TAX CHANGES – FACT SHEET

Scotland is set to establish its **first tax collection system in 300 years.**

This follows changes brought in by the **Scotland Act 2012 and new tax Acts passed by the Scottish Parliament.**

The two taxes devolved to Scotland are: the **Land and Buildings Transaction Tax** and the **Scottish Landfill Tax**.

They will replace the existing Stamp Duty Land Tax and Landfill Tax and start on **April 1, 2015.**

Revenue Scotland will be responsible for collecting and managing the two devolved taxes, working closely with Registers of Scotland (RoS) to prepare for Land and Buildings Transaction Tax and with the Scottish Environment Protection Agency (SEPA) on Scottish Landfill Tax.

The two taxes are expected to bring in between **£500 and £600 million each year.** Scotland's block grant will be adjusted to recognise that these tax receipts will flow directly to Holyrood and not to the Treasury in London.

Proposals for the first devolved tax rates will be **laid before the Scottish Parliament on October 9** as part of the annual Draft Budget process, so that Parliament can discuss and scrutinise the Government's proposals.

Land and Buildings Transaction Tax:

- This is the tax you pay when you buy property that is worth more than the tax-free threshold. It replaces Stamp Duty Land Tax.

- It will be collected by Revenue Scotland and paid in the same way as Stamp Duty – usually through a solicitor.

- **Stamp Duty Land Tax is calculated in 'slabs'** causing unfair tax hikes at set property prices. Many people in who work in finance and property say the old tax distorts the market. It can also lead people to try to avoid tax.

- For example – under Stamp Duty, the tax due on buying a house for £240,000 is £2,400, but on a house costing £260,000 the tax due is £7,800 - that's an increase of 225% in tax, even though the house price has increased by only 8%.

- This distorts the market and lots of properties are marketed just below the 'slab' thresholds.

- **The Scottish tax will be more proportionate to the house price** to make sure that the tax paid is directly related to the value of the property.

- This means that only the proportion of the price above each tax threshold will be taxed at the next rate, rather than the whole purchase price as is the case under Stamp Duty Land Tax.

- For example if the bands were the same as under Stamp Duty only the portion above £125,000 would be taxed at that level and then only the portion above £250,000 would be taxed at a higher rate.

- This will mean that **the tax is fairer as it is based more closely on the buyer's ability to pay.**

- There will be a tax-free threshold below which house buyers won't need to pay any tax – Stamp Duty Land Tax has a threshold of £125,000. **This helps first time buyers and people who are less able to afford the tax.** The proposed tax-free threshold for Land and Buildings Transaction Tax will be announced on 9 October, alongside tax rates.

Scottish Landfill Tax:

- Will be paid by companies and local authorities when they dispose of waste material to landfill, as is the case with UK Landfill Tax at present.

- Landfill has **environmental impacts and this tax helps to compensate for these.**

- The tax also encourages companies and local authorities to dispose of waste other than to landfill – the Scottish Government has a zero waste goal that by 2025 no more than 5% of total waste should go to landfill.

- Scottish Landfill Tax applies to illegal dumping, allowing Revenue Scotland and the Scottish Environment Protection Agency to **collect tax from people who dump illegally.** The UK tax does not allow for this.

- Companies due to pay Landfill Tax can offset some of their tax bill by giving money to a Scottish Landfill Communities Fund. **The Fund will support environmental and other community projects around Scotland.** There is a similar UK fund - the Scottish fund will be proportionately larger.

Scotland's Block Grant

- Scotland receives most of the funding needed to support public spending through the Scottish block grant. Scottish tax receipts are collected in London together with all UK taxes, and the block grant is then paid out to Scotland.

- From April 2015, between £500m and £600m a year of tax income from Scotland will stay here and be used to fund public spending. Because the Treasury won't receive this money, they will make a deduction from the Scottish block grant.

- The deduction is expected to be similar to the expected tax receipts – so there should not be a significant gain or loss for public spending in Scotland.