

By email: covidrecoveryconsultation@gov.scot

October 2020

BUDGET 2021-22: SUPPORTING THE COVID-19 RECOVERY: SCOTLAND'S TAXES AND FISCAL FRAMEWORK

Introduction

1. The Scottish Property Federation (SPF) is the voice for the property industry in Scotland. We include among our members: property investors, including major institutional pension and life funds; developers; landlords of commercial and residential property; and professional property consultants and advisers.

Key Interest

- **We welcome the opportunity to comment on the role of Scotland's devolved taxes and fiscal framework in supporting the economic recovery from COVID-19. The real estate sector is a key catalyst for jobs, investment and creating places to support the economic recovery. Research by the Fraser of Allander Institute shows that for every £100m of new demand for commercial property, the sector creates an additional £73m for the wider Scottish economy. With this far-reaching impact, the sector has a pivotal role to play in supporting recovery across the length and breadth of Scotland in existing and new projects.**

General Comments

2. Although the media have suggested an increase in residential property transactions, perhaps reflecting pent-up demand after the lockdown on house moves, there should be no doubting the impact of Covid-19 on the whole of the property sector. Commercial property companies have seen their rental revenue denied and, in most cases, have sought to endure this drop in income without any level of support. Indeed, commercial landlords have offered significant support to their tenant customers. At the same time, they have faced the penalty of empty property rates despite financially supporting businesses during widespread market failure in the commercial property sector.
3. We believe that Scotland could achieve a much more efficient and integrated property market data system to underpin property-based taxation. Currently the Scottish Assessors produce valuations on the NDR valuation roll, which will move to a three-yearly system. A separate transactions-based database of LBTT and ADS returns is retained by Revenue Scotland, including lease transactions. Indeed, Revenue Scotland are also responsible for enforcing three-yearly

LBTT commercial leases reassessments by taxpayers. The retention of separate authorities to collect similar commercial rental information feels to us to be a missed opportunity for Scotland to find efficiencies in its taxation assessment and collection processes.

4. Governments at all levels will also need to adapt their approaches to raising tax revenue. We should anticipate a need for less focus on property-based taxation. Business rates are an obvious candidate for review, but also transaction-based taxes should be reconsidered. Inevitably if we see reduced use and demand for commercial property then this will have an impact on its value, which in turn will have an effect on its rateable value. Similarly, if the residential markets are less active then we may see a significant drop in LBTT based revenues.

Business Rates

5. We acknowledge and welcome the unprecedented level of government support provided to businesses generally during the pandemic emergency. The scale of support provided to businesses via the grants based on non-domestic rates eligibility and the speed with which this support was provided was hugely significant. However, some parts of the business community were not directly supported or were frustrated in their attempts to secure support. Property businesses based on rental income were frustrated from UK supported loans due to not being deemed 'trading businesses' and with a reference date of 17 March some of our members reported that because the valuation roll was not up to date, some businesses were denied grant funding that they might otherwise have secured because the valuation roll was not up to date at that point in time.
6. Our members suggest the implementation of a revaluation cycle that will more closely reflect the commercial property rental market of the day. Of the nominal rateable value across Scotland, the retail sector accounts for at least £1.6bn. The continuing pressures on the retail sector which are seeing larger properties made empty and often in administration, could have significant implications for the non-domestic rates revenue in Scotland in the next series of revaluations.
7. The Scottish Property Federation welcomed a step towards reducing the large business supplement on business rates, as announced in the draft Scottish Budget 2020–21, but would like to see further action to attain parity with the rest of the UK. The decision to reduce business rates burdens for 9,500 ratepayers in Scotland was a welcome step towards meeting the Barclay Review's recommendation on the large business supplement. However, a full realignment with the rest of the UK is needed to reduce the current disadvantage faced by some Scottish ratepayers.

Land and Buildings Transactions Tax

8. Our members welcomed the positive support for residential markets in England and Northern Ireland with the increase in the SDLT threshold to £500k. The SPF encourages the Scottish Government to take similar bold steps with LBTT to support the Scottish economic recovery and allow the industry to remain competitive.
9. It is important that the Scottish Government continues to its support for the market and does not reduce the LBTT threshold. Despite recovering from the record lows of April 2020, residential LBTT returns continued to be significantly lower in August 2020 than in previous years, according to data from Revenue Scotland. There were 6,480 residential LBTT returns during the month, down from 10,150 returns in August 2019 and the previous five-year average for the month of 9,860 (2015-2019). This shows that the market activity is still feeling the effects of the coronavirus and the knock-on impact that this has had on confidence.
10. In addition, while the trajectory of residential LBTT returns by week looks to be normalising (based on Revenue Scotland's LBTT data release for August), this is on the back of a period of significantly lower activity. At the end of August, receipts this tax year were £68.7m (56%) lower than over the same period in 2019/20, while the number of residential LBTT returns were 54% lower.
11. There are also significant economic headwinds facing Scotland's economy and the effects of the recession is likely to be felt more profoundly in the months ahead. It is important, therefore, that the Scottish Government does not increase the LBTT burden on residential purchases and that it maintains a close watch on how wider economic factors are impacting on the market when deciding its LBTT rates and thresholds.

Contact: Robin Blacklock
Executive Chair
Scottish Property Federation
Tel:
E-mail: Robin.Blacklock@bpf.org.uk