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HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

(Except clauses 16, 17, 43 and 45 and schedules 2 and 3)

Fifth Sitting

Thursday 15 October 2015

(Morning)

CONTENTS

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STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY FACILITATE THE PROMPT PUBLICATION OF THE BOUND VOLUMES OF PROCEEDINGS IN GENERAL COMMITTEES

The Committee consisted of the following Members:

Chairs: † Sir Roger Gale, Mr George Howarth

† Baldwin, Harriett *(Economic Secretary to the Treasury)*
† Berry, Jake *(Rossendale and Darwen)* (Con)
† Burgon, Richard *(Leeds East)* (Lab)
Burns, Conor *(Bournemouth West)* (Con)
† Caulfield, Maria *(Lewes)* (Con)
† Cummins, Judith *(Bradford South)* (Lab)
† Dakin, Nic *(Scunthorpe)* (Lab)
† Frazer, Lucy *(South East Cambridgeshire)* (Con)
† Garnier, Mark *(Wyre Forest)* (Con)
† Gauke, Mr David *(Financial Secretary to the Treasury)*
Hall, Luke *(Thornbury and Yate)* (Con)
† Hoare, Simon *(North Dorset)* (Con)
Kerevan, George *(East Lothian)* (SNP)
† McDonald, Andy *(Middlesbrough)* (Lab)
† McGinn, Conor *(St Helens North)* (Lab)
† Mak, Mr Alan *(Havant)* (Con)
† Malhotra, Seema *(Feltham and Heston)* (Lab/Co-op)
† Marris, Rob *(Wolverhampton South West)* (Lab)
† Matheson, Christian *(City of Chester)* (Lab)
† Menzies, Mark *(Fylde)* (Con)
† Merriman, Huw *(Bexhill and Battle)* (Con)
† Mullin, Roger *(Kirkcaldy and Cowdenbeath)* (SNP)
† Philp, Chris *(Croydon South)* (Con)
Sherriff, Paula *(Dewsbury)* (Lab)
† Streeting, Wes *(Ilford North)* (Lab)
† Stride, Mel *(Lord Commissioner of Her Majesty's Treasury)*
† Thewliss, Alison *(Glasgow Central)* (SNP)
Thomson, Michelle *(Edinburgh West)* (Ind)
† Tolhurst, Kelly *(Rochester and Strood)* (Con)
† Warman, Matt *(Boston and Skegness)* (Con)

Matthew Hamlyn *Committee Clerk*

† attended the Committee

Public Bill Committee

Thursday 15 October 2015

(Morning)

[Sir Roger Gale *in the Chair*]

Finance Bill

(Except clauses 16, 17, 43 and 45 and schedules 2 and 3)

11.30 am

The Financial Secretary to the Treasury (Mr David Gauke): On a point of order, Sir Roger. You will recall that in our proceedings on Tuesday, the hon. Member for Wolverhampton South West asked whether clause 28, relating to councillors' expenses, would apply to bicycles. I wish to amend my answer as, contrary to what I said then, the exemption will apply where qualifying payments are made to a councillor for travel on their own bicycle, provided that the qualifying payments are below the statutory approved mileage rates. For bicycles the approved rate is currently 20p per mile. I said on Tuesday that I could see the issue would become a big campaign for the hon. Gentleman, so I congratulate him on meeting the objectives of that campaign before he even began it. I fear this may be an auspicious beginning to his Front-Bench career. I apologise to the Committee, and hope that the correction is helpful.

Clause 37

Changes in trading stock not made in course of trade

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider:

Clause 38 stand part.

Clause 39 stand part.

Mr Gauke: Clause 37 makes changes to ensure that the correct amount is used when calculating taxable profits when trading stock is transferred between related or connected parties. Clauses 38 and 39 are concerned with the same issue. Clause 38 makes similar changes to those in clause 37 but for cases where a trade ceases; clause 39 does likewise for cases where intangible fixed assets are transferred to a related party.

A number of situations can arise when trading stock is sold or transferred outside the course of trade. The stock can be transferred to a separate business run by the same person, or sold to a business run by a family member. The intention of the tax system is that the stock should always be brought into account at its market value when calculating the taxable profits from the trade—a well established principle that originated in a court judgment many years ago and was subsequently brought into legislation.

Some situations have been identified, however, in which the full market value of stock may not be brought into account. This can occur when transfer pricing rules take precedent over market value rules. Transfer pricing rules aim to identify and bring into account an arm's length price for the stock. In many situations that will be the same as the market value, but that is not always the case. Where the transfer pricing rules apply, the market value rules are turned off; as a result, there is a risk that the transfer pricing rules will give an amount below market value when calculating profits for taxation, which was not the intention of the legislation. Similar issues have been identified where stock is valued when a trade ceases, and also where intangible fixed assets are transferred between related or connected parties.

Clause 37 is fairly simple. It removes the rule that states that if the transfer pricing rules apply the market value rules cannot also apply, so that where the transfer pricing rules apply in a way that does not give the full market value, the market value rules can be applied, adding the extra amount needed to bring the total up to market value. The true market value will therefore be brought into account when calculating taxable profits. Similar changes are made by clause 38 for cases where a trade ceases, and by clause 39 for cases where intangible fixed assets are transferred to a related or connected party.

Clause 37 removes an unintended consequence whereby two pieces of tax legislation do not, on occasion, work together properly. The changes will ensure that the correct amount is brought into account for tax, as intended by the legislation.

Rob Marris (Wolverhampton South West) (Lab): As I understand it, all three clauses are anti-avoidance measures designed to clear up conflicting legislation on market price and transfer pricing. Transfer pricing has occasionally been used by companies immorally—not illegally, but immorally—to pay less tax, effectively, by not using the market price. As the three clauses are anti-avoidance measures, I invite my hon. Friends to support them.

Question put and agreed to.

Clause 37 accordingly ordered to stand part of the Bill.

Clauses 38 and 39 ordered to stand part of the Bill.

Clause 40

Carried interest

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

Clause 41 stand part.

New clause 2—*Tax treatment of private equity fund managers' pay*—

'(1) The Chancellor of the Exchequer shall, within six months of the passing of this Act, publish and lay before the House of Commons a report setting out proposals for amending the law to ensure that no element of the remuneration paid to an investment fund manager may be treated as a capital gain, and that such remuneration shall be treated for tax purposes wholly as income.

(2) For the purposes of this section, an "investment fund manager" is a person who performs investment management services directly or indirectly.'

Mr Gauke: Sir Roger, I will speak on clauses 40 and 41 and may remark on new clause 2 in anticipation of remarks we are likely to hear from the hon. Member for Kirkcaldy and Cowdenbeath.

Clause 40 makes changes to ensure that investment managers will pay at least 28% tax on the economic value of the carried interest they receive. Clause 41 makes a change to a definition of disguised management fees rules and supports the legislation in clause 40.

Investment fund managers are rewarded in a range of ways for their work in managing funds. One element of reward is straightforward income in the form of a fee. Hon. Members will recall that we took action in the spring 2015 Finance Act to ensure that fund managers could not disguise management fees as something else in order to pay less tax.

Another key element of the reward involves what is known as carried interest. Carried interest is the portion of the fund's value that is allocated to the manager in return for their long-term services to the fund. The manager's reward is therefore dependent on the performance of the fund. Aspects of the UK tax code meant it was possible for asset managers to reduce the effective tax rate payable by them on their carried interest awards; in particular, it was possible for fund managers to pay tax on amounts much lower than their actual economic gains.

The changes made by clause 40 mean that the full amount of carried interest will be charged to tax. Where the carried interest represents capital receipts, it will be taxed at 28% for higher rate and additional rate taxpayers. There will be no extra deduction on account of what is known as base cost shift, which would reduce the amount taxed in the hands of the manager. That will move the basis of the tax charge so that it is the economic gain that is subject to tax. Previously, the carried interest gain was calculated in accordance with the rules on capital gains tax for members of partnerships, but those rules could be interpreted and manipulated in such a way as to reduce significantly the amount of tax payable.

As part of their contract with a fund, an investment manager may be required to invest their own money on similar terms to those that apply to an external investor. To ensure that returns on those co-investments will not be impacted by the change, clause 41 redefines whether an amount is reasonably comparable to the return to external investors. The clause ensures that true arm's length investments made by the fund manager will not be caught by the new rules.

The clause removes a quirk in the UK tax system that was being exploited in such a way that investment managers were not being taxed on their full economic gain. The changes ensure that capital gains tax will be payable at 28% on the capital element of carried interest received. I therefore hope that clauses 40 and 41 stand part of the Bill.

I would like to make one or two remarks about new clause 2 now, although I will of course respond to what the hon. Member for Kirkcaldy and Cowdenbeath says. New clause 2 proposes two measures: subsection (1) recommends a review after six months of what performance returns should be charged to income, and subsection (2) would define an investment fund manager for the purpose of the new clause.

I am sorry to disappoint Opposition Members, but we will not accept the new clause. It is not necessary to legislate for a review in six months, because the Government have already consulted in this area to ensure that awards will be charged to income tax when it is correct that they are, according to the activity of the fund. The consultation closed on 30 September and we will publish our response, along with any resulting draft legislation, in due course. I dare say that I will have more to say on new clause 2 later this morning, but I look forward to the debate on this group.

The Chair: Before I call Mr Mullin, let me explain for the edification of not only new Members but some who are longer in the tooth that the lead amendment—the one that is first on the selection list—is always called first and moved after its introduction. No other amendment is moved at that time. It is not a question of saying, "I would like to move this."

New clauses are always taken at the end of a Bill, so while they are debated in the context of the subject matter of the Bill, they are moved—if moved at all—at the end of the Bill. So there will be no occasion yet, as Mr Mullin will wish to know, to move the new clause. However, he is absolutely entitled to speak to it, as I am about to invite him to do.

Roger Mullin (Kirkcaldy and Cowdenbeath) (SNP): Thank you very much, Sir Roger, for that clarification, which I am sure we all enjoyed. I wish I had fully understood it. *[Laughter.]*

> "I was shocked to see that some of the very wealthiest people in the country have organised their tax affairs, and to be fair it's within the tax laws, so that they were regularly paying virtually no income tax. And I don't think that's right."

Those were the words of the Chancellor of the Exchequer in April 2012. He was right then, but he needs to do more about it now. We still find such loopholes continuing for the highest remunerated investment fund managers in the country. It may be a mere coincidence that some of them are significant donors to the Conservative party.

I recognise that the Government have moved a little way, but as is attested by page after page of technical explanation notes relating to these matters, we wait to see whether these modest proposals close or create further loopholes. I note the telling sentence in the explanatory notes, which says:

> "HMRC will monitor the impact of these provisions".

That is good. To ensure that we as legislators are fully informed, I am sure that our new clause, which calls for appropriate reporting, will be considered, notwithstanding the Minister's recent comments.

The few thousand people who work in private equity firms are remarkably well remunerated. In the words of Stephen Feinberg, the head of PE firm Cerberus Capital in 2011:

> "In general, I think that all of us are way overpaid in this business. It is almost embarrassing."

The average European firm's managing directors can expect to receive about £8 million in total personal compensation and the largest firms pay out even more. Even more junior directors and principals can expect to receive just over £1 million. Those figures will be relatively conservative for London, which has some of the highest paid private equity executives in London.

[Roger Mullin]

In some cases, executives have been able to bring tax rates on their carry-down even further by claiming entrepreneurs' relief. As has been indicated already, private equity fund managers currently shrink their tax bills by arranging to pay 28% capital gains tax, rather than 45% income tax on their carried interest. Carried interest is in effect their remuneration for managing other people's money and should therefore be taxed as income tax. The fund managers' ability to pay capital gains tax instead of income tax also allows them to avoid paying national insurance contributions on a major part of their income.

Support for our measure comes from many quarters. Of particular interest to me is the fact that in May 2014 the OECD—not renowned for radical tax positions—released a raft of recommendations to tackle rising income inequality. Those include:

"Taxing as ordinary income all remuneration, including fringe benefits, carried interest arrangements, and stock options".

The injustice in all this can be seen through a simple comparison. A senior matron in a local hospital or a middle manager in a local further education college on £47,000 a year will have an effective tax rate of about 32.2%, yet a senior private equity executive receiving about £8 million will pay, at most, 29.4%.

11.45 am

Christian Matheson (City of Chester) (Lab): Does the hon. Gentleman agree that this is an excellent early opportunity for the Conservative party to put words into action by showing that it is, as it claims, the party of ordinary working people, as opposed to, for example, the political wing of the City of London?

Roger Mullin: I fully agree; indeed, I look forward to the Minister's response in that regard. This may have been a missed opportunity that the Government now recognise and will want to correct.

Let me make another comparison. In my own constituency, my wonderful constituency manager, Lynda Holton, pays about the same effective tax rate as many fund managers who earn 100 to 200 times more than her. [HON. MEMBERS: "Pay her more!"] When I was on the phone to her this morning, she did want me to say "my underpaid constituency manager". And she is underpaid, but of course I am a devotee to the rules of the Independent Parliamentary Standards Authority in this regard. Surely it cannot be right that people on much more modest incomes have effective tax rates that are higher than those for some of the highest paid people in our society. I am prejudiced in favour of the simplification of tax as well as justice in tax. For both those reasons, I hope that the Government will respond positively to our new clause.

Rob Marris: Sir Roger, I did understand your explanation. As you know, I am new and old—a retread—and I found it very helpful; thank you.

Clauses 40 and 41 are essentially anti-avoidance measures, so hon. Members on the Opposition Benches welcome them. I welcome the fact that there will be no base cost shifting—something that is discussed in the pubs and clubs of Wolverhampton every night of the week; we are very keen on that. However—there is on occasion a "however"—we do not think that clauses 40 and 41 go far enough, because the carried interest is still treated as capital gains. It seems to us that treating carried interest as capital gains is a bad idea and the Government should not permit it. It certainly appears to be a tax loophole—again, not illegal, but immoral—and we think that it should be closed. I have considerable sympathy with the spirit and wording of new clause 2, which was spoken to very eloquently by the hon. Member for Kirkcaldy and Cowdenbeath.

Chris Philp (Croydon South) (Con): Will the hon. Gentleman join me in welcoming the fact that the current Government have increased the tax rate on these kinds of capital gains from the 18% that it was at under the last Labour Government to 28% today? Would he also like to explain why, during its 13 years in office, the Labour party took no action in this area?

Rob Marris: Looking round the room, I think that one hon. Member, the Minister, will remember that I was not a member of the last Labour Government when I was previously in the House—*[Interruption.]* I was "supportive" says an hon. Member from a sedentary position; we will get on to that—[HON. MEMBERS: "Ah!"]. The Minister is well aware of this. I am aware that Alistair Darling, when Chancellor of the Exchequer, cut the capital gains tax rate to 18%. I said at the time that I thought that that was wrong and I have to say now that I think that it was wrong. Furthermore, I have to say, bearing in mind the time at which it took place, that it is shocking that I do not recall in the debate on that change any debate about how it would affect positively many right hon. and hon. Members who at that time, within the rules, owned second properties in London, on which they would accrue a capital gain, and on that capital gain, they would pay a lower rate of 18%. The hon. Member for Croydon South is absolutely right to say that it was the wrong thing to do. Putting it up to 28% is a step in the right direction, but on these measures and these activities of investment fund managers, they should pay income tax on what most people, including me, would regard as income.

As I have said, I have considerable sympathy with new clause 2. I shall listen with great interest when the Minister speaks at greater length about the new clause—he said he would and it would be helpful. Having heard his side, I and my hon. Friends will make up our own minds. We are not only swayed by the arguments for equity, equality and justice; we also bear in mind, as the hon. Member for Kirkcaldy and Cowdenbeath mentioned in speaking to new clause 2, the OECD's recommendation that such incomes should be treated as incomes and be subject to income tax, not treated as capital gain and subject to capital gain tax. To those of us who are not taxation experts, it appears that calling it a chargeable gain is a manoeuvre to lessen the tax paid by those who benefit from that form of remuneration.

Mr Gauke: I will respond to the remarks, not necessarily at length. The comments from the hon. Members for Kirkcaldy and Cowdenbeath and for Wolverhampton South West were pithy.

I shall deal straight away with the question of carried interest. Carried interest is a reward for a manager that is linked to the long-term performance and growth of the funds they manage. It is therefore capital in nature and should continue to be charged against capital gains tax. That has been the approach followed by Governments of both major parties for many years, and it is consistent with what happens in many other jurisdictions.

My hon. Friend the Member for Croydon South was right to say that capital gains tax was 18% when the Labour Government left office. If I remember correctly, it was possible for private equity managers to benefit from taper relief, so there was often an effective rate of 10% for many years under the Labour Government. There at least seems to be a consensus in the Committee that that was not the right approach. We believe we were right to take steps to change the capital gains tax rate, as we did at the beginning of the previous Parliament, but I would still argue that, as is the case in many jurisdictions, it is perfectly reasonable to treat carried interest as essentially a capital gain issue rather than an income issue. Of course, if any part of a manager's rewards payments are properly regarded as income rather than capital, they should be charged to income tax. That is what drives the Government's approach. We have launched a consultation to ensure that rewards that should be charged to income tax are always taxed in that way.

I will just pick up a couple of points made by the hon. Member for Kirkcaldy and Cowdenbeath. He is correct that national insurance is not chargeable on capital gains; it is payable only on earned income. However, it is not the case that entrepreneur's relief can be accessed by investment managers, as the activity of the underlying fund is investing, not trading. Entrepreneur's relief therefore does not apply in those circumstances.

If I were so inclined, I could quote extensive comments from the likes of Ed Balls, when he was a Treasury Minister, in support of the capital gains treatment of carried interest, and that was a period when the gap between income tax and capital gains tax was much greater, but I will spare the Committee that this morning. I am not sure that Ed Balls is a particular hero of the hon. Member for Wolverhampton South West, but our approach on carried interest is consistent with that of other countries and previous Governments.

We are determined to ensure that the rate at which private equity managers pay tax is never lower than their cleaners pay. That was the case under previous Governments, but it is not the case any more. Nor is it acceptable that what should be charged as income is in fact charged as capital gains. The Government have taken action on those points. I hope that provides reassurance to the Committee and I urge the hon. Member for Kirkcaldy and Cowdenbeath not to press new clause 2.

Chris Philp: May I add a further consideration? Given that, as the Minister said, most other countries treat carried interest as capital gain, if we adopted new clause 2 and started taxing it as income, there would be a significant risk that the population of fund managers in London would simply relocate elsewhere and the UK Exchequer would end up receiving less cash instead of more, thus increasing the tax burden on the rest of us.

Mr Gauke: My hon. Friend makes a good and important point. In thinking through the impact of the policy advocated by some Opposition Members, we need to understand the international implications and the implications for the UK's competitiveness. Clearly, any assessment of the revenue effects would have to take account of what are likely to be significant behavioural responses. Claims of large revenue sums may be based on a static analysis, without an understanding that there is also a competitiveness point.

Rob Marris: The Minister mentioned Ed Balls. I think the Minister was on a Committee in the position that I am now in when Ed Balls was trumpeting the fact that London had become the financial centre of the world and had surpassed New York because of light-touch regulation. Some of us on the Labour Back Benches pointed out to him that that was a bad move that might end in tears. Sadly, our warnings were more than fulfilled in 2008, with the Lehman Brothers meltdown and what happened in this country. I caution the Minister not to go along with the argument made by the hon. Member for Croydon South that people will go offshore and so on. We should not have had light-touch regulation and we should be careful about regulation now.

Mr Gauke: Again, I think we can find some consensus. I will not dwell on this, Sir Roger, because we will depart from the business before us if we start to discuss the failures of the regulatory system in the run-up to the financial crash in 2008. However, that is why we have undertaken substantial reform of financial regulation in the UK.

We should want a competitive and thriving financial sector in this country, but we must ensure that it does not pose systemic risks for the UK economy as a whole. That is the challenge that the Chancellor has referred to as the British dilemma in having a major financial centre, with many benefits to us. It is important that the City thrives. Some of my ministerial colleagues and I have visited the City—I do not know whether everyone can say that. However, we must ensure that we have a regulatory system that does not impose greater risks on the overall taxpayer. There is a question of judgment here, and ensuring that we have a thriving private equity industry is something we should welcome.

Roger Mullin: To clarify, we do not intend to press the new clause or any of our earlier measures to a vote at this stage, but we will return to them on Report, when we will also take account of the remarks the Minister just made, which I will want to challenge.

12 noon

Mr Gauke: I very much look forward to debating this matter in future. I have said what I wanted to say. The Government are determined to ensure that income is taxed as income, and we have narrowed the gap between the rates of income tax and capital gains tax. I think that we are getting the balance right and we see that in the clauses we are considering today.

Question put and agreed to.

Clause 40 accordingly ordered to stand part of the Bill.

Clause 41 ordered to stand part of the Bill.

The Chair: New clause 2 would have been taken at the end of the Bill, but Mr Mullin has indicated that he does not wish to move it, so that is now academic.

Clause 42

Vehicle excise duty

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss new clause 5—*VED rate: impact on carbon dioxide emissions*—

'(1) The Chancellor of the Exchequer must, within two years of the passing of this Act, undertake a review of the impact of introducing a flat rate of Vehicle Excise Duty for all cars regardless of carbon dioxide emissions, except those with zero-emissions.

(2) The review must address (but need not be confined to):

(a) the impact on the UK car manufacturing industry, and ancillary industries, of introducing such a flat rate;

(b) the impact (including the environmental impact) of such a flat rate on sales of low-emissions vehicles; and

(c) the impact of such a flat rate on Exchequer revenue.

(3) For the purposes of this section, a "low-emissions vehicle" is a light passenger vehicle the carbon dioxide emissions of which exceed 0 g/km but do not exceed 100 g/km.

(4) The Chancellor of the Exchequer must promptly lay a report of the review before both Houses of Parliament.'

Mr Gauke: The clause reforms vehicle excise duty to support uptake of the cleanest cars. It also addresses the current system's unfairness and sustainability challenges. The reformed VED will apply to cars first registered from 1 April 2017 onwards. The reformed tax will raise the same revenue as today, but the changes will ensure that revenues are sustainable in the long term. It supports creation of a new roads fund, so that from 2010 all revenue raised from VED in England will go into the fund, which will be invested directly back into the English strategic road network.

I will set out why the Government believe the current system needs changing. VED for post-2001 cars is currently banded according to carbon dioxide emissions for both first-year rates and annual standard rates. The current CO_2 bands are out of date. They were introduced in 2008, when average new car emissions were 158 grams of CO_2 per kilometre. Today they are 125 grams of CO_2 per kilometre, so owners of many ordinary new family cars such as the Ford Fiesta now pay nothing or next to no VED, and by 2017 owners of nearly three quarters of new cars will pay only £30 a year or less. That has weakened the incentives for people to purchase the cleanest cars.

Clearly that level of revenue is unsustainable. It also creates unfairness. The average VED across all UK motorists is £166, whereas the average VED on a brand-new car is only £85, which will fall to £62 by 2017. Therefore, families who can only afford older cars are increasingly shouldering more of the tax burden than those who can afford to buy a new model every few years. Evidence from studying car purchase decisions across Europe suggests that the first-year rates of VED are the most effective in influencing people's choices to buy efficient cars. VED annual standard rates are less effective, as people place little weight on future costs, so basing VED annual standard rates on CO_2, as the current system does, has little impact on environmental outcomes, causes significant unfairness and makes revenues unsustainable.

Changes made by the clause maintain first-year VED rates based on CO_2, but five new VED bands in the nought to 100 grams of CO_2 per kilometre range will be created. The new bands will distinguish between zero-emission cars, plug-in and hybrid vehicles and efficient, conventionally fuelled cars. The very cleanest zero-emission cars that produce no air pollutants will pay nothing; rates on the most polluting cars will be increased. The changes strengthen the incentive to purchase the cleanest cars and incentivise continued improvement by manufacturers. For all subsequent years, the new VED system moves to a flat standard rate of £140 for all cars except zero-emission cars, which pay nothing. There will be a standard rate supplement of £310 for cars worth more than £40,000 to apply for the first five years on which the standard rate is paid.

These changes improve fairness for all motorists, strengthen environmental signals and sustain revenues in the long term. No one will pay more in tax than they do today for the car they already own. For cars in the new system, around 95% of motorists will pay less than the average £166 they pay today. The change will put revenues on a sustainable path, but the total car VED burden will not increase. The change updates and strengthens incentives to purchase the cleanest cars and particularly incentivises the uptake of fully zero-emission cars. Their uptake will drive the greatest reduction in carbon emissions reductions as well as air pollutants.

I would like to say a few words about new clause 5 before the hon. Member for Wolverhampton South West has a chance to speak on it. New clause 5 would require the Chancellor of the Exchequer, within two years of enactment, to undertake a review of the impact of introducing a flat rate of VED on the automotive sector, on emissions and on revenue. The new clause calls for such a review within two years of Royal Assent, but hon. Members should note that that would be only approximately eight months after the reforms actually came into effect.

The new clause is not necessary. The Chancellor already announced in the summer Budget that we will do precisely that kind of review as necessary, to assess how the arrangement works in practice and to ensure that the reforms continue to incentivise the cleanest cars. Adopting a flat annual rate of VED while strengthening support for the cleanest cars ensures the change is a fair, simple and sustainable solution able to provide long-term certainty for the UK car market.

Clause 42 strengthens incentives to purchase low-emission cars over efficient conventionally fuelled cars. It sustains VED revenues, allowing for the creation of the roads fund, and it will improve fairness for UK motorists. I stress that the proposed new clause is entirely unnecessary.

In conclusion, clause 42 reforms VED for cars first registered from 1 April 2017. It ensures the tax keeps pace with technological change, is fairer, simpler and sustainable in the long term, and it allows for the creation of a new roads fund, which will ensure our national road network gets the multibillion pound programme of investment it needs. I therefore urge that the clause stands part of the Bill, and hope to persuade the hon. Member for Wolverhampton South West not to press new clause 5.

Rob Marris: With your permission, Sir Roger, I will start by addressing clause 44 in the group, lest I forget it. Have I understood that correctly?

The Chair: No, this is clause 42. I had my rented teeth in when I read it out. I fully understand the hon. Gentleman's confusion. Clause 42 and new clause 5 are to be debated now. The next batch includes clauses 43 and 44.

Rob Marris: Thank you for that clarification; I did not want that clause to be overlooked. I was doing quite well on the bicycles, and I thank the Minister for his clarification at the start of this session. I hope we can now make similar progress. I will be really motoring on clause 42. I think VED goes back to 1889. I want to thank my researcher Imogen Watson, who has done a sterling job in assisting me with the Bill, particularly clause 42.

I find the Minister's explanation somewhat unconvincing. The first part of his explanation about equality and the fact that, if left unchanged, by 2017 75% of vehicles would be paying £30 or less VED a year, and that the average for vehicles is £166, but the average for new cars is £85. He seemed to jump from that to a suggestion that, because the banding based on CO_2 introduced by the previous Labour Government was successful, we should now abandon it.

I fully understand the revenue arguments for that. That scheme was predicated on giving a tax break to car purchasers, whether individuals or companies, for buying a car that is less polluting—no vehicle is environmentally friendly. The scheme has been successful, as the Minister's figures attest, but the Government now propose to abandon it.

I can see an argument for looking again at the vehicle excise duty scheme to protect Government revenue, and I can see an argument, particularly in the light of the admitted outrageous behaviour of the Volkswagen Group, for reconsidering whether CO_2 should be the sole gas used in the metric for setting the vehicle excise duty that takes into account the pollution produced by a light passenger vehicle when in use. We could, for example, look at nitrogen oxides, commonly called NOx, as another component of pollution in a tax regime to dissuade purchasers of light passenger vehicles from buying vehicles that, through the tailpipe emissions of noxious gases other than CO_2, cause hundreds of deaths in this city every year and thousands around the country. Clause 42 does not do that. It sticks to carbon dioxide, which, of course, is a key greenhouse gas, is bad for our climate and is produced in great quantities by light passenger vehicles around the world.

Where I differ significantly from the Minister—I will invite my hon. Friends to vote against clause 42 in a Division on this—is that he said today, unless I misheard, that the rates on the most polluting cars will be increased under the new regime, but that depends on the calculation. I remember what the Minister said about some research indicating that it is the first year of vehicle excise duty that has a particular impact on the purchasing decision. However, it may surprise the Committee to hear that I am an avid reader of *The Daily Telegraph* on Saturdays.

Jake Berry (Rossendale and Darwen) (Con): What about the *Morning Star*?

Rob Marris: The motoring column in the *Morning Star* is not quite as good as that in *The Daily Telegraph*, but then it is a big capitalist publication with lots of assets.

Few, if any, Opposition Members will be aware of this, but all Government Members who are avid readers of *The Daily Telegraph* on Saturdays will be aware—*[Interruption.]* It appears that Opposition Members are avid readers of all newspapers; my colleagues are so well informed. In the motoring section is Honest John, who answers queries from members of the public. He is so successful that he has a team of three others to help him. He responds to queries on car purchases, what tyres to use, and certain technical stuff that, frankly, I do not really understand.

Jake Berry: U-turns?

Rob Marris: Handbrake turns if not U-turns. I suspect that Honest John has considerably more expertise than anybody in this room, and he is always clear that manufacturers aim to produce a car that will last at least seven years. Certain models last longer, and we all know that Jaguar Land Rover engines will last a lot longer than seven years because they are made in Wolverhampton and because they are a high-quality product. But the fact is that from 2017, assuming clause 42 is agreed to, the vehicle excise duty payable over seven years will not increase for the most polluting cars. It will decrease.

12.15 pm

At the moment, 445 cars are in the top, least polluting band so are exempt from vehicle excise duty because they emit less than 100 grams of carbon dioxide per kilometre driven. I drive one; my car is a hybrid. Under the proposed changes, only 13 of those 445 models—I say "models" because although I appreciate that the proposal is not retrospective, I suspect that the car I drive will still be on sale in March 2017—will be exempt from vehicle excise duty. We are talking about the least polluting vehicles. That is a considerable drop.

At the top end of the scale, the position is reversed. It is difficult to compare the bands because, as the Minister said, there are five new bands at the least polluting end of the scale. However, if we look at the old band on a seven-year basis, someone with a car in band B—101 grams to 110 grams—would pay a total of £120 in vehicle excise duty over seven years. Under the new regime, that person would pay £850 for the same model, brand new—an increase of £730. For vehicles in band C, the seven-year figure increases from £180 to £865.

You will be relieved to learn, Sir Roger, that I do not intend to detain the Committee by going through all the bands from A to M. However, I should say that the seven-year figure for band K, currently £2,380, will drop by £340, while band L's, currently £3,810, will drop by £1,270. The figure for band M, the most polluting on the CO_2 measurement, will drop from £4,130 to £2,840 cumulatively over seven years—a drop of £1,290. The changes in respect of cars costing more than £40,000 when new have consequences that, even if intended by the Government, are in the Opposition's view very unfortunate.

A petrol powered Audi Q5 with a two-litre engine—

Jake Berry: Nice!

Rob Marris: It may be nice for the hon. Gentleman, but it will not be so nice for his great-grandchildren when they reap the havoc from climate change. That Audi emits 181 grams of CO_2 per kilometre. Under the

[Rob Marris]

new scheme, assuming it is still on sale in March 2017, the car will move up from band I to band J, yet those emissions will receive a discount, as it were, of £60; the current seven-year cumulative duty would be £1,700 but under the new scheme it will be £1,640. The change is not huge, but it is a 3.5% change in the wrong direction.

A petrol Infiniti Crossover, of the Nissan luxury brand, which as far as I know is not made in this country, produces an antisocial 265 grams of CO_2 per kilometre. It is currently in band M and liable for a seven-year duty of £4,130. Under the new regime, the charge will be £1,290 less, at £2,840—a 31% drop because of the interaction between the new vehicle excise duty regime and the £40,000 cost threshold, above which a different regime applies. That is a 31% drop in vehicle excise duty over a seven-year period for one of the most polluting light passenger vehicles currently on sale in the United Kingdom.

Now let us look at a Jaguar XF, which currently costs just under £50,000. It is now in band F because its CO_2 emissions are 144 grams per kilometre, and costs £1,015 over seven years in vehicle excise duty. Under the new regime, if a car costs less than £40,000, it will move up—up being less polluting—to band H and cost £1,040 over seven years, an increase of £25, or £3.57 a year, as my wonderful researcher, Imogen Watson, tells me. But as for the Jaguar XF, fine vehicle as it is, no doubt with an engine made in Wolverhampton, because its price tag is over £40,000—and remember: its CO_2 emissions are 144 grams per kilometre, which is still high, but nothing like the Infiniti's 265 grams per kilometre—it will cost an extra £310 per year for the first five years, meaning that over seven years the duty will go up to a total of £2,730, an increase of £1,715 or 169%.

Now, I have nothing against the Infiniti—as far as I know I have never been in one—and Nissan is a fine manufacturer, but its luxury model emits 265 grams of CO_2 per kilometre, and yet there will be a 31% drop in duty for it over the seven-year cumulative period, whereas the Jaguar is much less polluting, at 144 grams per kilometre, but its duty will increase by just under 169%. That cannot be right.

I urge the Government to think again. They should think about the pulmonary diseases from which thousands of people are dying already. Much—not all, but much—of that illness is arising because of vehicles, including light passenger vehicles. The Government also need to think again about the mixture of bad gases, to put it in lay terms, used as the metric for calculating vehicle excise duty. I also urge them to think again about the CO_2 based regime they are proposing from 2017 onwards, because it cannot be that the successor to the greenest Government ever, which is a phrase that hon. Members have no doubt been waiting for me to utter, are moving in the wrong direction by jettisoning what has been—I will try to be dispassionate, although it was my Government who introduced it—a vehicle excise duty regime that has been extremely successful in lessening considerably the CO_2 emissions from the fleet of light passenger vehicles in the United Kingdom.

I take the Minister's point that the way in which new clause 5 is worded means that the review would happen eight months after the new clause would come into effect if the Government do not withdraw clause 42, as I hope they will. If he were to say a little more about the Chancellor's remarks regarding a review of the impact and effect of clause 42, something to which he adverted in his remarks, I might be reassured and so not wish to press new clause 5 to a Division at the appropriate time. I therefore hope for some reassurance from the Minister; although, capable as he is, he can only rely on what the Chancellor of the Exchequer has said in that regard. I urge Members to vote against clause 42 if the Government do not withdraw it, as it will be bad for the economy, bad for the environment and bad for our children.

Christian Matheson: I feel I ought to add my congratulations to my hon. Friend on his research. He seems to be doing an impressive job. I was also impressed by the recommendation he gave about Honest John in *The Daily Telegraph*—I might cancel my Saturday subscription to the *Morning Star* and take the *Telegraph* instead.

My hon. Friend makes an important point. It is entirely legitimate to build environmental considerations into the taxation system if we want to change people's habits in order to protect the environment, and the clause gives the impression that the Government are once again rolling back from their pledge to be the greenest Government ever and falling into bad old ways.

There is a way out. Perhaps the Minister should take a pause on the clause, as my hon. Friend suggested, because so much of it is predicated on emissions standards that have been thrown into turmoil by one company, which was not a British company—I do not believe that a British company would partake in such skulduggery. We cannot be absolutely sure that emissions standards across the industry are as they should be, because manufacturers in certain areas have been telling us, shall we say, statements that lack 100% veracity.

It is not only that motorists have been hoodwinked. The Government have potentially lost revenue as a result of emissions figures being massaged, with lower figures given. What are the Minister's intentions, either through the Bill or perhaps more appropriately through another mechanism, on claiming back any revenue lost as a result of the Volkswagen scandal? The state has lost revenue as a result, so taxpayers have been hoodwinked as well as individual motorists, and although the Bill might not be the right mechanism for this, there must be a role for the Government in chasing down such manufacturers. Perhaps the Minister should not push through new measures linked to emissions standards until he and his colleagues in the Department for Transport are sure that a fair taxation system can be based on those standards. The Minister may wish to heed my hon. Friend's good advice.

Mr Gauke: Let me try to respond to the points made. On the environmental incentives, consumer research suggests that VED is not an important factor in purchase decisions. Where VED has been shown to play a supportive role is in the highly visible first-year rates. In those we have retained, and indeed strengthened, the environmental signal: for example, first-year rates will double for the most polluting cars.

To drive real emissions reductions in transport, we need to incentivise the uptake of fully zero-emission cars such as pure electric cars. Owners of such cars will pay nothing in the VED system, while highly polluting cars will see a doubling of their rate. As more expensive cars are generally more polluting, it is the case that owners of such cars will continue to pay more than those of smaller, efficient cars through the standard rate supplement.

The point made by the hon. Member for Wolverhampton South West about the number of cars in the lowest band was correct. We are deliberately tightening the incentives at the bottom end. The current structure provides little incentive to buy a car much cleaner than 100 grams of CO_2 per kilometre and we believe that such an incentive should be there. It is also worth making the point that nobody's VED on their existing cars will go up. I made that point earlier, but I want to reiterate it.

12.30 pm

The VED reforms target environmental incentives on the first year, which is the moment when they make the most impact on new car purchases. Highest banded cars will probably be withdrawn from the new car market anyway, due to tougher emissions standards placed on manufacturers. In that context, it is worth pointing out that new car pollution emissions standards, known as Euro 6 standards, are mandatory from 1 September 2015. The new standards effectively narrow the gap in emissions between diesel and petrol engine cars. The Government are also working to ensure EU-level changes that improve the test cycle, including using real-world driving as part of the approval process for new cars by 2017-18. That will ensure that all new Euro 6 diesel cars are adequately approved and the public can be confident in the test results.

In response to the question from the hon. Member for City of Chester, clearly the Volkswagen scandal concerns NOx emissions, whereas VED is based on CO_2. We do not know whether CO_2 emissions will have been affected by that scandal, but we are working hard to establish the facts. As for the Chancellor's commitment to review the matter, he is committed to review the new system when necessary to ensure it keeps pace with technological change in the market and continues to incentivise the purchase of the cleanest cars.

We have to recognise that this is not a static market. That is why there is a need to return to the measures after the last period of reform. I return to the remarks I made earlier about the failure in the regime to distinguish between the cleanest cars and what, some years ago, would have been seen as low-polluting cars, but now tend to be much more the norm. I also come back to the point about fairness. If we had made no reforms, those who could afford new cars would be paying substantially lower amounts of VED than those who had older cars. I would also make the point that the reforms would bring in additional revenue to the Exchequer, notwithstanding the fact that nobody will face a higher charge on their existing cars.

Failing to pass the measures in the clause will clearly add to the deficit. I do not intend to rerun last night's arguments, but when the Labour party tells us that it is serious about the deficit, it would be unfortunate if the very next day it voted against a measure that would help to reduce the deficit fairly significantly, by bringing in additional revenue by 2020-21 of £1.4 billion. If the Labour party wishes to vote against that today, so be it, but I would once again question its credentials for ensuring that the country lives within its means. With those remarks, I hope the clause will stand part of the Bill and that new clause 5 will not be pressed to a Division.

Rob Marris: I take the Minister's point about retrospection, which I referred to in my remarks. He may remember—although others will not—that at one point Alistair Darling, the Labour Chancellor of the Exchequer, did suggest a retrospective VED regime, and I led the Back-Bench rebellion among the Labour ranks and got him to drop it because it was unfair. I tried unsuccessfully in years gone by, under a Labour Government, to get swingeing increases in VED for the most polluting cars. In those days nine of the 10 most polluting light passenger vehicles were not 4x4s, as is commonly thought, but luxury brands such as Maserati. There was only one 4x4 in the top 10.

The Minister understandably referred to the deficit, which remains enormous under this Government, as it did under the previous, coalition Government. My hon. Friend the Member for City of Chester gave the Government a way out, because they do not propose to introduce this measure for another 18 months.

The Government should not be lowering the seven-year total vehicle excise duty on the most polluting cars and raising it considerably on the least polluting cars. I take the Minister's point about the research to which he is privy regarding the effects of VED being most keenly felt, and therefore the biggest lever revenue-wise for the Government, on the year of purchase rather than in subsequent years. However, the two are not contradictory. It is not an either/or, particularly as the Government have, transparently and helpfully, put forward proposals for a change in regime in 18 months' time. That is helpful for our debate and that helps prospective car purchasers take into account the change in regime. The clause could be changed on Report if the House so wants.

The Government could introduce a revised regime that protects Government revenue and which would address point about the deficit, to which the Minister reasonably adverted, and the Opposition's concerns about the seven-year cumulative total dropping markedly—a 31% drop. That could be done by having a high first-year VED that influences purchasing decisions, as the Minister assures us is the case—I have no reason to doubt that; I do not know one way or the other—and dropping the crazy notion of a £140 flat rate thereafter, except for very expensive vehicles that cost more than £40,000, or those on the protected rate of £130.

The Minister and our society, but not purchasers of certain types of vehicles, can have our cake and eat it. We can have the first-year high vehicle excise duty to dissuade purchasers from wrecking the environment even more by buying a very polluting vehicle and we can have a continuing non-flat rate with progressively higher vehicle excise duty each year for more polluting vehicles. We can have both. That would protect revenue and help to lessen the damage to our environment. Again, I urge the Government to rethink, if not the whole scheme, then at least the £140 flat rate and the £130 protected rate for year two onwards. That would square the circle as the Minister seeks on revenue protection and pollution.

Question put, That the clause stand part of the Bill.

The Committee divided: Ayes 14, Noes 10.

Division No. 1]

AYES

Baldwin, Harriett
Berry, Jake
Caulfield, Maria
Frazer, Lucy
Garnier, Mark
Gauke, Mr David
Hoare, Simon
Mak, Mr Alan
Menzies, Mark
Merriman, Huw
Philp, Chris
Stride, Mel
Tolhurst, Kelly
Warman, Matt

NOES

Burgon, Richard
Dakin, Nic
McDonald, Andy
McGinn, Conor
Malhotra, Seema
Marris, Rob
Matheson, Christian
Mullin, Roger
Streeting, Wes
Thewliss, Alison

Question accordingly agreed to.

Clause 42 ordered to stand part of the Bill.

The Chair: The hon. Member for Wolverhampton South West will let us know what he wants to do about new clause 5 when we reach the appropriate moment.

Clause 44

Aggregates levy: restoration of exemptions

Question proposed, That the clause stand part of the Bill.

Mr Gauke: Clause 44 makes changes to ensure that the aggregates levy will no longer be due on less environmentally damaging sources of aggregate, including waste from slate, and ball and china clay production. It ensures that exemptions found lawful by the European Commission are reinstated, with retrospective effect from 1 April 2014. Finally, it changes the former shale aggregate exemption to reflect the European Commission's decision that part of the exemption provided unlawful state aid.

The Government believe it is right that the aggregates levy is used to encourage more efficient quarrying by shifting demand towards less environmentally damaging sources of aggregate. The levy was therefore designed with exemptions for recycled aggregates and by-products of other industrial processes, such as slate or ball and china clay waste. However, following legal action from a UK trade association, the European Commission launched an investigation into several of the aggregates levy exemptions on state aid grounds. During the investigation, the Government were required to suspend the aggregates levy exemptions, which were removed by the Finance Act 2014. The Commission announced on 27 March 2015 that it had found all the exemptions lawful except for part of the shale exemption, namely for shale aggregate that is not produced as a by-product of untaxed materials.

Clause 44 will restore in full the exemptions that were suspended on 1 April 2014, except for the shale exemption. It repeals the removal of the levy exemptions in the 2014 Act, so that they are reinstated with effect from 1 April 2014, the date from which they were originally suspended. Businesses were able to stop paying the aggregates levy on materials covered by the reintroduced exemptions from 1 August 2015. They can also reclaim levies that they have paid on such materials since the exemptions were suspended. To provide clarity to businesses, details of the repayment process have been published by HMRC in a Revenue and Customs brief, ending the uncertainty that businesses such as slate quarries in Wales and ball and china clay quarries in south-west England have faced since the start of the Commission investigation. We estimate that some 120 businesses will be able to claim repayment of the levy for reinstated exemptions.

Clause 44 will also change the former shale exemption, with only the part of the exemption found lawful by the Commission being reinstated. A new exemption process for shale will be introduced so that only shale used for construction purposes, which includes shale aggregate, and shale produced as a by-product of other taxed materials will be taxable under the aggregates levy.

To conclude, clause 44 will reinstate the aggregates levy exemptions found lawful by the European Commission with retrospective effect from 1 April 2014 and change the former shale exemption in line with the Commission's decision. It will restore the environmental aim of the levy to shift demand towards less environmentally damaging sources of aggregate by exempting such materials once again.

Rob Marris: It may surprise hon. Members to know that aggregates are dear to our heart in Wolverhampton, which was the site of the headquarters of Tarmac, as was, which grew to be one of the biggest aggregates companies in the European Union. I am pleased that the coalition Government were able to persuade the European Commission that the 2002 regime introduced by the then Labour Government was not unlawful state aid and that the decision made in March this year went in favour of our country. It is unsurprising that HMRC now wants to sort out the shouting, it being all over bar the shouting for the 120-odd companies that were caught up while that investigation was ongoing. The clause is an entirely sensible way of going about that, so I invite my hon. Friends not to oppose it.

Question put and agreed to.

Clause 44 accordingly ordered to stand part of the Bill.

Clause 46

International agreements to improve compliance: client notification

12.45 pm

Question proposed, That the clause stand part of the Bill.

Mr Gauke: Clause 46 amends section 222 of the Finance Act 2013 to allow regulations to be made requiring financial institutions and tax advisers to provide their clients with information regarding the automatic exchange of information on financial accounts between tax authorities. The purpose of the power is to support the Government's ongoing strategy for tackling offshore evasion.

The UK has been an international leader in implementing the automatic exchange of information agreements, including through our G8 presidency. In 2012 we were the first country to sign an enhanced automatic tax information exchange agreement with the United States. In 2013 we signed similar agreements with our Crown dependencies and overseas territories and launched an initiative for multilateral exchange on a global scale. We have since played a leading role in the development and early implementation of the new global standard, known as the common reporting standard or CRS.

To date, 95 countries and jurisdictions have committed to begin sending information automatically under the CRS in 2017 or 2018. As a result, HMRC will receive information on a wide range of financial accounts and investments, of both individuals and entities, from financial centres the world over. That represents a step change in HMRC's ability to crack down on offshore tax evasion. To coincide with that substantial increase in the flow of information on offshore accounts, we will be introducing a significantly tougher approach towards those who continue to evade their taxes. We have been consulting on a range of enhanced penalties and criminal offences.

In advance of the CRS data being received and the ramping up of penalties, there will be a last chance for people to come forward voluntarily to pay their tax, interest and penalties. That is not a soft touch by any means, and prosecution remains an option for the worst offenders. However, providing notice and a final opportunity for voluntary disclosure is appropriate as voluntary disclosure is a practice we want to encourage. In addition to media campaigns and other communications, the powers introduced by the clause will support the disclosure process. We know from previous experience that direct communication with a customer about their accounts, whether from HMRC, their account provider or their adviser, can be an effective means of communication, getting the message across and influencing behaviour.

The power will allow notification requirements to be placed on businesses that are likely to have advised clients about offshore accounts or to have helped to set up offshore accounts, which includes financial intermediaries, tax advisers and law firms in the UK and overseas subsidiaries of such UK businesses. Under the regulations it will be possible to specify the timing, form or manner of notifications. The scope of the power allows us to enact regulations to ensure that notifications are effectively targeted and proportionate. To that end, we will be consulting closely with the financial services industry as the regulations are drawn up.

I am aware that regulations made under this power will impose burdens on financial institutions, although we do not expect such burdens to be large. However, it is right that financial institutions should play their part in rooting out evasion that increases the burden on honest taxpayers. I am pleased to report that stakeholders to whom we have spoken are generally supportive.

Our current expectation is that the regulations will require financial intermediaries and advisers to notify their UK customers or clients who are known to have, or are likely to have, an offshore account. The regulations are expected to require that they provide such customers with the following information: first, that data on offshore accounts are being collected and will be reported to HMRC from 2017 by 95 other tax authorities; secondly, that HMRC will open a final time-limited disclosure facility in 2016 to regularise their affairs, as necessary, before the data are received; and, thirdly, that there will be a range of penalties, including possible prosecution, for those who continue not to pay the tax they owe.

As noted, we are consulting closely with the industry as the regulations are drawn up to ensure that they are workable, proportionate and effective. We also intend to discuss the possible use of this power to support other tax authorities on a reciprocal basis. Regulations under clause 46 would allow us to require those within scope to notify clients with accounts in the UK who reside in another country about the exchange of data. We would propose to put in place such a requirement only if that other country did likewise as regards accounts held by UK residents within its territory.

This clause forms an important part of our wider strategy to tackle tax evasion. It is a targeted tool to inform offshore account holders both the significant amount of data that HMRC will receive on their financial accounts and make them aware of the opportunity to disclose and the significant penalties that can be applied if they do not. I therefore hope that the clause stands part of the Bill.

The Chair: Before I call the hon. Member for Wolverhampton South West, I have to remind hon. Members that unless and until the recommendation of the Chairman of Ways and Means is adopted by the House—it has not happened yet—the Chairman has no power to suspend the sitting at 1 o'clock. It is therefore up to the Government Chief Whip to move the Adjournment at the time that he feels appropriate; and if he does not do so, you do not get any lunch.

Rob Marris: Clause 46 is a step forward. I congratulate, with one cheer, the Government on that, but it is a small step. The common reporting standard comes in, I think, from 2017. The Government are talking now about another amnesty. How many amnesties can we have? Hon. Members will remember the CD of information on tax evaders that leaked out of Switzerland and was used constructively by several other countries in Europe to clamp down on those of their citizens who had illegally squirrelled away money in Switzerland. My recollection is that we had some kind of amnesty in the United Kingdom for such citizens and, lo and behold, when the Swiss papers—the Swiss bank records—were finally opened several months later, the money had all gone walkies and the amount that the Chancellor of the Exchequer got in was far less than he had been proudly trumpeting would be recovered by HMRC because of that information.

I fear that the same may happen in this case. The clause is a step forward. As for the regulations, which are being consulted on, I say to the Minister that I have not seen it anywhere—it may be somewhere—that this advice should be given in writing and recorded in writing by the financial adviser. That would be a step forward, but a greater step forward to protecting the Revenue from this offshoring avoidance, if not evasion, would be, as I said to the Committee two days ago, to have much more pressure from Her Majesty's Government on transparency, on beneficial ownership and on the tax havens around the world, which assist aggressive tax avoidance and sometimes assist, perhaps unknowingly, with tax evasion. Many of those tax havens, whether Crown dependencies or otherwise, have a relationship with the United Kingdom. We have considerable leverage there and, in terms of what is disclosed publically, Her Majesty's Government—both this Government and the previous, coalition Government—have not used that leverage as decisively as we on the Labour Benches would wish.

This externalising of costs to financial advisers, although understandable and welcome, is an externalising of costs, so the financial adviser has to remind the client of the penalties for undertaking certain types of financial transactions. Meanwhile, the number of staff at Her Majesty's Revenue and Customs, who are one of the lines of defence against aggressive tax avoidance, is being slashed by one quarter, as I understand it, from 70,000 to 52,000 in the period 2010 to 2016. I would be delighted if the Minister could tell me that I have got that figure very wrong—I may have got it wrong slightly around the edge. If he could tell me that the number of HMRC staff is in fact being increased as part of a Government measure to increase markedly the number of staff who can help to crack down on aggressive tax avoidance and illegal tax evasion, I would be delighted, but I fear that he will not reassure me that there has been a major increase in staff. So, although the clause is a step in the right direction, it is nibbling around the edges. A much stronger and more effective way forward would be to have a larger number of properly trained HMRC staff investigating and applying pressure, and the legislation that already exists.

Mr Gauke: I welcome the support for the clause, even if the enthusiasm for it was somewhat limited. I will not dwell at length on the wider issues raised by the hon. Member for Wolverhampton South West, but it is worth pointing out that we have been a world leader in our pursuit of tax evaders. It is a driving force behind the implementation of the common reporting standard, to which all overseas territories and Crown dependencies have signed up. It is also worth pointing out that HMRC has the option to prosecute where it deems that suitable and where it is in the public interest. We are also currently consulting on tougher penalties, including new civil and criminal offences.

The common reporting standard will give HMRC access, for the first time, to data about accounts held by UK residents in over 90 countries, which will make a significant difference to HMRC's ability to crack down on tax evasion. We are also toughening up the penalties for those engaged in tax evasion. HMRC has been consulting on new criminal offences for corporates and individuals and on new penalties, including applying to the underlying asset for individuals and enablers. The Government will report on the outcome of the consultations shortly. Disclosure facilities are one of a number of approaches—we are also introducing tougher sanctions against those who abuse the rules—and the disclosure facilities have brought in more than £2 billion in tax.

Rob Marris: Can the Minister say briefly what the Government are doing about disclosure of beneficial ownership?

Mr Gauke: The UK is introducing a central register that is publicly available. We are leading the way on that; I am not aware at the moment of any other jurisdictions elsewhere that are pursuing that. We believe that we should set the benchmark, so I am pleased that we as a country are leading the way.

The hon. Gentleman mentioned HMRC resources and so on. He referred to headcount. He will be aware of the dramatic reductions in headcount that occurred under the last Labour Government. In the last Parliament, we invested more than £1 billion in HMRC to tackle evasion, avoidance and non-compliance between 2010 and 2015. We made more than 40 changes in tax laws, closing loopholes and introducing major reforms to the UK tax system. I think most people would agree that it is much harder to avoid and evade taxes now than it was five years ago. Over this Parliament, up to 2020-21, we will be investing more than £800 million in funding in HMRC for matters relating to evasion and general non-compliance, which will help HMRC tackle evasion.

We have a proud record. It is not purely about staff numbers, although as it happens, enforcement and compliance numbers were not reduced in the last Parliament; the reductions in head count were generally within personal tax. It is not simply about headcount; it is about making use of technology and information and acting efficiently. We have a proud record on that front and we will continue in that vein. The clause is part of that process.

Question put and agreed to.

Clause 46 accordingly ordered to stand part of the Bill.

The Lord Commissioner of Her Majesty's Treasury (Mel Stride): I beg to move,

That further consideration be now adjourned.

The Chair: Before I put the Question, in fairness to Members and, in particular, members of staff, let me say that the Committee has made—without indecent haste and having studied each clause thoroughly—very considerable progress. It is conceivable that we might get to the end of the Bill today. I am conscious of the fact that some hon. Members have considerable distances to travel and may therefore wish to adjourn at an earlier stage. That is entirely a matter for the usual channels; it is not for me to decide. Ordinarily, I would suspend the Committee for a comfort break after about three hours, but I want to make it plain to hon. Members and to staff—because they need to know as well—that I am perfectly prepared to stay in the Chair and see this through if that is the wish of the Committee, but that is a matter for the usual channels to consider.

Question put and agreed to.

1 pm

Adjourned accordingly till this day at Two o'clock.