

# **GOVERNMENT EXPENDITURE AND REVENUE SCOTLAND**

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## **DETAILED REVENUE METHODOLOGY PAPER 2007-08**

This paper outlines the various methodologies used to obtain estimates of public sector revenues in Scotland. As the issue of North Sea revenue is discussed extensively in Chapter 5 of GERS, this paper focuses on the other public sector revenues.

In contrast to public sector expenditures, there is no generic best approach to estimating public sector revenue; instead each revenue is estimated using a separate methodology. This paper discusses the methodology used to apportion a share of each revenue stream to Scotland and highlights any significant changes which have been introduced in this edition of GERS. It should be noted that, as the underlying datasets used in GERS have been subject to revisions and updates, estimates may differ from previous editions of GERS even if the methodology remains unchanged.

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## Methodology Overview

As highlighted in Chapter 4, the vast majority of public sector receipts raised in Scotland are collected at the UK level by HM Revenue and Customs.

In some cases, revenue figures can be obtained for Scotland directly. Examples include local government revenues and particular elements of public corporation revenues. Such taxes are the exception and separate identification of most other revenues for Scotland is not possible. GERS therefore uses a number of different methodologies to apportion tax revenues to Scotland. In doing so, there are often theoretical and practical challenges in determining an appropriate share to allocate to Scotland. In certain cases, a variety of alternative methodologies could be applied each leading to different estimates.

Obtaining an estimate of public sector revenues in Scotland is a two-stage process.

In the first stage, the UK outturn figure for each stream of revenue is obtained from ONS Public Sector Finance Statistics. In the second stage, Scotland's share of the UK figure is estimated according to a specific apportionment methodology. The methodology used differs for each element of revenue. However, in general, the information comes from survey data for the UK.

## UK Revenue Figures

The starting point for estimating public sector revenue for Scotland is National Statistics outturn figures for UK fiscal revenue taken from ONS Public Sector Finance Statistics.

The detailed components, revenue by revenue, are taken from an ONS database which is consistent with both the totals published in the Public Sector Finances and the figures published in table PSAT2 of Public Sector Accounts. PSAT2 is HM Treasury's preferred presentation of revenues, shown in Tables 21 and 22 of the Supplementary Material to Budget 2009<sup>1</sup>, and underlies the main tables in the Budget.

These data are on an accruals basis and separately identify revenue attributed to central government, local government and public corporations. The international standards for National Accounts and Government Finance Statistics use the accruals basis rather than a cash approach. This is because accruals accounting reflects a more accurate picture of when revenue is due and spending occurs than the more volatile alternative of cash, which, for example, records when bills are settled rather than when the expenditure occurs.

The revenue figures used in GERS are taken from published outturns as at February 2009, consistent with those used for Budget 2009<sup>2</sup>.

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<sup>1</sup> Budget 2009: The Economy and Public Finances - Supplementary Material  
[http://www.hm-treasury.gov.uk/d/Budget2009/bud09\\_econfinances\\_968.pdf](http://www.hm-treasury.gov.uk/d/Budget2009/bud09_econfinances_968.pdf)

<sup>2</sup> The latest Public Sector Finances database is available from  
[http://www.statistics.gov.uk/downloads/theme\\_economy/PSF\\_Supplementary\\_Data.xls](http://www.statistics.gov.uk/downloads/theme_economy/PSF_Supplementary_Data.xls). As this database is updated monthly, figures contained in the more recent data releases will differ from those used for the purposes of this report

It should be noted that UK figures for individual revenues presented in GERS 2007-08 may differ from other publications as, on certain occasions, figures are presented on a cash rather than an accruals basis. For example, Table C6 of Budget 2009 shows types of tax on a cash basis. However, to be consistent with the presentation throughout GERS and international standards, the equivalent table to C6 is presented in GERS on an accruals basis.

The treatment of tax credits and EU revenue in GERS follows international standards for National Accounts and is different from Table C6 of Budget 2009. Revenue raised for the EU (on VAT, import levies and sugar levy) is not shown as public sector revenue, instead it is considered to be paid directly to the EU, even though the UK Government may act as an intermediary in the process between the taxpayer and the EU.<sup>3</sup>

The assumptions underpinning the apportionment of each revenue source are outlined below.

### Summary of Changes

Table A.1 provides a summary of the apportionment methodologies used for each element of revenue and highlights whether or not there has been any change in methodology since the previous edition of GERS. Some of these revisions have been relatively minor. Further details of the revisions from previous publications can be found in relevant revenue discussion.

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<sup>3</sup> Tables which show revenues on a cash basis, e.g. Table C6 of Budget 2009 and the revenue tables in editions of GERS prior to the 2006-2007 edition, identify EU revenues. However, these tables also include a negative entry (either separately or in 'other revenue') for contributions to EU budget. The net effect is zero revenue to the UK and is therefore consistent with the approach taken in GERS.

**Table A.1: Apportionment Methodologies and Sources for Public Sector Revenue in Scotland (Excluding North Sea Revenue)**

| Revenue                           | Apportionment Methodology                                                                                                                                                                                                                                                                                   | Source                                                                                               | Revised |
|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|---------|
| Income tax                        | Scottish share of UK income tax liabilities applied to income tax gross of tax credits. Negative expenditure on tax credits estimated using Scot/UK share of overall spend on tax credits (negative tax plus benefits)                                                                                      | Survey of Personal Income (SPI): HMRC<br>Data on overall spend on tax credits: HMRC                  | Yes     |
| Corporation tax (excl. North Sea) | Scotland's share of profits (less holding gains) of UK corporations                                                                                                                                                                                                                                         | Regional Accounts: ONS                                                                               | No      |
| Capital gains tax                 | Actual outturns for Scotland                                                                                                                                                                                                                                                                                | Supplied directly by HMRC                                                                            | Yes     |
| Other taxes on income and wealth  | Various (see web appendix)                                                                                                                                                                                                                                                                                  | Various (see web appendix)                                                                           | No      |
| National insurance contributions  | Estimates of employer, employee, class 2 and class 3 NIC revenue in UK and Scotland                                                                                                                                                                                                                         | Supplied directly by HMRC                                                                            | Yes     |
| VAT                               | VAT net of LG and CG refunds: Scotland's share of UK household VAT expenditure<br>LG refunds: Scotland's share of UK LG expenditure on goods and services<br>CG Refunds – MOD: Scotland/UK populations<br>– NHS: Scotland/UK TES for Health<br>– Other Gov depts: Scotland/UK total TES (Excluding NHS/MOD) | Expenditure and Food Survey: ONS<br>Public Sector Finances: ONS<br>ONS and GROS<br>PESA<br>PESA      | Yes     |
| Fuel duties                       | Scotland's share of road traffic fuel consumption                                                                                                                                                                                                                                                           | Fuel consumption statistics: BERR                                                                    | No      |
| Stamp duties                      | Land and property stamp duty: Actual outturns for Scotland<br>Stocks and shares: - Scotland/UK ratio of adults owning shares                                                                                                                                                                                | Land and property stamp duty: HMRC<br>Stocks and shares: Family Resources Survey (DWP)               | No      |
| Tobacco duties                    | Spend on tobacco in Scotland/UK                                                                                                                                                                                                                                                                             | Expenditure and Food Survey : ONS                                                                    | No      |
| Alcohol duties                    | Spend on alcohol in Scotland/UK                                                                                                                                                                                                                                                                             | Expenditure and Food Survey : ONS                                                                    | No      |
| Betting and gaming duties         | Spend on betting and gaming in Scotland/UK                                                                                                                                                                                                                                                                  | Expenditure and Food Survey : ONS                                                                    | No      |
| Air passenger duty                | Scotland/UK population                                                                                                                                                                                                                                                                                      | ONS and GROS                                                                                         | No      |
| Insurance premium tax             | Scotland/UK population                                                                                                                                                                                                                                                                                      | ONS and GROS                                                                                         | No      |
| Landfill tax                      | Scotland's share of UK tonnage of waste sent to landfill                                                                                                                                                                                                                                                    | Scottish Environment Protection Agency, Environment Agency, Dept. of Environment in Northern Ireland | No      |
| Climate change levy               | Electricity: Scotland's share of UK electricity consumption by commercial and industrial users<br>Gas: Scotland's share of UK gas sales to commercial and industrial users<br>Solid and other fuels: Scotland's share of UK (less extra-regio) GVA                                                          | Electricity: BERR<br>Gas: BERR<br>Solid and other fuels: Regional Accounts: ONS                      | Yes     |
| Aggregates levy                   | Scotland's share of UK's aggregate production                                                                                                                                                                                                                                                               | United Kingdom Minerals Yearbook 2007: British Geological Survey                                     | No      |
| Inheritance tax                   | Actual outturns for Scotland                                                                                                                                                                                                                                                                                | Supplied directly by HMRC                                                                            | No      |

**Table A.1: Apportionment Methodologies and Sources for Public Sector Revenue in Scotland (Excluding North Sea Revenue) (Cont)**

|                                                                             |                                                                                                                                                                                                                                                                             |                                                                                                                                                             |     |
|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Vehicle excise duty                                                         | Scotland's share of total value of UK vehicle licences issued (less refunds)                                                                                                                                                                                                | DVLA                                                                                                                                                        | No  |
| Non-domestic rates                                                          | Actual Data                                                                                                                                                                                                                                                                 | Scottish Local Government Finance Statistics                                                                                                                | Yes |
| Council tax                                                                 | Actual Data                                                                                                                                                                                                                                                                 | Scottish Local Government Finance Statistics                                                                                                                | Yes |
| Other taxes and royalties                                                   | Various (see web appendix)                                                                                                                                                                                                                                                  | Various (see web appendix)                                                                                                                                  | No  |
| Interest and dividends                                                      | For PC receipts: Scotland's share of public sector UK GVA<br>For LG and CG receipts: Scotland/UK population                                                                                                                                                                 | Regional Accounts: ONS                                                                                                                                      | Yes |
| Gross operating surplus                                                     | CG: Scottish/UK share of central government NMCC<br>LG: Scottish/UK share of total UK LG depreciation<br>Public corporations – individual data for Scottish PCs – data for UK-wide PCs based on relevant industry GVA – and actual data for Local Authority housing rentals | CG: ONS Regional Accounts<br>LG: Local government finance statistics returns<br>PC: Supplied by Public Sector Finance team: ONS, and Regional Accounts: ONS | No  |
| Rent and other current transfers (excluding oil royalties and licence fees) | Various (see web appendix)                                                                                                                                                                                                                                                  | Various (see web appendix)                                                                                                                                  | No  |
| North Sea revenue                                                           | See Chapter 5                                                                                                                                                                                                                                                               | See Chapter 5                                                                                                                                               |     |

Table A.2 summarises the revisions in this edition of GERS by comparing the estimates in this report with those in previous publications.

| <b>Table A.2: Revision to Estimates of Total Non-North Sea Public Sector Revenue: 2003-04 to 2006-07</b> |                    |                |                |                |
|----------------------------------------------------------------------------------------------------------|--------------------|----------------|----------------|----------------|
|                                                                                                          | <b>(£ million)</b> |                |                |                |
|                                                                                                          | <b>2003-04</b>     | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> |
| <b>Scotland</b>                                                                                          |                    |                |                |                |
| Estimates published in GERS 06-07                                                                        | 34,760             | 37,263         | 39,854         | 42,353         |
| Estimates published in GERS 07-08                                                                        | 35,022             | 37,369         | 40,095         | 42,674         |
| <b>Revision</b>                                                                                          | <b>262</b>         | <b>106</b>     | <b>241</b>     | <b>321</b>     |
| <b>UK</b>                                                                                                |                    |                |                |                |
| Estimates published in GERS 06-07                                                                        | 418,203            | 447,863        | 476,888        | 510,615        |
| Estimates published in GERS 07-08                                                                        | 418,132            | 447,439        | 477,102        | 510,246        |
| <b>Revision</b>                                                                                          | <b>-71</b>         | <b>-424</b>    | <b>214</b>     | <b>-369</b>    |
| <b>Scotland/UK ratio</b>                                                                                 |                    |                |                |                |
| Estimates published in GERS 06-07                                                                        | 8.3%               | 8.3%           | 8.4%           | 8.3%           |
| Estimates published in GERS 07-08                                                                        | 8.4%               | 8.4%           | 8.4%           | 8.4%           |
| <b>Revision</b>                                                                                          | <b>0.1%</b>        | <b>0.0%</b>    | <b>0.0%</b>    | <b>0.1%</b>    |

Table A.3 illustrates the revisions to individual public sector revenue streams in Scotland and the UK for 2006-07, the last year for which such a comparison is possible. There are three reasons why figures for Scotland have changed from those published last year.

1. Updates made by ONS to the UK figure for that revenue
2. Updates to apportionment data - the data used to allocate a share of UK revenue to Scotland
3. Changes in the method used to allocate revenue to Scotland.

For some revenues there may be more than one reason for the change in the estimate.

The revenues affected most by the changes are:

- income tax (affected mainly by changes in the apportionment data and a minor change to the method)
- Corporation Tax (solely affected by changes in the apportionment data)
- VAT (affected by changes in the apportionment data and method)

The net effect of all of the changes has been to increase the estimate of public sector revenue in Scotland by £321 million in 2006-07. Amendments to the ONS PSAT2 database have resulted in a decrease in the UK revenue of £369 million in the same year.

| <b>Table A.3: Revisions to Estimates of Public Sector Revenues in Scotland and UK: 2006-07 (Excluding North Sea Revenues)</b> |                    |             |
|-------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------|
|                                                                                                                               | <b>(£ million)</b> |             |
|                                                                                                                               | <b>Scotland</b>    | <b>UK</b>   |
| Income tax                                                                                                                    | 128                | 84          |
| Corporation tax (excluding North Sea)                                                                                         | 198                | 0           |
| Capital gains tax                                                                                                             | -86                | 0           |
| Other taxes on income and wealth                                                                                              | 11                 | 5           |
| National insurance contributions                                                                                              | -77                | -158        |
| VAT                                                                                                                           | 229                | 11          |
| Fuel duties                                                                                                                   | 6                  | 0           |
| Stamp duties                                                                                                                  | 36                 | 0           |
| Tobacco duties                                                                                                                | 15                 | 0           |
| Alcohol duties                                                                                                                | -66                | 0           |
| Betting and gaming and duties                                                                                                 | 7                  | 0           |
| Air passenger duty                                                                                                            | 0                  | 0           |
| Insurance premium tax                                                                                                         | 0                  | -1          |
| Landfill tax                                                                                                                  | 1                  | 0           |
| Climate change levy                                                                                                           | -10                | 0           |
| Aggregates levy                                                                                                               | 0                  | 0           |
| Inheritance tax                                                                                                               | 0                  | 0           |
| Vehicle excise duty                                                                                                           | 0                  | 0           |
| Non-domestic rates                                                                                                            | -95                | -14         |
| Council tax                                                                                                                   | 50                 | 0           |
| Other taxes and royalties                                                                                                     | 29                 | 107         |
| Interest and dividends                                                                                                        | -73                | 150         |
| Gross operating surplus                                                                                                       | 38                 | -368        |
| Rent and other current transfers (excluding oil royalties and licence fees)                                                   | -20                | -185        |
| <b>Total Change</b>                                                                                                           | <b>321</b>         | <b>-369</b> |

### Changes in Apportionment Methodology

There have been changes to the methods used in GERS to estimate Scottish revenue for the following taxes.

- Climate Change Levy
- Interests and Dividends
- Council Tax
- Non-Domestic Rates
- Income Tax
- National Insurance Contributions
- VAT
- Capital Gains Tax

The changes introduced are outlined below:

### *Climate Change Levy*

Revenue due to electricity consumption was previously apportioned to Scotland on the basis of Scotland's share of total UK electricity consumption. For this edition of GERS, it is apportioned on the basis of Scotland's share of the UK's consumption by commercial and industrial users only. This is an improvement on the previous method which assumed that consumption by private households and industry was in the same proportion in UK as in Scotland.

### *Interest and Dividends*

This revenue category relates to the interest and dividends received by the public sector from the private sector and the rest of the world. It consists of three parts – revenue received by central government, revenue received by local government and revenue received by public corporations. Previously GERS apportioned each of these elements to Scotland on the basis of Scotland's share of UK public sector GVA. In this edition of GERS, only the public corporation receipts are apportioned using public sector GVA. Central government and local government receipts are apportioned on the basis of Scotland's share of the UK population.

### *Council Tax*

The UK figures (as for all revenues) are accrued receipts. Previously the Scottish figure was actual receipts as published in the Scottish Government's Local Government Finance Statistics<sup>4</sup>. To be consistent with the UK figure, the Scottish figure is now the amount of council tax that is billed for each year (an approximation to the accrued amount) and is consistent with the figure ONS use to calculate total council tax for the UK as a whole.

### *Non-Domestic Rates*

Previously revenue from non-domestic rates in Scotland was derived by taking the total receipts published in the Scottish Government's Local Government Finance Statistics and subtracting an estimate for the amount of rates that Scottish local authorities pay themselves. However the UK figure is derived by making the following additional deductions.

- Refunds
- Payments by local government
- Discretionary reliefs to Private Non Financial Corporations
- Discretionary reliefs to Non Profit Institutions Serving Households
- Collection Costs.

The figure for Scotland used in GERS 2007-08 has been revised to reflect these deductions and is consistent with the figure used by ONS to calculate total non-domestic rates for the UK.

### *Income Tax*

The methodology used in the last GERS publication apportioned to Scotland a share of UK net income tax on the basis of shares of gross income tax liabilities derived from the Survey of Personal Incomes (SPI). This edition of GERS apportions UK income tax revenue, gross of tax credits, to Scotland on the basis of the SPI shares and then deducts estimates of the negative tax elements of tax credits received in Scotland. The reason for using the Scotland/UK share of SPI for gross income tax receipts (rather than net) is that the SPI covers tax liabilities gross of tax credits. Estimates for Scottish tax credits elements are made as follows:

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<sup>4</sup> Scottish Local Government Financial Statistics - <http://www.scotland.gov.uk/Topics/Statistics/Browse/Local-Government-Finance/PubScottishLGFStats>

An estimate of the negative expenditure element of child tax credits (CTC) and working tax credits (WTC) for Scotland is made by applying Scotland's share of the UK total spend on tax credits (the negative expenditure part plus the actual expenditure relating to benefits) to the UK figure for negative expenditure on CTC and WTC as reported in the ONS database underlying the Public Sector Finances.

Life Assurance Premium Relief at Source (LAPRAS) and Mortgage Interest Relief at Source (MIRAS) are apportioned to Scotland on the basis of Scotland's share of the UK population.

### *National Insurance Contributions*

In previous GERS reports, Scotland's share of UK class 1 employers' and employees' contributions was provided directly from HMRC. Revenue from class 2, 3 and 4 contributions were assigned to Scotland using this same share. For this edition of GERS, HMRC have been able to provide Scotland's share for class 2 and 3 contributions for the first time (voluntary and self-employed contributions). Scotland's share of class 4 contributions is now estimated using its class 2 share.

### *VAT*

Previously data from the Expenditure and Food Survey (EFS) was used to apportion a share of total VAT revenue to Scotland. GERS 2007-08 separates out the central government and local government VAT refunds from the rest of VAT. Only the net VAT total is apportioned using the EFS. The VAT refunds are apportioned as follows:

Local government VAT refunds are apportioned on the basis of Scotland's share of UK local government expenditure on goods and services.

Central government VAT refunds:

- to the Ministry of Defence are assigned on the basis of Scotland's share of the UK population;
- to NHS are assigned on the basis of Scotland's share of UK Total Expenditure on Services on health;
- to other government departments – on basis of Scotland's share of total UK Total Expenditure on Services (less Ministry of Defence and NHS).

The treatment of VAT refunds matches the calculation on the expenditure side in the accounting adjustment. The VAT refunds therefore cancel out in the balance calculations.

### *Capital Gains Tax*

Previously GERS assigned a proportion of UK Capital Gains Tax to Scotland on the basis of Scotland's share of UK GVA. For this edition of GERS, figures for Scotland have been provided by HMRC for the first time.

### Revisions in Apportionment Data

Changes (updates to figures) in the underlying data used to apportion a share of UK tax revenue to Scotland have affected 15 of the revenue estimates. The revenues experiencing the greatest revision are:

- Income Tax: In the last edition of GERS, the 2005-06 SPI database was used to estimate Scotland's share of income tax in 2006-07. SPI data for 2006-07 have now been published and are used in this edition of GERS.

- Corporation Tax: Scotland's estimated share of UK profits less holding gains published in the ONS Regional Accounts has changed significantly due to revisions in the way in which 'Financial Intermediation Services Indirectly Measured' (FISIM) is taken into account in the UK National and Regional Accounts (Box 4.1 in Chapter 4 of the main report sets out this issue in detail).
- VAT and Excise duties (including Alcohol, Tobacco, Betting and Gaming and National Lottery (which is part of other taxes and royalties)): Previously Scotland's shares for 2006-07 were calculated using results from the EFS surveys for 2003-04, 2004-05, 2005-06 and 2006 with more weight given to the later years results. Several survey years are used, since the sample size is very small (The survey changed from financial year to calendar year in 2006). EFS data for 2007 was published in November 2008 and has been incorporated into the calculations of Scotland's share of UK private household consumption. For this GERS, the 2006-07 estimates are calculated using results from the 5 survey years 2003-04, 2004-05, 2005-06, 2006 and 2007 – with the weighting of the survey years adjusted slightly given the new 2007 figures.

## Income Tax

### Background

Income tax is the single largest source of public sector revenue in both Scotland and the UK. A taxpayer's income is assessed for income tax according to a prescribed order: (1) non-savings income, (2) savings income (not dividends), (3) dividends. Although capital gains was previously taxed as the top "slice", from April 2008 capital gains has been charged at a new single rate of 18 per cent. Details of current tax allowances and rates are available at <http://www.hmrc.gov.uk>.

### Methodology

UK figures for income tax revenue (both net and gross of tax credits) are taken from ONS' database underlying the Public Sector Finances.

HMRC's Survey of Personal Incomes (SPI) is used to estimate Scotland's share of total UK income tax (gross of tax credits). This survey is carried out annually, sampling from HMRC's PAYE, Self-Assessment and Claims Databases, and covers the income assessable for tax in each tax year. It covers 1.7 per cent of income tax payers with a sample of approximately 540,000 people in the UK. The latest SPI survey was published in January 2009 and provided data for 2006-07. The 2006-07 apportionment ratio was also used for 2007-08, this will be revised in future publications as more recent data becomes available.

The SPI is used to estimate Scottish income tax liabilities (gross of tax credits) as a proportion of UK total income tax liabilities. This share is then applied to the total UK income tax figure provided in ONS' database. The resulting figure is used as an estimate of gross income tax revenues raised in Scotland. The negative tax elements of the tax credits received in Scotland are then deducted to produce an estimate of net income tax for Scotland.

An estimate of the negative expenditure element of child tax credits (CTC) and working tax credits (WTC) for Scotland is made by applying Scotland's share of the UK total spend on tax credits (the negative expenditure part plus the actual expenditure relating to benefits) to the UK figure for negative expenditure on CTC and WTC (from the ONS database underlying the Public Sector Finances).

An estimate for Scotland of the negative expenditure elements of Mortgage Interest Relief at Source and Life Assurance Premium Relief at Source tax credits is made by allocating a population share of the UK figure to Scotland.

### Differences from Previous Years' Methodology

In GERS 2006-07 SPI data was used to apportion the net income tax revenue to Scotland (with no separate apportionment for tax credits). In addition, GERS 2006-07 used SPI data for 2005-06 to apportion a share of income tax to Scotland for 2006-07. SPI data for 2006-07 was published in January 2009 and has been used in this edition of GERS to assign a share of income tax to Scotland for this year.

Estimates:

Table A.4 outlines the effect that the methodological change outlined above (and for 2006-07 the change in SPI data) on Scotland's share of UK income tax revenues. The cumulative effect of the revisions is relatively minor. In 2004-05 and 2005-06 Scotland's share of UK income tax revenues has risen slightly.

| <b>Table A.4: Income Tax (£ million)</b>       |                |                |                |                |                |
|------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                             | 112,354        | 121,273        | 130,557        | 141,226        | 151,746        |
| Scotland                                       | 8,226          | 8,788          | 9,598          | 10,466         | 11,244         |
| <b>Scotland/UK</b>                             | <b>7.3%</b>    | <b>7.2%</b>    | <b>7.4%</b>    | <b>7.4%</b>    | <b>7.4%</b>    |
| Estimated ratios in previous GERS publications |                |                |                |                |                |
| <b>Scotland/UK</b>                             | <b>7.3%</b>    | <b>7.2%</b>    | <b>7.3%</b>    | <b>7.3%</b>    | <b>n/a</b>     |

## Corporation Tax

### Background

Corporation tax is a tax on a company's taxable income or profits<sup>5</sup>. Different rates apply depending upon the amount of profit raised. There are a number of special accounting rules for particular expenditures, such as capital investment and research and development, which qualify for tax allowances and reliefs. Details of the current tax allowances and tax rates are available at <http://www.hmrc.gov.uk>.

There are different rates and rules governing corporation tax of North Sea output. North Sea revenues are discussed in depth in Chapter 5 of GERS.

### Methodology

GERS apportions a share of UK corporation tax revenues based on the economic activity undertaken in Scotland and not the location of companies' headquarters. Public corporations' and North Sea corporation tax revenues are excluded from the analysis and are apportioned to Scotland separately.

Calculating Scottish corporation tax revenues is a three stage process. Firstly the UK figure for total corporation tax is taken from ONS' database underlying the Public Sector Finances. An adjustment is then made to remove corporation tax payments from the North Sea sector. Although the ONS database has accurate up to date figures on total corporation tax, it does not keep up to date data on North Sea corporation tax payments, and so data is obtained from HMRC's published tables on corporation tax.

The Scottish share of UK corporation tax (excluding North Sea) is then estimated by calculating Scotland's share of profits, less holding gains, of all public and private corporations in the UK (less extra-regio) as reported in the ONS Regional Accounts. A slight adjustment is made to convert the Regional Accounts figures from calendar years to financial years. The relevant ratio is then applied to the total UK corporation tax figure. The resulting figure is an estimate of corporation tax revenues (excluding North Sea) raised in Scotland.

Figures on payments from public corporations are then netted off this total figure. A figure for corporation tax payments from all public corporations in the UK is included in ONS' database underlying the Public Sector Finances. The ratio obtained from the profits less holding gains from ONS Regional Accounts (described above) is applied to the total UK public corporations' payments to obtain a Scottish estimate which is then subtracted from the Scottish estimate of total corporation tax payments.

### Differences from Previous Years' Methodology

The methodology used to estimate Scotland's share of UK corporation tax revenues remains unchanged from the previous edition of GERS. However Scotland's share of UK profits less holding gains published in the ONS Regional Accounts, which is used to apportion a share of UK corporation tax to Scotland, has changed significantly due to revisions in the way in which 'Financial Intermediation Services Indirectly Measured' (FISIM) is taken account into account (Box 4.1 in GERS 2007-08 sets out this issue in detail). This has resulted in Scotland's estimated share of UK corporation tax receipts being revised upwards.

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<sup>5</sup> Where an accounting period straddles 2 financial years, the profits are apportioned accordingly.

Estimates

For all years from 2004-05 there has been an increase in the proportion of UK corporation tax now assigned to Scotland compared to the estimates in the previous edition of GERS due to the revisions in the ONS Regional Accounts data used to apportion a share of UK revenue to Scotland.

| <b>Table A.5: Corporation Tax (£ million)</b> |                |                |                |                |                |
|-----------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                               | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                            | 24,928         | 29,720         | 34,278         | 37,156         | 40,017         |
| Scotland                                      | 2,027          | 2,490          | 2,932          | 3,217          | 3,465          |
| <b>Scotland/UK</b>                            | <b>8.1%</b>    | <b>8.4%</b>    | <b>8.6%</b>    | <b>8.7%</b>    | <b>8.7%</b>    |
| Estimated ratios in previous GERS publication |                |                |                |                |                |
| <b>Scotland/UK</b>                            | <b>8.1%</b>    | <b>8.1%</b>    | <b>8.1%</b>    | <b>8.1%</b>    | <b>n/a</b>     |

## Capital Gains Tax

### Background

Capital gains tax (CGT) is a tax on capital gains from the buying and selling of assets. The capital gain is broadly the difference between the disposal proceeds and the cost of acquiring an asset. Individuals have an annual amount on which CGT is not liable and as with other forms of personal taxation various reliefs and exemptions are available. Details of the current tax allowances and tax rates are available at <http://www.hmrc.gov.uk>.

### Methodology

The UK figure for total CGT is taken from ONS' database underlying the Public Sector Finances.

HMRC produce estimates of the amount of revenue raised from capital gains tax in Scotland. The proportion of the UK revenue raised in Scotland based on these figures is applied to the total UK figure obtained from ONS' database.

### Differences from Previous Years' Methodology

Previously, Scotland's share of UK GVA was used to allocate a share of total UK capital gains tax revenues to Scotland.

### Estimates

The new methodology used to estimate CGT receipts in Scotland has resulted in Scotland's share of UK CGT receipts being revised down from the estimates produced in GERS 2006-07.

| <b>Table A.6: Capital Gains Tax (£ million)</b> |                |                |                |                |                |
|-------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                 | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                              | 2,225          | 2,278          | 3,041          | 3,812          | 5,267          |
| Scotland                                        | 147            | 114            | 172            | 222            | 299            |
| <b>Scotland/UK</b>                              | <b>6.6%</b>    | <b>5.0%</b>    | <b>5.7%</b>    | <b>5.8%</b>    | <b>5.7%</b>    |
| Estimated ratios in previous GERS publications  |                |                |                |                |                |
| <b>Scotland/UK</b>                              | <b>8.0%</b>    | <b>8.0%</b>    | <b>8.0%</b>    | <b>8.1%</b>    | <b>n/a</b>     |

## Other Taxes on Income and Wealth

### Background

Other taxes on income and wealth include a number of small taxes including the following:

- Capital gains tax from households
- Company income tax revenues, net of repayments
- Household charitable donations via gift aid and covenant tax reliefs
- Betting and gaming duty (those elements of the duty that are classed as tax on income<sup>6</sup>)
- OFGEM tax on Non-Fossil Purchasing Agency renewable energy income
- Inland revenue: Company IT withheld
- Horserace betting levy board
- Tax credits - Insurance and Pension Funds
- Corporation tax credit expenditure
- Company tax credits
- Non-Profit Institutions Serving Households tax credits

### Methodology

The UK figure for other taxes on income and wealth is taken from ONS' database underlying the Public Sector Finances.

UK revenue from other taxes on income and wealth are apportioned to Scotland as follows –

| <b>Public Sector Revenue</b>                                                           | <b>Apportionment Methodology</b>          |
|----------------------------------------------------------------------------------------|-------------------------------------------|
| Company income tax receipts, net of repayments                                         | GVA                                       |
| Household charitable donations via gift aid and covenant tax reliefs                   | As for income tax (SPI)                   |
| Betting and gaming duty (those elements of the duty that are classed as tax on income) | As for betting and gaming duty            |
| OFGEM tax on Non-Fossil Purchasing Agency renewable energy income                      | As for other renewable energy obligations |
| Inland Revenue: Company IT withheld                                                    | As for corporation tax                    |
| Horserace betting levy board                                                           | As for betting and gaming duty            |
| Central government contributions to payroll giving to charities                        | GVA                                       |
| Tax credits – Insurance and Pension Funds                                              | As for income tax (SPI)                   |
| Corporation tax credit expenditure                                                     | As for corporation tax                    |
| Company tax credits                                                                    | As for corporation tax                    |
| Non-Profit Institutions Serving Households tax credits                                 | As for income tax (SPI)                   |

### Differences from Previous Years' Methodology

There has been no change in methodology since the previous edition of GERS.

<sup>6</sup> Most elements of Betting and Gaming Duty are classed as tax on production – see separate section on Betting and Gaming

Estimates

Table A.7 contains the estimates of revenues from 'other taxes on income and wealth'.

| <b>Table A.7: Other Taxes on Income and Wealth (£ million)</b> |                |                |                |                |                |
|----------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                                | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                                             | 1,652          | 2,014          | 2,517          | 2,997          | 2,764          |
| Scotland                                                       | 147            | 182            | 221            | 259            | 244            |
| <b>Scotland/UK</b>                                             | <b>8.9%</b>    | <b>9.0%</b>    | <b>8.8%</b>    | <b>8.6%</b>    | <b>8.8%</b>    |
| Estimated ratios in previous GERS publications                 |                |                |                |                |                |
| <b>Scotland/UK</b>                                             | <b>8.9%</b>    | <b>9.3%</b>    | <b>8.4%</b>    | <b>8.3%</b>    | <b>n/a</b>     |

## National Insurance Contributions

### Background

National insurance contributions (NICs) are a tax on earnings. Their payment is designed to allow the payee to build an entitlement to certain social security benefits, including the state pension. For details of current thresholds and rates please see: <http://www.hmrc.gov.uk>.

### Methodology

The UK figure for total NICs together with separate figures for class 1 (employee and employer), class 2 and class 4 (self-employed), and class 3 (voluntary contributions paid to fill gaps in contribution records) contributions are taken from ONS' database underlying the Public Sector Finances.

Scotland's share of UK class 1, 2 and 3 contributions have been provided by HMRC. Scotland's share of UK class 4 contributions is calculated using its share of class 2 contributions. Scotland's share of each class of contribution is then applied to the total UK national insurance figures provided in the ONS' Public Sector Finance Database.

### Differences from Previous Years' Methodology

In previous GERS reports, Scotland's share of UK class 1 employers' and employees' contributions was provided directly from HMRC. Revenue from class 2, 3 and 4 contributions were assigned to Scotland in proportion to Scotland's share of class 1 contributions.

### Estimates

As Table A.8 illustrates the refinement of the apportionment methodology has only a small effect on Scotland's share of UK NICs.

| <b>Table A.8: National Insurance Contributions (£ million)</b> |                |                |                |                |                |
|----------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                                | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                                             | 75,148         | 80,923         | 85,559         | 90,818         | 95,510         |
| Scotland                                                       | 6,081          | 6,561          | 6,978          | 7,386          | 7,766          |
| <b>Scotland/UK</b>                                             | <b>8.1%</b>    | <b>8.1%</b>    | <b>8.2%</b>    | <b>8.1%</b>    | <b>8.1%</b>    |
| Estimated ratios in previous GERS publications                 |                |                |                |                |                |
| <b>Scotland/UK</b>                                             | <b>8.2%</b>    | <b>8.1%</b>    | <b>8.2%</b>    | <b>8.2%</b>    | <b>n/a</b>     |

# VAT

### Background

Value added tax (VAT) is charged on the sale of most goods and services in the UK. Depending upon the product, VAT is charged at three different rates; during the period of the report these were: standard rate (17.5 per cent), reduced rate (5 per cent) and zero rate. Certain services are also 'exempt' from VAT. For further details please see: <http://www.hmrc.gov.uk>.

### Methodology

The UK figure for total VAT revenues is taken from ONS' database underlying the Public Sector Finances. This total figure is made up of 3 main parts: net VAT, local government VAT refunds and central government VAT refunds.

Scotland's share of UK net VAT revenues is estimated from the Expenditure and Food Survey (EFS)..

The EFS provides estimates of average weekly expenditure per household on a large number of goods and services in Scotland and the UK. The relevant VAT rate applicable to each good/service are applied to the average amount spent on each product type to produce an estimate of the average amount of VAT paid per household on each commodity/service. Total VAT revenues are then estimated by multiplying average household VAT revenues by the number of households in Scotland and the UK. The Scotland/UK ratio of estimated VAT revenues from private households is then applied to actual total UK net VAT revenues to estimate the value of VAT revenues attributable to Scotland.

Local government VAT refunds are apportioned on the basis of Scotland's share of UK local government expenditure on goods and services.

Central government VAT refunds:

- to the Ministry of Defence are assigned on the basis of Scotland's share of the UK population;
- to NHS are assigned on the basis of Scotland's share of UK Total Expenditure on Services on health;
- to other government departments – on basis of Scotland's share of total UK Total Expenditure on Services (less Ministry of Defence and NHS).

### Differences from Previous Years' Methodology

Previously the EFS data was used to apportion the total VAT revenue rather than just the net revenue.

In GERS 2006-07, Scotland's share of VAT receipts for 2006-07 was calculated using results from the EFS surveys for 2003-04, 2004-05, 2005-06 and 2006 with more weight given to the later years results (The survey changed from financial year to calendar year in 2006). Several survey years are used, since the sample size is very small. EFS data for 2007 was published in November 2008 and has been incorporated into the calculations of Scotland's share of UK private household consumption. For this GERS, the 2006-07 estimates are calculated using results from the 5 survey years 2003-04, 2004-05, 2005-06, 2006 and 2007 – with the weighting of the survey years adjusted slightly given the new 2007 figures.

Estimates

Table A.9 outlines the effect of the above methodological change on Scotland's share of UK VAT revenues. The revisions are estimated to marginally increase Scotland's share of VAT revenues. Using the new methodology Scotland's share of duty in 2006-07 is estimated to have risen from 8.5 per cent to 8.7 per cent.

| <b>Table A.9: Value Added Tax (£ million)</b>  |                |                |                |                |                |
|------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                             | 76,638         | 79,978         | 81,497         | 87,739         | 89,878         |
| Scotland                                       | 6,613          | 6,891          | 7,144          | 7,677          | 7,972          |
| <b>Scotland/UK</b>                             | <b>8.6%</b>    | <b>8.6%</b>    | <b>8.8%</b>    | <b>8.7%</b>    | <b>8.9%</b>    |
| Estimated ratios in previous GERS publications |                |                |                |                |                |
| <b>Scotland/UK</b>                             | <b>8.3%</b>    | <b>8.4%</b>    | <b>8.4%</b>    | <b>8.5%</b>    | <b>n/a</b>     |

## Fuel Duties

### Background

Fuel duty, formally known as hydrocarbon oil duty, is an excise duty levied on the sale of oils (including road fuels). The rate of duty levied varies between fuel types. Information on current duty rates is available from <http://www.hmrc.gov.uk>.

### Methodology

The UK figure for total fuel duties is taken from ONS' database underlying the Public Sector Finances.

As with other excise duties, the estimation of revenues raised from fuel duty in Scotland is based on the premise that the burden of duty is borne by the final consumer.

Fuel duty revenues are apportioned to Scotland by estimating Scotland's share of UK fuel consumption. UK road traffic fuel consumption and a regional breakdown, based on weighted traffic flows on a sample of roads across the UK, are published by the Department for Business Enterprise and Regulatory Reform (BERR). Using this information Scotland's share of UK fuel consumption is derived. This estimate is then applied to the figure for UK total tax revenue to estimate Scotland's share of total fuel duty.

### Differences from Previous Years' Methodology

There has been no change in methodology since the previous edition of GERS.

### Estimates

Table A.10 shows that the share of Scotland's revenue from fuel duty has remained unchanged.

| <b>Table A.10: Fuel Duty (£ million)</b>       |                |                |                |                |                |
|------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                             | 22,786         | 23,313         | 23,438         | 23,585         | 24,905         |
| Scotland                                       | 1,866          | 1,923          | 1,943          | 1,964          | 2,074          |
| <b>Scotland/UK</b>                             | <b>8.2%</b>    | <b>8.2%</b>    | <b>8.3%</b>    | <b>8.3%</b>    | <b>8.3%</b>    |
| Estimated ratios in previous GERS publications |                |                |                |                |                |
| <b>Scotland/UK</b>                             | <b>8.2%</b>    | <b>8.2%</b>    | <b>8.3%</b>    | <b>8.3%</b>    | <b>n/a</b>     |

## Stamp Duties

### Background

Stamp duty is levied on conveyances and transfers of land and property and on share transactions. Stamp duty land tax (SDLT) is paid on property transactions whilst share transactions are liable for either stamp duty or stamp duty reserve tax (SDRT). For details on the current rates of duty please see: <http://www.hmrc.gov.uk>.

### Methodology

The UK figure for total stamp duty revenue is taken from ONS' database underlying the Public Sector Finances.

Separate methods are used for estimating Scotland's share of UK revenue raised from (1) land and property stamp duties, and (2) stocks and shares stamp duties.

#### 1. Land and property stamp duty

Stamp duties from (i) residential properties and (ii) non-residential properties are estimated separately.

##### (i) Residential properties

Information on residential property transactions for 2004-05, 2005-06, 2006-07 and 2007-08 was supplied by HMRC. Such information is not currently available for earlier years. Therefore, for 2003-04 the figure was calculated by applying the average Scotland/UK share of revenue from residential property transactions over the 4 years 2004-05 to 2007-08 to the 2003-04 figure on UK revenue from residential property transactions.

##### (ii) Non-residential properties

Information on non-residential property transactions for 2005-06, 2006-07 and 2007-08 was supplied by HMRC. Such information is not currently available for 2003-04 and 2004-05. For these two years, figures are calculated by applying the average Scotland/UK share of revenue from non-residential property transactions over the 3 years 2005-06 to 2007-08 to the earlier years' figures of UK revenues from non-residential property transactions.

The figures for Scotland obtained in this way for residential and non-residential properties were added together to obtain a total from which a Scotland/UK proportion was derived and applied to the UK figure from ONS' database to arrive at a Scottish estimate for total revenue from land and property stamp duty.

#### 2. Stocks and Shares Stamp Duty

The Scotland/UK ratio of adults owning stocks and shares as reported in the DWP Family Resources Survey (FRS) was used to estimate the proportion of UK stamp duty from stocks and shares raised in Scotland.

### Differences from Previous Years' Methodology

There has been no change in methodology since the previous edition of GERS.

Estimates

Changes in Scotland's share for early years are due to minor changes in the way in which land and property stamp duty was estimated for these earlier years (having one more year of published data to use to extrapolate back from). Change in 2006-07 is due to change in share of stocks and shares duty estimated from the Family Resource Survey 2006-07 which was not available when GERS was last published..

| <b>Table A.11: Stamp Duty (£ million)</b>      |                |                |                |                |                |
|------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| <b>UK</b>                                      | 7,544          | 8,966          | 10,918         | 13,393         | 14,123         |
| <i>of which land and property</i>              | 4,986          | 6,250          | 7,454          | 9,636          | 9,957          |
| <i>of which stocks and shares</i>              | 2,558          | 2,716          | 3,464          | 3,757          | 4,166          |
| <b>Scotland</b>                                | 423            | 532            | 554            | 722            | 908            |
| <i>of which land and property</i>              | 232            | 309            | 285            | 425            | 555            |
| <i>of which stocks and shares</i>              | 190            | 223            | 269            | 297            | 352            |
| <b>Scotland/UK</b>                             | <b>5.6%</b>    | <b>5.9%</b>    | <b>5.1%</b>    | <b>5.4%</b>    | <b>6.4%</b>    |
| <i>of which land and property</i>              | <b>4.7%</b>    | <b>4.9%</b>    | <b>3.8%</b>    | <b>4.4%</b>    | <b>5.6%</b>    |
| <i>of which stocks and shares</i>              | <b>7.4%</b>    | <b>8.2%</b>    | <b>7.8%</b>    | <b>7.9%</b>    | <b>8.5%</b>    |
| Estimated ratios in previous GERS publications |                |                |                |                |                |
| <b>Scotland/UK</b>                             | <b>5.2%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.1%</b>    | <b>n/a</b>     |

## Tobacco Duty

### Background

Tobacco excise duty is a tax charged on cigarettes, cigars, hand rolling, pipe and chewing tobacco. Duty on cigarettes is based on a percentage of the recommended retail price, plus a specified charge per 1,000 cigarettes. Duties on cigars, hand rolling, pipe and chewing tobacco are charged according to weight. There are no exemptions or reliefs for tobacco duty. The rates of duty are set each UK Budget – for current rates of duty please see: <http://www.hmrc.gov.uk>.

### Methodology

As with alcohol (see below), the estimation of tobacco duty raised in Scotland is based on the premise that the burden of duty is borne by the final consumer.

UK tobacco duty revenues are taken from ONS' database underlying the Public Sector Finances. Scotland's share of total UK private household expenditure on tobacco products is then used to derive the proportion of duty attributable to Scotland.

Expenditure on tobacco products is estimated using the Expenditure and Food Survey (EFS) which collects information on average household spending patterns on a wide variety of products including tobacco. Total weekly spend is then estimated by multiplying average household spend by the number of households in Scotland and the UK. The ratio of tobacco expenditure in Scotland and the UK is then applied to total UK tobacco revenue to estimate the proportion of tobacco duty attributable to Scotland.

### Differences from Previous Years' Methodology

There has been no change in methodology since the previous edition of GERS.

In GERS 2006-07, Scotland's share of tobacco duty for 2006-07 was calculated using results from the EFS surveys for 2003-04, 2004-05, 2005-06 and 2006 with more weight given to the later years results (The survey changed from financial year to calendar year in 2006). Several survey years are used, since the sample size is very small. EFS data for 2007 was published in November 2008 and has been incorporated into the calculations of Scotland's share of UK private household expenditure on tobacco products. For this GERS, the 2006-07 estimates are calculated using results from the 5 survey years 2003-04, 2004-05, 2005-06, 2006 and 2007 – with the weighting of the survey years adjusted slightly given the new 2007 figures.

### Estimates

Table A.12 outlines the minor effect that the extra year's worth of EFS data has made to the estimate of Scotland's share of UK tobacco duty.

| <b>Table A.12: Tobacco Duty (£ million)</b>    |                |                |                |                |                |
|------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                             | 8,092          | 8,113          | 7,952          | 8,146          | 8,031          |
| Scotland                                       | 1,008          | 1,102          | 1,028          | 997            | 923            |
| <b>Scotland/UK</b>                             | <b>12.5%</b>   | <b>13.6%</b>   | <b>12.9%</b>   | <b>12.2%</b>   | <b>11.5%</b>   |
| Estimated ratios in previous GERS publications |                |                |                |                |                |
| <b>Scotland/UK</b>                             | <b>12.4%</b>   | <b>13.6%</b>   | <b>12.8%</b>   | <b>12.0%</b>   | <b>n/a</b>     |

## Alcohol Duty

### Background

Alcohol excise duty is a flat-rate duty on alcoholic beverages. Duty on spirits is calculated per litre of pure alcohol; cider, perry, wine and made wine are dutied in bands of alcoholic strength and calculated by volume; beer duty is calculated by strength and volume. Since flat-rates are expressed in cash terms, they are revalorised (i.e. increased in line with inflation) each year. For details of current rates of duty please see: <http://www.hmrc.gov.uk>.

### Methodology

As discussed in Box 4.3 of GERS 2006/07 (page 37), the estimation of alcohol duty raised in Scotland is based on the premise that the burden of duty is borne by the final consumer rather than the producer.

UK alcohol duty revenues for beer/cider, wine and spirits are taken from ONS' database underlying the Public Sector Finances. Scotland's share of total UK private household expenditure on alcohol products is then used to derive the proportion of duty attributable to Scotland.

Expenditure on alcoholic products is estimated using the Expenditure and Food Survey (EFS) which collects information on average household spending patterns on a wide variety of products including alcohol. Total weekly spend is then estimated by multiplying average household spend by the estimated number of households in Scotland and the UK. The ratios of total expenditure in Scotland and the UK on beer/cider, wine and spirits are then applied to UK alcohol duty revenues to estimate Scotland's share.

### Differences from Previous Years' Methodology

There has been no change in methodology since the previous edition of GERS.

In GERS 2006-07, Scotland's share of alcohol duty for 2006-07 was calculated using results from the EFS surveys for 2003-04, 2004-05, 2005-06 and 2006 with more weight given to the later years results (The survey changed from financial year to calendar year in 2006). Several survey years are used, since the sample size is very small. EFS data for 2007 was published in November 2008 and has been incorporated into the calculations of Scotland's share of UK private household expenditure on alcoholic products. For this GERS, the 2006-07 estimates are calculated using results from the 5 survey years 2003-04, 2004-05, 2005-06, 2006 and 2007 – with the weighting of the survey years adjusted slightly given the new 2007 figures.

Estimates

Table A.13 outlines the effect that the extra year's worth of EFS data has made to the estimate of Scotland's share of UK alcohol duty. For 2005-06 and 2006-07 Scotland's share of UK alcohol duty has been revised downwards.

| <b>Table A.13: Alcohol Duty (£ million)</b>    |                |                |                |                |                |
|------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                             | 7,610          | 7,889          | 7,876          | 7,914          | 8,215          |
| Scotland                                       | 676            | 726            | 712            | 702            | 718            |
| <b>Scotland/UK</b>                             | <b>8.9%</b>    | <b>9.2%</b>    | <b>9.0%</b>    | <b>8.9%</b>    | <b>8.7%</b>    |
| Estimated ratios in previous GERS publications |                |                |                |                |                |
| <b>Scotland/UK</b>                             | <b>8.9%</b>    | <b>9.2%</b>    | <b>9.5%</b>    | <b>9.7%</b>    | <b>n/a</b>     |

## Betting and Gaming Duty

### Background

Betting and gaming duty is a tax on various forms of gambling. There are six different betting and gaming duties each of various rates. For example, there is a 15 per cent tax on bookmakers' gross profits and a remote gaming duty (RGD) for non-UK established online betting and gaming operators. For details of current rates of duty and exemptions please see: <http://www.hmrc.gov.uk>.

### Methodology

As with alcohol, the estimation of betting and gaming duty raised in Scotland is based on the premise that the burden of duty is borne by the final consumer.

UK betting and gaming duty revenues are taken from ONS' database underlying the Public Sector Finances. Scotland's share of total UK private household expenditure on gambling products is then used to derive the proportion of duty attributable to Scotland.

Expenditure on gambling products is estimated using the Expenditure and Food Survey (EFS) which collects information on average household spending patterns on a wide variety of products including gambling. Total weekly spend is then estimated by multiplying average household spend by the number of households in Scotland and the UK. The ratio of gambling expenditure in Scotland and the UK is then applied to UK betting and gaming revenues to estimate the value of betting and gaming duty attributable to Scotland.

### Differences from Previous Years Methodology

There has been no change in methodology since the previous edition of GERS.

In GERS 2006-07, Scotland's share of betting and gaming duty for 2006-07 was calculated using results from the EFS surveys for 2003-04, 2004-05, 2005-06 and 2006 with more weight given to the later years results (The survey changed from financial year to calendar year in 2006). Several survey years are used, since the sample size is very small. EFS data for 2007 was published in November 2008 and has been incorporated into the calculations of Scotland's share of UK private household expenditure on gambling products. For this GERS, the 2006-07 estimates are calculated using results from the 5 survey years 2003-04, 2004-05, 2005-06, 2006 and 2007 – with the weighting of the survey years adjusted slightly given the new 2007 figures.

### Estimates

Table A.14 outlines the effect that the extra year's worth of EFS data has made to the estimate of Scotland's share of UK betting and gaming duty. The revisions are estimated to increase Scotland's share of betting and gaming duty for 2005-06 and 2006-07.

| <b>Table A.14: Betting and Gaming Duty (£ million)</b> |                |                |                |                |                |
|--------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                        | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                                     | 898            | 876            | 884            | 961            | 961            |
| Scotland                                               | 89             | 90             | 92             | 101            | 103            |
| <b>Scotland/UK</b>                                     | <b>9.9%</b>    | <b>10.3%</b>   | <b>10.4%</b>   | <b>10.5%</b>   | <b>10.7%</b>   |
| Estimated ratios in previous GERS publications         |                |                |                |                |                |
| <b>Scotland/UK</b>                                     | <b>9.9%</b>    | <b>10.3%</b>   | <b>10.1%</b>   | <b>9.9%</b>    | <b>n/a</b>     |

## Air Passenger Duty

### Background

Air passenger duty (APD) is levied on the carriage, from a UK airport, of chargeable passengers on chargeable aircrafts. There are currently four rates of duty with exemptions for certain flights, e.g. flights from the Highlands and Islands of Scotland. For details of current rates and exemptions please see: <http://www.hmrc.gov.uk>.

### Methodology

The UK figure for total APD is taken from ONS' database underlying the Public Sector Finances. There is currently no reliable official estimates of flights taken from Scotland.<sup>7</sup> Consequently Scotland's proportion of the UK population is used to apportion UK revenue on APD.

### Differences from Previous Years' Methodology

There has been no change in methodology since the previous edition of GERS.

### Estimates

Table A.15 shows that the share of Scotland's revenue from APD has remained unchanged.

| <b>Table A.15: Air Passenger Duty (£ million)</b> |                |                |                |                |                |
|---------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                   | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                                | 799            | 872            | 906            | 1,112          | 1,949          |
| Scotland                                          | 68             | 74             | 77             | 94             | 164            |
| <b>Scotland/UK</b>                                | <b>8.5%</b>    | <b>8.5%</b>    | <b>8.5%</b>    | <b>8.4%</b>    | <b>8.4%</b>    |
| Estimated ratios in previous GERS publications    |                |                |                |                |                |
| <b>Scotland/UK</b>                                | <b>8.5%</b>    | <b>8.5%</b>    | <b>8.5%</b>    | <b>8.4%</b>    | <b>n/a</b>     |

<sup>7</sup> The International Passenger Survey (IPS) collects a wealth of information about flights to destinations outwith the UK, but does not include any data on domestic flights. The Civil Aviation Authority (CAA) collect detailed information on passengers leaving from and arriving at each UK airport. However, these statistics cannot separate out numbers making initial departures from those departing having made a connection. Given that APD is only charged once (and not again for connections) these statistics are not therefore a feasible source. The annual Expenditure and Food Survey (EFS) has information on flights made from UK airports. Information is collected from each private household in the survey on number (up to 10 a year) of flights made and number of people in household flying in each and on the amount spent on flights (from UK airports) to EU and non-EU destinations. Neither of these is appropriate to use as only the residence of passengers is known and not the location of the airport from which they fly, and only flights paid for by private households are included in the amount of money spent question – business related flights would not be included here

## Insurance Premium Tax

### Background

Insurance premium tax (IPT) is a tax on general insurance premiums. IPT is payable on most types of insurance in the UK and on foreign travel insurance for trips lasting less than four months. There are two rates: a standard rate of 5 per cent and a higher rate of 17.5 per cent depending upon the type of insurance purchased. There are some exceptions to IPT including life insurance. For further details please see: <http://www.hmrc.gov.uk>.

### Methodology

The UK figure for total IPT is taken from ONS' database underlying the Public Sector Finances.

The estimation of IPT revenues raised in Scotland is based on the premise that the burden of duty is borne by the final consumer.

Scotland's proportion of the UK population is used to apportion UK revenue on IPT to Scotland.

### Differences from previous years' methodology

There has been no change in methodology since the previous edition of GERS.

### Estimates

Table A.16 shows that the share of Scotland's revenue from insurance premium tax has remained unchanged.

| <b>Table A.16: Insurance Premium Tax (£ million)</b> |                |                |                |                |                |
|------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                      | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                                   | 2,313          | 2,353          | 2,347          | 2,304          | 2,311          |
| Scotland                                             | 196            | 200            | 198            | 195            | 195            |
| <b>Scotland/UK</b>                                   | <b>8.5%</b>    | <b>8.5%</b>    | <b>8.5%</b>    | <b>8.4%</b>    | <b>8.4%</b>    |
| Estimated ratios in previous GERS publications       |                |                |                |                |                |
| <b>Scotland/UK</b>                                   | <b>8.5%</b>    | <b>8.5%</b>    | <b>8.5%</b>    | <b>8.4%</b>    | <b>n/a</b>     |

## Landfill Tax

### Background

Landfill tax is a tax on the disposal of waste and is paid on top of normal landfill fees. Different rates are applied according to the type of waste being disposed of. For further details on rates please see: <http://www.hmrc.gov.uk>.

### Methodology

The UK figure for total landfill tax is taken from ONS' database underlying the Public Sector Finances.

The proportion of the UK total tonnage of waste sent to landfill in Scotland is used to apportion total UK landfill tax to Scotland. The quantity of waste sent to landfill in Scotland is provided by the Scottish Environment Protection Agency. The quantity of waste sent to landfill in the UK as a whole is derived from figures for England and Wales (from the Environment Agency), figures for Northern Ireland (an estimate using a methodology agreed with the Department of Environment in Northern Ireland, based on results of recent surveys on Northern Ireland's waste) and the figure for Scotland.

### Differences from Previous Years' Methodology

There has been no change in methodology since the previous edition of GERS.

### Estimates

Table A.17 illustrates that a minor update in the underlying assumption data has resulted in revisions to the Scottish shares of UK revenue from landfill tax.

| <b>Table A.17: Landfill Tax (£ million)</b>    |                |                |                |                |                |
|------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                             | 636            | 673            | 753            | 825            | 898            |
| Scotland                                       | 58             | 62             | 68             | 76             | 83             |
| <b>Scotland/UK</b>                             | <b>9.1%</b>    | <b>9.1%</b>    | <b>9.0%</b>    | <b>9.2%</b>    | <b>9.2%</b>    |
| Estimated ratios in previous GERS publications |                |                |                |                |                |
| <b>Scotland/UK</b>                             | <b>9.3%</b>    | <b>9.4%</b>    | <b>9.1%</b>    | <b>9.1%</b>    | <b>n/a</b>     |

## Climate Change Levy

### Background

Climate change levy is chargeable on the industrial and commercial supply of lighting, heating and other sources of power used by industry, commerce, agriculture, public administration and other services. The levy does not apply to domestic consumers or to charities. Different rates apply for different sources of power. For further details please see: <http://www.hmrc.gov.uk>.

### Methodology

The UK figure for total climate change levy is taken from ONS' database underlying the Public Sector Finances.

Separate apportionment methods are used for three fuel types:

- (1) electricity,
- (2) gas,
- (3) solid and other fuels.

ONS's database does not include a 3 way breakdown of fiscal revenues. To account for potentially different levels of consumption of each fuel between Scotland and the UK as a whole, figures are obtained from HMRC (via the climate change levy bulletin) on the levy declared on trader returns for each type of fuel. These are used as proxies for the UK revenue obtained from each type of fuel. From these data the proportion of revenue raised from each source is estimated and applied to the ONS total. The resulting 3 UK revenues are apportioned to Scotland as follows:

(1) Climate change levy revenues from electricity consumption are apportioned on the basis of Scotland's share of UK electricity consumption by commercial and industrial users. Estimates of Scottish electricity consumption are provided by BERR. The UK figure is obtained by combining figures published by BERR for England, Wales and Scotland with an estimate of consumption in Northern Ireland derived using data on total electricity sales in NI published in BERR's publication Energy Trends.

(2) Revenue from gas consumption is apportioned to Scotland on the basis of Scotland's proportion of total UK gas consumption. Consumption is proxied by figures on sales of gas (in GWh) to commercial and industrial users. Estimates of Scottish gas consumption are provided by BERR. The UK figure is obtained by combining figures published by BERR for England, Wales and Scotland with an estimate of consumption in Northern Ireland obtained directly from providers of gas in Northern Ireland.

(3) UK revenue from consumption of other fuels is apportioned to using Scotland's share of UK GVA (less extra regio).

Differences from Previous Years' Methodology

In the previous edition of GERS, revenue from electricity consumption was apportioned using Scotland's share of the total UK electricity consumption (rather than just consumption by commercial and industrial users). The methodology used to apportion climate change revenues from gas consumption and consumption of other fuels remains unchanged.

Estimates

As Table A.18 illustrates revising the methodology used to apportion the electricity element of the climate change levy to Scotland has resulted in downward revisions to Scotland's share of total UK revenues.

| <b>Table A.18: Climate Change Levy (£ million)</b> |                |                |                |                |                |
|----------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                    | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                                 | 816            | 750            | 741            | 696            | 705            |
| Scotland                                           | 72             | 68             | 65             | 63             | 65             |
| <b>Scotland/UK</b>                                 | <b>8.8%</b>    | <b>9.1%</b>    | <b>8.8%</b>    | <b>9.0%</b>    | <b>9.2%</b>    |
| Estimated ratios in previous GERS publications     |                |                |                |                |                |
| <b>Scotland/UK</b>                                 | <b>10.2%</b>   | <b>10.3%</b>   | <b>10.3%</b>   | <b>10.4%</b>   | <b>n/a</b>     |

## Aggregates Levy

### Background

Aggregates levy is a tax on the commercial exploitation of rock, sand and gravel. It is charged at a flat rate per tonne. For details on exemptions to this levy please see: <http://www.hmrc.gov.uk>.

### Methodology

The UK figure for total aggregates levy is taken from ONS' database underlying the Public Sector Finances.

Data from the United Kingdom Minerals Yearbook 2008 is used to estimate the proportion of UK aggregate production of sand, gravel and crushed rock that takes place in Scotland each year. This is used as a proxy for Scotland's share of the revenue derived from aggregates levy.

### Differences from Previous Years' Methodology

There has been no change in methodology since the previous edition of GERS.

### Estimates

The very minor change in Scotland's share of UK revenue for early years is due to a minor change in the way in which the financial year figures are derived from the calendar year figures on which the apportionment data is obtained.

| <b>Table A.19: Aggregates Levy (£ million)</b> |                |                |                |                |                |
|------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                             | 341            | 326            | 323            | 324            | 340            |
| Scotland                                       | 49             | 50             | 50             | 50             | 52             |
| <b>Scotland/UK</b>                             | <b>14.3%</b>   | <b>15.2%</b>   | <b>15.5%</b>   | <b>15.3%</b>   | <b>15.3%</b>   |
| Estimated ratios in previous GERS publications |                |                |                |                |                |
| <b>Scotland/UK</b>                             | <b>14.1%</b>   | <b>15.1%</b>   | <b>15.5%</b>   | <b>15.3%</b>   | <b>n/a</b>     |

## Inheritance Tax

### Background

Inheritance tax is a tax on assets, exceeding a minimum threshold, transferred on or shortly before death. An individual's estate on death for inheritance tax purposes is made up of a range of assets including those held directly in their name, their share of jointly owned assets and various other forms of asset. For further information regarding exemptions is available from: <http://www.hmrc.gov.uk>.

### Methodology

The UK figure for total inheritance tax is taken from ONS' database underlying the Public Sector Finances.

HMRC produce estimates on the amount of revenue raised from inheritance tax in Scotland. The proportion of the UK revenue raised in Scotland based on these figures is applied to the total UK figure obtained from the ONS' database.

### Differences from Previous Years' Methodology

There has been no change in methodology since the previous edition of GERS.

### Estimates

There have been minimal changes to the Scottish shares of UK revenue from inheritance tax.

| <b>Table A.20: Inheritance Tax (£ million)</b> |                |                |                |                |                |
|------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                             | 2,521          | 2,931          | 3,276          | 3,618          | 3,890          |
| Scotland                                       | 155            | 164            | 198            | 228            | 269            |
| <b>Scotland/UK</b>                             | <b>6.1%</b>    | <b>5.6%</b>    | <b>6.0%</b>    | <b>6.3%</b>    | <b>6.9%</b>    |
| Estimated ratios in previous GERS publications |                |                |                |                |                |
| <b>Scotland/UK</b>                             | <b>6.2%</b>    | <b>5.6%</b>    | <b>6.0%</b>    | <b>6.3%</b>    | <b>n/a</b>     |

## Vehicle Excise Duty

### Background

Vehicle excise duty (also known as road tax) is an annual charge paid by vehicle owners. For cars registered since 2001, duty is charged according to the emissions of the vehicle and the type of fuel used. For older cars, duty is charged according to the engine size. For details of current rates of duty please see: <http://www.hmrc.gov.uk>.

### Methodology

The UK figure for total vehicle excise duty is taken from ONS' database underlying the Public Sector Finances.

Data obtained from the DVLA on Scotland's proportion of the UK's total value of licences (less refunds) is used to estimate Scotland's share of vehicle excise duty.

### Differences from Previous Years' Methodology

There has been no change in methodology since the previous edition of GERS.

### Estimates

Table A.21 illustrates that there has been no change to Scotland's share of total UK revenues.

| <b>Table A.21: Vehicle Excise Duty (£ million)</b> |                |                |                |                |                |
|----------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                    | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                                 | 4,689          | 4,737          | 4,950          | 5,139          | 5,412          |
| Scotland                                           | 356            | 365            | 389            | 400            | 425            |
| <b>Scotland/UK</b>                                 | <b>7.6%</b>    | <b>7.7%</b>    | <b>7.9%</b>    | <b>7.8%</b>    | <b>7.9%</b>    |
| Estimated ratios in previous GERS publications     |                |                |                |                |                |
| <b>Scotland/UK</b>                                 | <b>7.6%</b>    | <b>7.7%</b>    | <b>7.9%</b>    | <b>7.8%</b>    | <b>n/a</b>     |

## Non-Domestic Rates

### Background

Non-domestic rates, or business rates, are levied on occupiers of non-residential properties such as shops, offices, warehouses and factories.

### Methodology

The figure for Scotland is derived by taking the figure for receipts published in the Scottish Government's Local Government Finance Statistics and making the following deductions.

- Refunds
- Payments by local government
- Discretionary reliefs to Private Non Financial Corporations
- Discretionary reliefs to Non Profit Institutions Serving Households
- Collection Costs

The resulting figure is consistent with the figure that feeds into the ONS system as a contribution to total UK non-domestic rates.

### Differences from Previous Years' Methodology

Previously revenue from non-domestic rates in Scotland was derived by taking the total receipts published in the Scottish Government's Local Government Finance Statistics and subtracting an estimate for the amount of rates that Scottish local authorities pay themselves.

### Estimates

The minor methodology changes outlined above have resulted in the following changes to Scotland's share of UK non-domestic rates.

| <b>Table A22: Non-Domestic Rates (£ million)</b> |                |                |                |                |                |
|--------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                  | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                               | 17,358         | 17,802         | 18,798         | 19,890         | 20,357         |
| Scotland                                         | 1,533          | 1,623          | 1,734          | 1,739          | 1,724          |
| <b>Scotland/UK</b>                               | <b>8.8%</b>    | <b>9.1%</b>    | <b>9.2%</b>    | <b>8.7%</b>    | <b>8.5%</b>    |
| Estimated ratios in previous GERS publications   |                |                |                |                |                |
| <b>Scotland/UK</b>                               | <b>9.3%</b>    | <b>9.7%</b>    | <b>9.7%</b>    | <b>9.2%</b>    | <b>n/a</b>     |

## Council Tax

### Background

Full council tax is levied on occupiers of a house which is their sole or main residence. There are a range of exemptions and reliefs from council tax, including a 25 per cent reduction for single occupancy households, and between 10 per cent and 50 per cent reduction for dwellings which are not the main residence (i.e. second homes). For further details about exemptions and reliefs from council tax please see: <http://www.hmrc.gov.uk>.

### Methodology

The UK figures are obtained from ONS' database underlying the Public Sector Finances. The figures for Scotland are also obtained from ONS's database and relates to the amount of council tax billed each year, which is used as a proxy for accrued receipts.

### Differences from Previous Years' Methodology

Previously the Scottish figure was actual receipts as published in Scottish Government Local Government Finance Statistics. However, to be consistent with the UK figure, the Scottish figure is now the amount of council tax that is billed for each year (an approximation to the accrued amount), which is consistent with the figure ONS use as part of the UK total.

### Estimates

The minor methodology change has resulted in the following changes to Scotland's share of UK non-domestic rates.

|                                                | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
|------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| UK                                             | 18,903         | 20,194         | 21,226         | 22,340         | 23,495         |
| Scotland                                       | 1,577          | 1,663          | 1,773          | 1,862          | 1,936          |
| <b>Scotland/UK</b>                             | <b>8.3%</b>    | <b>8.2%</b>    | <b>8.4%</b>    | <b>8.3%</b>    | <b>8.2%</b>    |
| Estimated ratios in previous GERS publications |                |                |                |                |                |
| <b>Scotland/UK</b>                             | <b>8.1%</b>    | <b>8.0%</b>    | <b>8.1%</b>    | <b>8.1%</b>    | <b>n/a</b>     |

## Other Taxes and Royalties

### Background

Other taxes and royalties comprise a number of relatively small public sector revenue sources. Each of which is apportioned to Scotland separately.

### Methodology

The table below highlights the methodology used to estimate income from 'other taxes and royalties' for Scotland.

| <b>Revenue</b>                  | <b>Background</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>Methodology</b>                                                                  |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Fossil Fuel Levy                | For years up to 2002/03, this was a levy paid by suppliers of electricity from non-renewable energy sources in the UK. The costs were passed to the consumers in the cost of the electricity supplied. The fossil fuel levy was imposed to fund the Non-Fossil Fuel Obligation.                                                                                                                                                                                                                         | Based on GVA share                                                                  |
| Hydro benefit                   | Introduced to use some of the profits from hydro electricity generation to subsidise the cost of electricity distribution in the Highlands of Scotland. The extent of the levy was based on distribution costs. Hydro benefit was brought in when the industry was privatised in 1991 in recognition of the difficulties faced in the North of Scotland. The subsidy was removed in April 2005-4 on the basis of legal advice that Ofgem received that this may be discriminatory under EU legislation. | 100% of revenue is assigned to Scotland                                             |
| Consumer Credit Act fees        | The Consumer Credit Act requires businesses that offer credit or lend money to consumers to be licensed by the OFT. This includes where credit is arranged to finance the purchase of goods or services.                                                                                                                                                                                                                                                                                                | Apportioned to Scotland on the basis of Scotland's proportion of the UK population. |
| Northern Ireland domestic rates |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Not applicable to Scotland                                                          |
| To levy funded bodies           | Statutory bodies which impose a compulsory charge on industry members and exist only in the agricultural sector.                                                                                                                                                                                                                                                                                                                                                                                        | Scotland share of agriculture GVA.                                                  |
| Regulatory fees                 | Fees and levies intended to be raised for regulatory bodies such as the FSA, the Financial Services Ombudsman and Financial Services Compensation Scheme.                                                                                                                                                                                                                                                                                                                                               | Apportioned to Scotland on the basis of Scotland's proportion of the UK population. |

| Revenue                      | Background                                                                                                                                                                                                                                         | Methodology                                                                                                                                                                         |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Boat licences                |                                                                                                                                                                                                                                                    | Apportioned to Scotland on the basis of Scotland's proportion of the UK population.                                                                                                 |
| Milk super levy              | UK-administered quota system on milk production introduced by the EU in 1984 to curb excess production. If a producer exceeds the quota an annual super levy is charged and used to pay for disposal.                                              | Apportioned to Scotland on the basis of Scotland's proportion of UK agricultural GVA.                                                                                               |
| Renewable energy obligations | Obligations on electricity suppliers to source an increasing proportion of electricity from renewable sources. A certificate is issued to the supplier for every MWh of renewable electricity sold. A fine is paid if they do not meet the target. | Figures for Scotland provided directly by ONS                                                                                                                                       |
| Rail franchise premia        | Train operators pay the government a set fee for the right to run services on the rail network. The franchises usually run for 10 years.                                                                                                           | On the advice of ONS, took 20 per cent of GNER revenue (the only rail franchise then operating in Scotland) – the 20 per cent being an estimate of the amount of route in Scotland. |
| Fishing licences             | These relate to Environment Agency rod licences in England and Wales. No fishing/rod licence is required for fishing in Scotland (although as per England and Wales a fishing permit is often requested by a local water authority or land owner). | None for Scotland                                                                                                                                                                   |
| Passport fees                |                                                                                                                                                                                                                                                    | Apportioned to Scotland on the basis of Scotland's proportion of the UK population.                                                                                                 |
| TV licences                  |                                                                                                                                                                                                                                                    | Apportioned to Scotland on the basis of Scotland's proportion of the UK's estimated number of private households.                                                                   |
| National lottery             | This is the contribution that Camelot makes to the National Lottery Distribution Fund (not part of betting and gaming duty).                                                                                                                       | Method as for betting and gaming duty – using Scotland's proportion of estimated UK spend on betting etc as estimated by the Expenditure and Food Survey.                           |

### Estimates

Table A.24 sets out the total figures for all other taxes and royalties. It is worth noting that estimated revenue from TV Licences makes up 46 per cent of Scotland's total for other taxes and royalties for 2007/08, and that revenue from the National Lottery Distribution Fund makes up another 26 per cent.

| <b>Table A.24: Other Taxes and Royalties (£ million)</b> |                |                |                |                |                |
|----------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                          | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                                       | 5,404          | 5,710          | 5,641          | 6,072          | 6,368          |
| Scotland                                                 | 508            | 546            | 491            | 521            | 552            |
| <b>Scotland/UK</b>                                       | <b>9.4%</b>    | <b>9.6%</b>    | <b>8.7%</b>    | <b>8.6%</b>    | <b>8.7%</b>    |
| Estimated ratios in previous GERS publications           |                |                |                |                |                |
| <b>Scotland/UK</b>                                       | <b>9.3%</b>    | <b>9.4%</b>    | <b>8.3%</b>    | <b>8.2%</b>    | <b>n/a</b>     |

## Interest and Dividends

### Background

This revenue element includes all interest and dividend payments received by the public sector from the private sector and the rest of the world. Interest payments received by public sector bodies from other UK public sector bodies are not included.

### Methodology

UK figures for interest and dividend revenue received by (a) Public Corporations, (b) Local Government and (c) Central Government, are obtained from ONS' database underlying the Public Sector Finances.

UK public corporation revenue from interest and dividends is apportioned to Scotland using Scotland's share of UK public sector GVA. UK local government and central government revenues from interest and dividends are apportioned to Scotland using Scotland's share of UK population.

### Differences from Previous Years' Methodology

There has been a minor change in methodology since the previous edition of GERS. Previously all three revenue streams were apportioned on the basis of Scotland's share of UK public sector GVA

### Estimates

The change in methodology has resulted in the following changes to Scotland's share of the total UK figure.

| <b>Table A.25: Interests and Dividends (£ million)</b> |                |                |                |                |                |
|--------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                        | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                                     | 4,577          | 6,093          | 6,807          | 6,468          | 8,719          |
| Scotland                                               | 397            | 533            | 600            | 555            | 748            |
| <b>Scotland/UK</b>                                     | <b>8.7%</b>    | <b>8.7%</b>    | <b>8.8%</b>    | <b>8.6%</b>    | <b>8.6%</b>    |
| Estimated ratios in previous GERS publications         |                |                |                |                |                |
| <b>Scotland/UK</b>                                     | <b>9.9%</b>    | <b>9.9%</b>    | <b>9.9%</b>    | <b>9.9%</b>    | <b>n/a</b>     |

## Gross Operating Surplus

### Background

Gross operating surplus (GOS) refers to the operating (or trading) surpluses (or losses) of central government, local government and public corporation trading activity.

By definition, general government GOS is equal to general government non-market capital consumption. This is a measure of the amount of fixed capital resources used up in the production process (i.e. depreciation). Since this is a public sector receipt, that does not raise actual funds, it is balanced by an offsetting item within public expenditure. By definition, the adjustment item (NMCC) is added to public expenditure rather than subtracted on the revenue side.

For public corporations, the GOS figure includes the gross trading surplus, rental income, stock appreciation (or holding gains), and FISIM (Financial Intermediation Services Indirectly Measured).

### Methodology

In calculating GOS for Scotland, separate figures are estimated for:

1. Central government
2. Local government
3. Public corporations

1. The UK revenue for central government GOS is taken from ONS' database underlying the Public Sector Finances.

It is apportioned to Scotland according to Scotland's share of UK NMCC for central government obtained from ONS Regional Accounts.

2. The UK revenue for local government GOS is taken from ONS' database underlying the Public Sector Finances.

Figures on depreciation within the local authorities in England, Wales and Scotland have been obtained from each country's Local Government Finance returns. Depreciation for Northern Ireland is assumed to be 3 per cent of the total for all UK countries. A Scotland/UK proportion derived from these figures is then applied to the UK National Accounts figure from ONS' database.

3. The approach taken to estimate the GOS for public corporations in Scotland is different. The GOS of public corporations comprises the following elements –

1. Gross trading surplus
2. Housing Revenue Account (HRA)
3. Rental Income (excluding HRA)
4. FISIM
5. Holding Gains

For elements 1 – 3, revenue from every public corporation was obtained. Public corporations were classified as ‘Scotland’, ‘Not Scotland’, or ‘UK’, depending on their area of coverage. For those classified as ‘Scotland’, all of the revenue (Gross Trading Surpluses, Rental and FISIM) was assigned to Scotland. Public corporations classified as ‘Not Scotland’ were excluded. For ‘UK’ public corporations, revenue was apportioned to Scotland on the basis of the relevant industry GVA share.

For the Housing Revenue Account, figures were obtained directly for local authority rents from ONS.

Finally, holding gains were apportioned to Scotland on the basis of Scotland’s GVA share (excluding extra regio).

#### Differences from Previous Years Methodology

There has been no change in methodology since the previous edition of GERS.

#### Estimates

Although there have been no changes in the methodology used to estimate this revenue stream there has been some revisions to some of the underlying data used to apportion elements of UK revenue to Scotland. Table A.26 contains estimates of revenues for GOS in Scotland between 2002-03 and 2006-07.

| <b>Table A.26: Gross Operating Surplus (£ million)</b> |                |                |                |                |                |
|--------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                        | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                                     | 18,205         | 17,936         | 21,089         | 22,084         | 22,698         |
| Scotland                                               | 2,361          | 2,238          | 2,668          | 2,795          | 2,865          |
| <b>Scotland/UK</b>                                     | <b>13.0%</b>   | <b>12.5%</b>   | <b>12.6%</b>   | <b>12.7%</b>   | <b>12.6%</b>   |
| Estimated ratios in previous GERS publications         |                |                |                |                |                |
| <b>Scotland/UK</b>                                     | <b>12.4%</b>   | <b>12.4%</b>   | <b>12.5%</b>   | <b>12.3%</b>   | <b>n/a</b>     |

## Rents and Other Current Transfers

### Background

This revenue refers to rents and transfers received by central government, local government and public corporation trading activity. The largest component is local government rental income.

The UK figure for rents and other current transfers is taken from ONS' database underlying the Public Sector Finances.

Rents and other current transfers for central government, local governments and public corporations are estimated separately.

Central government rents and other current transfers comprise the following elements:

1. Revenues for spectrum use in relation to licences for 3G mobile telephones
2. Rents on land
3. Water abstraction
4. Other spectrum revenues
5. Court fines
6. Other, e.g. speed camera fines, charitable contributions to NHS trusts

Local government rents and other current transfers comprise income of insurance and pension funds allocated to local authorities as beneficial owners.

Public corporation rents and other current transfers relate to the activities of the Export Credits Guarantee Department.

### Methodology

#### (i) Central government

Central government rents and other current transfers are apportioned as follows:

| <b>Rents and Other Current Transfers</b>                                   | <b>Apportionment Methodology</b>                                  |
|----------------------------------------------------------------------------|-------------------------------------------------------------------|
| Revenues for spectrum use in relation to licences for 3G mobile telephones | Scotland's share of UK land area                                  |
| Rents on land                                                              | Public sector GVA                                                 |
| Water abstraction                                                          | Public sector GVA                                                 |
| Other spectrum revenues                                                    | Public sector GVA                                                 |
| Court fines                                                                | Separate identification of 'Scotland' and 'Non-Scotland' revenues |
| Other, e.g. speed camera fines, charitable contributions to NHS trusts     | Public sector GVA                                                 |

(ii) UK revenues from rents and other current transfers from Local Authorities and Public corporations are each apportioned to Scotland on the basis of Scotland's share of UK's public sector GVA.

Differences from previous years' methodology

There has been no change in methodology since the previous edition of GERS.

Estimates

Table A.27 contains the estimates of revenues from rents and other current transfers. Although there has been no change in methodology there was a large decrease in the UK figure due to some ONS revisions. Since the remaining elements had a larger share allocated to Scotland, they now have an even bigger effect on the overall share.

| <b>Table A.27: Rents and Other Current Transfers (£ million)</b> |                |                |                |                |                |
|------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                                  | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> |
| UK                                                               | 1,695          | 1,719          | 1,728          | 1,627          | 1,591          |
| Scotland                                                         | 391            | 386            | 411            | 383            | 398            |
| <b>Scotland/UK</b>                                               | <b>23.1%</b>   | <b>22.5%</b>   | <b>23.8%</b>   | <b>23.5%</b>   | <b>25.0%</b>   |
| Estimated ratios in previous GERS publications                   |                |                |                |                |                |
| <b>Scotland/UK</b>                                               | <b>22.2%</b>   | <b>21.7%</b>   | <b>23.0%</b>   | <b>22.2%</b>   | <b>n/a</b>     |