

Supplementary Note: Costing the new non-residential leases tax band for Land and Buildings Transaction Tax (LBTT)

This note sets out some additional detail to our policy costing published in Annex A of our February 2020 forecast publication.¹ Specifically, we set out our static and behavioural costings and our estimates of the number of non-residential lease transactions that will fall into the new tax band.

Table 1: Changes in non-residential LBTT revenue since December 2018

£ million	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
December 2018	208	226	233	240	247	255
Prices		2	0	0	0	1
Transactions		-1	-1	-1	-1	-1
Data	-15	-37	-31	-31	-32	-33
Other	0	1	-3	-3	-3	-3
February 2020 pre-measures	193	190	199	205	211	219
Policy costing		2	10	11	11	11
February 2020 post-measures	193	191	209	216	222	230
Change since December 2018	-15	-34	-24	-24	-25	-25

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts December 2018 ([link](#)), Revenue Scotland (2019) Annual Report and Accounts for the year ended 31 March 2019 ([link](#)).

Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication.

Methodology

The approach is based on the most recent data for the distribution of lease transactions by rental net present value (NPV). The forecast determinants used to grow average NPV and the number of transactions are the same as those in the main non-residential model for conveyances.

Policy costing

The Scottish Government announced the introduction of a new tax band for non-residential leases. Leases where the NPV of the rent is above £2 million will be charged at a 2 per cent rate, instead of 1 per cent, for the portion of the value of the lease that is above the threshold. The policy took effect as of midnight on 7 February 2020.²

¹ Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 ([link](#))

² Revenue Scotland (2020) LBTT6013 – Tax rates and bands ([link](#))

The policy change is expected to increase non-residential LBTT by £10 million in 2020-21. Table 2 shows a breakdown of the policy costing, where the static change refers to the application of the new tax system. The effect of changes in taxpayer behaviour as a result of the rate increase, using the OBR semi-elasticities for non-residential prices and transactions, has also been accounted for. As highlighted in Annex A of our main publication, this behavioural estimate is subject to a high degree of uncertainty. The 2019-20 figure of £2 million reflects the fact that the policy change takes effect with only two months left to go in the financial year.

Table 2: Breakdown of policy costing

£ million	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Policy costing, of which	2	10	11	11	11	12
Static	2	11	12	12	13	13
Behavioural	0	-1	-1	-1	-1	-1

Source: Scottish Fiscal Commission

We forecast 284 transactions will fall into the new tax band in 2020-21. This is around 5 per cent of the total number of leases. In 2020-21, it is estimated that fewer than 10 transactions will be lost as a result of taxpayer behaviour in response to the change in the tax system. Table 3 has the forecast number of transactions after accounting for this behavioural response.

Table 3: Forecast of lease transactions by rental net present value band

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
£0-£150k	2,090	2,530	2,559	2,588	2,617	2,648	2,679
£150k-£1m	2,520	2,443	2,470	2,499	2,527	2,557	2,587
£1m-£2m	270	265	268	271	274	277	281
>£2m	280	281	284	287	290	293	297

Source: Scottish Fiscal Commission, Revenue Scotland.