

## SCOTTISH PARLIAMENT FINANCE COMMITTEE

### AIR DEPARTURE TAX WRITTEN EVIDENCE - RESPONSE FROM REVENUE SCOTLAND FEBRUARY 2017

#### Revenue Scotland

Revenue Scotland welcomes the opportunity to contribute to the Finance Committee's call for evidence on the Air Departure Tax (Scotland) Bill.

Revenue Scotland is the tax authority responsible for the collection and management of the fully devolved taxes, currently comprising Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT). These taxes came into effect on 1 April 2015, replacing their UK equivalents (Stamp Duty Land Tax and UK Landfill Tax respectively). We will also be responsible for the collection and management of Scotland's third devolved tax, Air Departure Tax (ADT) which will replace UK Air Passenger Duty, from 1 April 2018.

Revenue Scotland was established by the Revenue Scotland and Tax Powers Act 2014 (RSTPA 2014) as a Non-Ministerial Department (NMD) on 1 January 2015. As an NMD, governed by a Board, Revenue Scotland is part of the Scottish Administration, accountable to Parliament to ensure that the collection and management of the devolved taxes is independent, fair and impartial. Revenue Scotland is not involved in tax policy issues such as the setting of tax rates and bands or the forecasting of tax revenues, which are the responsibility of the Scottish Government. In that context, this response to the Committee's call for evidence focuses primarily on the proposed administrative arrangements for the collection and management of the tax.

#### Background - Revenue Scotland's approach to tax administration

The Committee will be aware of the four 'Adam Smith principles' of taxation (certainty, efficiency, convenience and taxes that are proportionate to the ability to pay) upon which Revenue Scotland forms the basis of its approach to the collection and management of the taxes for which it is responsible. In addition to the adoption of the four Adam Smith principles, Revenue Scotland's commitment to a digital approach for the collection of tax, and a strong commitment to work collaboratively with stakeholders have shaped the design and delivery of taxes we collect and manage. This proven approach has been instrumental in Revenue Scotland's successful launch and operation to date.

The implementation of the first two devolved taxes demonstrated the benefits of close working of all those with an interest, including the Scottish Parliament, Scottish Government, Revenue Scotland and other stakeholders. Revenue Scotland has sought to ensure that the learning from the experience of the first two devolved taxes is being applied by those involved in ADT.

## **Work to date**

### **Revenue Scotland's Involvement in the Bill process**

It is important for a tax authority to have provisions in the relevant legislation that are clearly drafted and provide a framework for effective and efficient management and administration. Revenue Scotland has therefore liaised closely with Scottish Government officials to understand the proposals for ADT, starting with informal discussions in late 2015, and thereafter, more formally on the development of the consultation paper and proposals for the legislation. This has included providing a member of staff to the Bill team on secondment to make operational tax experience available to policy officials directly.

Revenue Scotland's primary interest is focused on the arrangements for payment, collection and management of the tax, which are set out in Part 4 of the Bill. In recent months, we have engaged extensively with the Bill team and our contribution to the development of the provisions in Part 4 has been informed by our engagement with colleagues in HMRC and workshops held with aircraft operators.

### **Exploring tax collection options - development of the Business Case for ADT**

To inform the approach to collecting the tax, over the summer of 2016, Revenue Scotland prepared a Business Case which examined the benefits, costs and risks associated with different tax collection options. This included consultation with Scottish Government, Transport Scotland and HMRC officials and workshops with aircraft operators. The tax collection options considered were:

- i. Paper returns; tax collected by Revenue Scotland
- ii. Online returns via Revenue Scotland's SETS platform
- iii. Online returns via bespoke IT platform
- iv. Delegate tax collection to a third party

The analysis in the Business Case assumes that the tax will be charged to aircraft operators and applied on a per passenger basis in tax bands, with different tax rates applicable to different categories of travel.

From our engagement with aircraft operators it was clear that there was strong support for a digital solution, consistent with the administration of the other devolved taxes. Until very recently, the UK Air Passenger Duty returns process was entirely paper-based and aircraft operators highlighted the benefits that an online system could bring.

Based on our analysis of the costs, benefits and risks associated with each of the collection options, it was clear that the preferred option for the collection of ADT should be a system of online returns. The analysis set out in the Business Case concluded that the preferred option to deliver an online solution was to use Revenue Scotland's existing IT platform for the devolved taxes, SETS. Since it was made available to users, the SETS platform has proved to be stable and secure. In the first year of operation, it handled around 115,000

LBTT and SLfT returns, and was available online for 99.97% of the time. It has to date experienced no security breaches.

An online system will provide an efficient and convenient method of registration and making returns, particularly for those aircraft operators whose administrative operations are based outside Scotland. In addition, Revenue Scotland will make downloadable registration and tax return forms available on its website. For the purposes of registering ADT taxpayers, Revenue Scotland will seek to replicate the approach to the registration of taxpayers for SLfT.

The work to develop the IT solution for ADT will primarily involve the creation of an ADT module on the existing SETS platform. The costs for developing the SETS platform solution are therefore relatively low because there would be no need to develop certain functionality that would be needed on a bespoke IT system such as security measures, user accounts, secure messaging and other systems. Revenue Scotland's assessment of the setup and running costs associated with ADT are incorporated in Part B of the Financial Memorandum accompanying the Bill.

### **Establishing an implementation programme**

Given the scale of the task to deliver the systems, processes and other requirements for ADT and in line with our previous experience of successfully implementing the devolved taxes Revenue Scotland has established a programme of activity that consists of four key projects as follows:

- Operational Design Project – which develops the operational requirements, compliance requirements, and supporting guidance to inform the training and resourcing needed to successfully administer the tax from 1 April 2018.
- ICT Project – which defines and delivers the ICT requirements for the registration of aircraft operators and the SETS platform for returns and payments along with the supporting management information and finance processes.
- Communications and Engagement Project – which supports the overall project delivery, with appropriate and effective channels of stakeholder engagement over the various phases of delivery.
- Transition and Programme Management Project – which supports the governance and assurance arrangements for the programme, develops Memoranda of Understanding with partner organisations, co-ordinates the core programme documentation and provides Secretariat to the Programme Board.

The programme is accountable to the Chief Executive who has the role of Senior Responsible Officer (SRO). A Programme Board, chaired by the SRO, has been established to provide governance for the programme and includes the programme manager, Head of Tax (who has the role of senior business user), representatives from HMRC, Transport Scotland Aviation Division, Scottish Government's Fiscal Responsibility Division and an independent

member with programme assurance experience. Gateway Review assessments are scheduled at key points in the programme to provide independent assurance to the SRO that the work is appropriately scoped and resourced to be delivered on time.

The programme will continue the collaborative approach adopted for the successful design and implementation of the first two devolved taxes. Revenue Scotland will work closely with aircraft operators and other stakeholders, for example, to inform the design of our processes, user testing on ICT systems and to review draft guidance. This will help to ensure that there is a smooth transition from UK Air Passenger Duty to ADT in Scotland.

## **Key operational matters**

Aircraft operators, which form the taxpayer base for ADT, generally fall into two broad groups. The larger airlines which operate scheduled flights (i.e. whose flights are planned for a certain time and date) are likely to make quarterly returns and payments. This differs from the arrangements aircraft operators will be familiar with under UK Air Passenger Duty, where monthly returns are required. Revenue Scotland supports the change to quarterly returns as it reduces the number of returns and therefore the administrative burden for aircraft operators and Revenue Scotland alike. To assist with our analysis for compliance purposes, our intention is to require monthly data (which is the same requirement as UK Air Passenger Duty) on quarterly returns.

For the second group of aircraft operators, which make irregular flights from Scotland and with an estimated tax liability of less than £5,000 per annum, the Bill provides for a 'pay as you fly' option. This arrangement allows for the making of occasional returns, which must be submitted within 7 days of the date of the flight.

It is anticipated that most aircraft operators will use the online tax return form on SETS to make returns but we will make a manual return form available for download and posting for those who prefer that approach. In addition to the electronic payment options and payments by cheque available for the first two devolved taxes, we intend to introduce the option to pay by debit and credit cards. This could be of benefit to aircraft operators making occasional returns, who already make payments for fuel and other airport charges this way.

Although each of the aircraft operators registered for ADT will operate flights from Scottish airports, it is likely that very few will be based in Scotland. The Bill requires that aircraft operators without a fixed base within the European Economic Area (EEA) must appoint a fiscal representative. The equivalent provision under UK Air Passenger Duty requires that aircraft operators with no fixed base in the UK must appoint a fiscal representative.

As the fiscal representatives for ADT may be based anywhere within the EEA, this arrangement will have implications for debt recovery and require us to communicate across wider geographical boundaries than has been the case with the other taxes we collect and manage. We are mindful therefore, of the need to ensure that our communications with taxpayers and representatives (including those overseas) are clear at the outset in explaining the responsibilities and obligations in relation to the tax. We are also aware that

the management of the tax may be more challenging given the potential for language barriers working with aircraft operators located across the EEA.

In order to protect the revenue, much of the work by Revenue Scotland's ADT team will be focused on compliance activity. Recruitment for these roles will be on a phased basis, prior to introduction of the tax.

## **Next steps**

Work is now underway to implement ADT. The current focus is on identifying the business requirements for the registration process and returns process. Two workshops with aircraft operators are being held in late February to discuss registration and returns processes and user requirements. Thereafter we will prepare the specification for the build of the SETS platform and following the completion of the Bill process, we will involve aircraft operators and other stakeholders in user testing and reviewing guidance.

Following an initial programme planning phase to establish the governance and assurance arrangements, the Programme Board has met twice to date to review programme documentation and has scheduled the first Gateway Review exercise for early March 2017.

The registration process is expected to start in February 2018, the tax itself goes live on 1 April 2018, with tax returns and payments start to be made by occasional operators. The first quarterly returns and tax payments due from 1 July 2018.

## **For further information please contact:**

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