Lorimer – Chief Executive of Revenue Scotland and Accountable Officer
12 September 2018

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 of Revenue Scotland (Devolved Taxes Account) for the year ended 31 March 2018 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. 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 2017/18 Government Financial Reporting Manual (the 2017/18 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 2018 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 2017/18 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 (UK) (ISAs (UK)). 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 Standard, 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.

Independent Auditor's Report

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the account has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

In preparing the financial statements, the Accountable Officer is responsible for using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit 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) 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report and financial statements

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.

Independent Auditor's Report

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and financial statements and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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 matters prescribed by the Auditor General for Scotland

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

- the information given in the Foreword 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.

Independent Auditor's Report

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
Audit Director
Audit Scotland
102 West Port
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13 September 2018

Devolved Taxes Account 2017-18: Financial Statements

Statement of Revenue and Expenditure

For the Year Ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Revenue			
Taxes			
Land & Buildings Transaction Tax	2.1	557,267	483,598
Scottish Landfill Tax	2.1	147,984	149,098
Total taxes		705,251	632,696
Penalties and interest			
Penalties	2.2	1,582	299
Interest	2.2	172	43
Total Penalties and interest		1,754	342
Total revenue		707,005	633,038
Expenditure			
Interest paid	3.1	(80)	(19)
Revenue losses	3.2	(561)	(24)
Total expenditure		(641)	(43)
Net revenue for the Scottish Consolidation Fund	7	706,364	632,995

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

The notes on pages 18 to 26 form part of these financial statements.

Devolved Taxes Account 2017-18: Financial Statements

Statement of Financial Position as at 31 March 2018

	Note	2017-18 £000	2016-17 £000
Current assets			
Receivables	4.1	10,491	7,635
Accrued revenue receivable	4.1	49,912	46,129
Cash	5	10,473	7,710
Total current assets		70,876	61,474
Current liabilities			
Payables	6	2,606	2,231
Deferred revenue	6	0	0
Total current liabilities		2,606	2,231
Net current assets		68,270	59,243
Total assets less current liabilities		68,270	59,243
Total net assets		68,270	59,243
Balance due to the Scottish Consolidated Fund	7	68,270	59,243

The notes on pages 18 to 26 form part of these financial statements.

The Chief Executive of Revenue Scotland and Accountable Officer authorised these financial statements for issue on 12 September 2018.

Elaine Lorimer – Chief Executive of Revenue Scotland and Accountable Officer

Devolved Taxes Account 2017-18: Financial Statements

Statement of Cash Flows For the year ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Net cash flow from operating activities	A below	700,100	634,917
Cash paid to Scottish Consolidated Fund		(697,337)	(636,239)
Increase/(Decrease) in cash in this period	B Below	2,763	(1,322)
Notes to the Statement of Cash Flows			
A Reconciliation of net cash flow to movement in net funds			
Net revenue for the Scottish Consolidated Fund	7	706,364	632,995
Decrease/(increase) in non cash assets		(6,639)	(280)
Increase/(decrease) in liabilities		375	2,202
Net cash flow from operating activities		700,100	634,917
B Analysis of changes in net funds			
(Decrease)/Increase in cash in this period		2,763	(1,322)
Net funds at 1 April		7,710	9,032
Net funds at 31 March	5	10,473	7,710

The notes on pages 18 to 26 form part of these financial statements

Devolved Taxes Account 2017-18: 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 2017-18 Government Financial Reporting Manual (FRoM), Section 8.2, issued by HM Treasury. The accounting policies contained in the FRoM 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 FRoM by the Financial Reporting Advisory Board (FRAB) and the impact has not been determined.

Devolved Taxes Account 2017-18: Financial Statements

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 and 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 and Scotland; and
- 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 uncollectable for reasons other than those shown above, this is recorded as an expense at the date of the decision.

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1.8 Receivables

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

2. Revenue and other income

2.1 Taxes

	2017-18 £000	2016-17 £000
Land & Buildings Transaction Tax		
Residential	258,386	213,816
Non-Residential	204,236	176,991
Additional Dwelling Supplement (ADS)	124,592	107,056
Repayment of ADS	(29,947)	(14,265)
Total Land & Buildings Transaction Tax	557,267	483,598
Scottish Landfill Tax	147,984	149,098
Total	705,251	632,696

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

Additional Dwelling Supplement (ADS) is payable on the purchase of additional residential properties in Scotland. 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.

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2.2 Penalties and interest

	Year of Offence	2017-18			2016-17		
		Penalty £000	Interest £000	Total £000	Penalty £000	Interest £000	Total £000
Land & Buildings Transaction Tax	2017-18	376	17	393	0	0	0
	2016-17	531	42	573	117	3	120
	2015-16	176	0	176	123	5	128
	Total	1,083	59	1,142	240	8	248
Scottish Landfill Tax	2017-18	121	20	141	0	0	0
	2016-17	3	93	96	12	2	14
	2015-16	375	0	375	47	33	80
	Total	499	113	612	59	35	94
Total penalties and interest		1,582	172	1,754	299	43	342

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 the late payment of tax returns or penalties.

3. Expenditure

3.1 Interest paid

	2017-18 £000	2016-17 £000
Land & Buildings Transaction Tax	77	19
Scottish Landfill Tax	3	0
Total Interest paid	80	19

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

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3.2 Revenue losses

	Debts written off £000	Increase in impairments £000	2017-18 Total £000	2016-17 Total £000
Land & Buildings Transaction Tax	0	21	21	24
Scottish Landfill Tax	0	540	540	0
Total	0	561	561	24

Revenue losses are made up of revenue write-offs and the movement in the impairment of receivables (Further information can be found in Note 4.2 Change to impairments).

Write-offs are debts that, after all reasonable action has been taken and following careful appraisal, have been considered to be irrecoverable.

4. Receivables

4.1 Amounts due:

	Receivables £000	Accrued Revenue Receivable £000	2017-18 Total £000	2016-17 Total £000
Land & Buildings Transaction Tax	7,794	14,096	21,890	18,223
Scottish Landfill Tax	3,301	35,816	39,117	35,584
Totals before impairments	11,095	49,912	61,007	53,807
Less impairments (see note 4.2)	(604)	0	(604)	(43)
Total	10,491	49,912	60,403	53,764

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.

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4.2 Change to impairments:

	2017-18 £000	2016-17 £000
Balance at 1 April	43	24
Change in estimated value of impairments	561	19
Balance at 31 March	604	43

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. The estimate is based on a number of factors including where legal action has been initiated.

5. Cash

	2017-18 Total £000	2016-17 Total £000
Government Banking Service	6,960	4,172
Commercial Bank	3,513	3,538
Balance at 31 March	10,473	7,710

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 2018 and which were paid over during 2018-19.

6. Payables

	Revenue Payable £000	Deferred Revenue £000	2017-18 Total £000	2016-17 Total £000
Land & Buildings Transaction Tax	2,500	0	2,500	1,518
Scottish Landfill Tax	106	0	106	713
Total	2,606	0	2,606	2,231

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.

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7. Balance due to the Scottish Consolidated Fund Account

	2017-18 £000	2016-17 £000
Balance due to Scottish Consolidated Fund Account at 1 April	59,243	62,487
Net Revenue for the Scottish Consolidated Fund	706,364	632,995
Less amount paid to Scottish Consolidated Fund	(697,337)	(636,239)
Balance due to the Scottish Consolidated Fund Accounts as 31 March	68,270	59,243

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.

	2017-18		2016-17	
	LBTT Deferrals £000	Total £000	LBTT Deferrals £000	Total £000
At 1 April	1,449	1,449	499	499
Additions	626	626	997	997
Amounts not materialising	0	0	(4)	(4)
Amounts materialised	0	0	(43)	(43)
As 31 March	2,075	2,075	1,449	1,449

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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:

	2017-18		2016-17	
	No	£000	No	£000
Due within 1 year	25	582	13	410
Due within 2-5 years	41	658	22	575
Due in more than 5 years	36	835	25	464
	102	2,075	60	1,449

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.

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9. Contingent liabilities

9.1 Additional Dwelling Supplement

Property buyers who have included ADS 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 2017-18 all such amounts of ADS total £29m (2016-17: £18.3m). It should be noted that this is an indicative figure, based on the information received from taxpayers in their tax return.

9.2 Disputes

As reported in the Annual Report and Financial Statements of the Resource Accounts for 2017-18, those aggrieved by an appealable decision made by Revenue Scotland may dispute that decision by requesting that Revenue Scotland carry out a review and/or by making an appeal to the Tax Chamber of the First-tier Tribunal for Scotland (FTTS). Mediation may also be entered into at any time.

At 31 March 2018, decisions were awaited in four appeals and applications lodged for permission to appeal two decisions made by the FTTS. There is a possibility that Revenue Scotland may be required, as a result of tax disputes, to refund tax, penalties and/or interest which has been recognised in these or prior year financial statements. With all disputes there will be uncertainty as to the outcome, however Revenue Scotland believes that it has a strong position. There are no individual cases where the amounts involved are estimated to be material.

10. Events after the Reporting Period

Revenue Scotland undertakes compliance activity to ensure that taxpayers pay the correct amount of tax. Revenue Scotland has the powers under the Revenue Scotland and Tax Powers Act 2014 to undertake formal enquiries and issue assessments and penalties for unpaid tax. Revenue Scotland concluded enquiries between the end of the financial year and the date of approving these accounts which resulted in the issuing of significant assessments and penalties. Any revenues that arise from these enquiries would be recognised in future years.

Further information on the nature and value of these assessments and penalties cannot be disclosed as to do so may result in the disclosure of protected taxpayer information.



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 2018, 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 Scottish Consolidated Fund in accordance with the Revenue Scotland and Tax Powers Act 2014.
2. The account shall comply with the relevant accounting principles and disclosure requirements, as specified in chapter 8.2 of the Government Financial Reporting Manual (FRM) which is in force for the year for which the account is prepared.
3. The account shall comprise:
 - A Foreword - explaining the statutory background and respective responsibilities of Scottish Ministers, Revenue Scotland etc. in relation to the Devolved Taxes.
 - An Accountability report:
 - a statement of the Accountable Officer's responsibilities in relation to the account
 - a Governance Statement setting out the framework for the Devolved Taxes as this relates to their payment into the Scottish Consolidated Fund. This may link to, but need not repeat, Revenue Scotland's Governance statement dealing with the wider operation of the systems for the taxes.
 - Financial Statements:
 - A statement of revenue and related expenditure
 - A Statement of Financial Position
 - A Statement of Cash Flows
 - And such notes to the account as may be necessary.
4. 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.
5. This direction shall be reproduced as an appendix to the accounts.

Signed by the authority of the Scottish Ministers

Chief Financial Officer

Dated 24 April 2018

