PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE (NO. 2) BILL

(Except clause 8; clause 33 and schedule 9; clauses 40 and 41 and schedule 11; new clauses or new schedules relating to the income tax treatment of armed forces' accommodation allowances, the bank levy, stamp duty land tax, the effect of the Bill on equality, or the effect of the Bill on tax avoidance or evasion)

Sixth Sitting

Tuesday 16 January 2018

(Afternoon)

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not later than

Saturday 20 January 2018

The Committee consisted of the following Members:

Chairs: Sir Roger Gale, † Albert Owen

† Blackman, Kirsty *(Aberdeen North)* (SNP)
† Burghart, Alex *(Brentwood and Ongar)* (Con)
† Carden, Dan *(Liverpool, Walton)* (Lab)
† Chalk, Alex *(Cheltenham)* (Con)
† Clarke, Mr Simon *(Middlesbrough South and East Cleveland)* (Con)
† Dodds, Anneliese *(Oxford East)* (Lab/Co-op)
† Dowd, Peter *(Bootle)* (Lab)
† George, Ruth *(High Peak)* (Lab)
† Graham, Luke *(Ochil and South Perthshire)* (Con)
† Kerr, Stephen *(Stirling)* (Con)
† Lee, Ms Karen *(Lincoln)* (Lab)
† Maclean, Rachel *(Redditch)* (Con)
† Philp, Chris *(Croydon South)* (Con)
† Pidcock, Laura *(North West Durham)* (Lab)
† Rutley, David *(Lord Commissioner of Her Majesty's Treasury)*
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Stride, Mel *(Financial Secretary to the Treasury)*
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Whately, Helen *(Faversham and Mid Kent)* (Con)

Colin Lee, Jyoti Chandola, Gail Bartlett, *Committee Clerks*

† attended the Committee

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(Afternoon)

[Albert Owen *in the Chair*]

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(Except clause 8; clause 33 and schedule 9; clauses 40 and 41 and schedule 11; new clauses or new schedules relating to the income tax treatment of armed forces' accommodation allowances, the bank levy, stamp duty land tax, the effect of the Bill on equality, or the effect of the Bill on tax avoidance or evasion)

Clause 38

Online marketplaces

Amendment proposed (this day): 56, in clause 38, page 27, line 6, leave out '69' and insert '69(1)'.—*(Peter Dowd.)*

This amendment specifies the subsection of section 69 of the Value Added Tax Act 1994 that is being amended by Clause 38(2).

2 pm

Question again proposed, That the amendment be made.

The Chair: I remind the Committee that with this we are discussing the following:

Amendment 57, in clause 38, page 27, line 9, at end insert—

'(2A) In subsection (3) of section 69, for "subsection (4)" substitute "subsections (3A) and (4).

(2B) After subsection (3) of section 69, insert—

"(3A) In relation to a failure to comply with any regulatory requirement under section 77E (display of VAT registration numbers on online marketplaces), the prescribed rate shall be determined by reference to the number of occasions in the period of 2 years preceding the beginning of the failure in question on which the person concerned has previously failed to comply with that requirement and, subject to the following provisions of this section, the prescribed rate shall be—

(a) if there has been no such previous occasion in that period, £5,000;

(b) if there has been only one such occasion in that period, £10,000; and

(c) in any other case, £15,000."'

This amendment increases the prescribed rate of a penalty for failure to comply with a regulatory requirement under section 77E of the Value Added Tax Act 1994 (as proposed to be inserted by Clause 38(8)).

Amendment 58, in clause 38, page 27, line 15, at end insert—

'(ba) after subsection (3), insert—

"(3A) The period specified in a notice in accordance with subsection (3)(a) may not be longer than 10 days.

(3B) It shall be the duty of the Commissioners to give notice under subsection (2) in any case where they are satisfied that to do so would protect or enhance VAT revenue."'

This amendment specifies the period for compliance with a notice under section 77B as no more than 10 days and requires HMRC to issue a notice in any case where VAT revenue would be protected or enhanced by doing so.

Amendment 59, in clause 38, page 27, line 32, leave out '60' and insert '10'.

This amendment reduces the period at the end of which a person must cease to offer goods in breach of the registration requirement from 60 days to 10 days.

Clause stand part.

Alison Thewliss (Glasgow Central) (SNP): I do not a have tremendous amount to add to what the hon. Member for Bootle laid out, but I want to highlight the written evidence submitted by the Institute of Chartered Accountants in England and Wales regarding VAT and online marketplaces.

The institute is concerned that as well as this change proposed by the Government, there may be subsequent change, perhaps—if we are still subject to the European Union—with the principal VAT directive taking effect in 2021. What is the Government's view of that directive? Do they think there is any chance that we will be in some transitional period, or that UK businesses will be under that directive? It is not clear at the moment.

The chartered accountants are asking for the UK to seek

"a derogation to implement these proposals from an earlier date than currently permitted under EU law."

That will not be necessary if the UK has left and we are not subject to EU law, but the institute believes that the EU directive would give consistency to both UK and EU businesses and that there would be no double taxation risk in it.

To highlight some of the things that the hon. Member for Bootle mentioned, I am sympathetic to the Government view that this is a difficult area for enforcement. The online world is constantly changing and there are always new ways for businesses to get around their obligations. It might be useful to have a wider review, perhaps once we leave the EU, because in many areas there seems to be a way around for businesses not to pay their VAT—they pop up, do something else, and change and change, so perhaps there should be regulation of the marketplaces to a greater degree, for companies such as eBay and Amazon, to make sure that that is done. Perhaps we should get that VAT automatically at the point of sale, so that we do not have to go through companies in a longer and more protracted way. We know when goods are being delivered; they go to someone's house, to an address, so for the most part we can trace where they are going. Perhaps there are other ways we can enforce VAT collection. At the moment it seems like an easy thing to get around and a difficult thing for Her Majesty's Revenue and Customs to chase. If we want to ensure that we get the maximum VAT take, we have to look at different ways and try to get around the technology in a smarter way than we perhaps have been doing up to now.

The Financial Secretary to the Treasury (Mel Stride): It is a pleasure to serve again under your chairmanship, Mr Owen.

The clause strengthens existing powers to make online marketplaces accountable for VAT evaded through their platforms. The growth and development of the online retail market mean that the average UK consumer can now buy a vast range of goods at very competitive prices, and have them delivered rapidly by sellers based all over the world. E-commerce plays an important part in the UK economy, but it also provides opportunities for abuse of the VAT system.

Businesses that sell goods to UK consumers via online marketplaces do not always pay the correct VAT to HMRC. When those businesses do not charge VAT correctly on their goods, they unfairly undercut the honest majority of businesses that comply with our VAT rules—that point was made by the hon. Member for High Peak. The businesses that do not charge VAT correctly abuse the trust of UK customers and deprive the Government of significant revenue.

At Budget 2016, the Government announced a package of measures to tackle online VAT fraud. That included a new joint and several liability provision giving HMRC the power to hold online marketplaces responsible for the future unpaid VAT of non-compliant overseas businesses that HMRC identifies operating on the marketplaces. It also included a fulfilment house due diligence scheme which opens for registration in April 2018 and will provide HMRC with an audit trail to track goods that UK-based warehouses are storing for overseas traders. The new package extends HMRC's existing powers for tackling online VAT fraud. Taken together, the packages of Budget 2016 and autumn Budget 2017 are expected to raise just under £1 billion by 2023.

The clause strengthens HMRC's existing joint and several liability powers and introduces a new requirement for online marketplaces to display valid VAT numbers on their platforms. Although online VAT fraud is not restricted to overseas businesses, the clause will ensure that joint and several liability rules cover all non-compliant businesses, including United Kingdom ones. It also strengthens the existing joint and several liability rules for overseas businesses and will enable HMRC to hold online marketplaces jointly and severally liable for the unpaid VAT of an overseas online seller from the point when the online marketplace knew or should have known that the overseas seller should be registered for VAT in the UK but was not.

At this point, I will turn to some of the specific points raised by hon. Members this morning. The hon. Member for Bootle was concerned about whether the measures are strong enough, although my hon. Friend the Member for Ochil and South Perthshire rightly pointed to the sittings of the Public Accounts Committee, in which the complexity and difficulties of this area have been highlighted.

Under the current arrangements, HMRC has received about 25,000 applications to register for VAT from non-EU-based online retailers. The VAT liability reported by such businesses has increased from £6 million in 2015 to £27 million in 2016, and we expect that to continue to rise. HMRC has issued more than 1,000 joint and several liability notices to online marketplaces resulting in the removal of non-compliant sellers. It has also issued assessments against online overseas traders for unpaid VAT amounting to more than £43 million, with a further £71 million in the pipeline. That covers at least some of the questions posed by the hon. Member for Bootle.

The hon. Gentleman also raised the issue of HMRC resourcing. We have provided HMRC with an additional £2 billion since 2010, which is part of the reason why it has been so successful in bringing in additional revenues by clamping down on avoidance, evasion and non-compliance. A further £170 million came through the recent Budget, which will raise more than £4 billion across the scorecard period. He also mentioned the issue of people and office closures. We have previously discussed how HMRC's operations are now far more technology-driven and intelligence-led, and that kind of approach lends itself to the more centralised, high-tech, highly skilled operation that underpins much of the success that we are having today.

The hon. Member for Glasgow Central asked about VAT directives. I think—I am interpreting her remarks; she can correct me if I am wrong—that she might be referring to VAT arrangements between the EU and the UK. There is acquisition VAT, as opposed to import VAT, which applies to businesses importing from non-EU countries. The customs Bill going through Parliament at the moment will effect a change from acquisition VAT to import VAT. It will, of course, be down to the negotiation where exactly we land in terms of the arrangements that pertain after our exit from the European Union, but I assure her that HMRC will consider carefully the impact of where we land to ensure that we continue to make progress on online VAT fraud. She suggested a review after we have left the European Union of the measures and the operation of online platforms. We can certainly consider that for the future. I am sure that we will come back to the issue many times in the years ahead.

Finally, the clause requires online marketplaces to ensure that VAT numbers are valid and displayed on websites when they are provided by the seller. The requirement will be supported by regulatory penalty. Taken together, the changes will make it more difficult for non-compliant online businesses to trade in the UK, and will enable HMRC to tackle them more easily.

I welcome the opportunity to speak to the amendments tabled by the hon. Members for Oxford East and for Bootle. At this stage, I should say that something rather extraordinary and slightly worrying has occurred: the Government have decided that we are content to accept one of the amendments. After all the constant chipping away at us, one amendment has got through. I would not get too excited—it is slightly technical—but we are grateful to the Opposition for their scrutiny of the Bill and for tabling this amendment. The Government agree with amendment 56 and will therefore specify that it is section 69(1) of the Value Added Tax Act 1994 being amended.

Amendment 57 would increase the penalty for online marketplaces that fail to display a valid VAT number when provided with one. The current penalties refer to daily amounts and are entirely consistent with the penalties awarded for similar offences. In contrast, the proposed amendment could result in a marketplace receiving a penalty of up to £1.5 million for failing to display a valid VAT number for a single online sale. We believe that a sanction such as that would be unreasonable.

Amendment 58 would limit the time available for an online marketplace to ensure the compliance or removal of a non-compliant seller to 10 days after receipt of a joint and several liability notice. It would also require HMRC to issue a JSL notice in every case where VAT revenue would be protected or enhanced. Such an amendment would restrict HMRC's ability in handling non-compliance on a case-by-case basis. It is also somewhat unfair, denying an online marketplace a sufficient opportunity to tackle non-compliance by sellers on its platforms before being held jointly and severally liable.

[Mel Stride]

Similarly, amendment 59 would reduce the period in which an online marketplace must ensure compliance or removal of an overseas seller, from the point of view that it knew or should have known that a particular seller should be registered for UK VAT but is not. The amendment would reduce the period allowed from 60 days to 10 days. That would not allow enough time for an online marketplace acting in good faith to assist an overseas seller in becoming registered for UK VAT without still incurring joint and several liability. I commend the clause to the Committee.

Peter Dowd (Bootle) (Lab): I am deeply grateful to the Government for accepting an amendment that specifies the subsection of section 69 of the Value Added Tax Act 1994 that will be amended by clause 38(2). It is very significant and a major climb-down by the Government. *[Laughter.]* May there be many more of them, Mr Owen. It is a delight to see you in the Chair.

I am not wholly convinced by the Minister's protestations about the huge amounts involved and the latitude that the Government appear to give to people who, when they set up businesses, know the environment that they are operating in. These are intelligent people, entrepreneurs. They know exactly what they are doing so they should be aware, as much as they can be, of what the rules are when they get into the game, so to speak. That lots of these people are naive and not really sure what is going to happen and what the processes, the procedures and the rules are, is not the most convincing argument I have heard from the Minister.

The message that we have to send to people who wish to set up businesses is, "You will get a welcoming environment. We welcome entrepreneurs. We welcome you being part of our business society and our business communities. But you have to play by the rules, and if you don't, your business may face sanctions." That is the message that we want to sell, especially in the light of the fact that we are moving out of the European Union. There are huge amounts of uncertainty in the economy, so we just want to let people know that if they do come into that environment, they will have to be careful to play by the rules.

I do not think that our proposals, particularly in amendment 57, are especially onerous. The amount of money—cash—that companies will make will be quite significant; they just have to be clear that they play by the rules. So despite the Minister's silver tongue, we will press amendment 57 to a vote, to make a point.

Amendment 56 agreed to.

2.15 pm

Amendment proposed: 57, in clause 38, page 27, line 9, at end insert

"(2A) In subsection (3) of section 69, for 'subsection (4)' substitute 'subsections (3A) and (4)'.

(2B) After subsection (3) of section 69, insert—

'(3A) In relation to a failure to comply with any regulatory requirement under section 77E (display of VAT registration numbers on online marketplaces), the prescribed rate shall be determined by reference to the number of occasions in the period of 2 years preceding the beginning of the failure in question on which the person concerned has previously failed to comply with that requirement and, subject to the following provisions of this section, the prescribed rate shall be—

(a) if there has been no such previous occasion in that period, £5,000;

(b) if there has been only one such occasion in that period, £10,000; and

(c) in any other case, £15,000.'"—*(Peter Dowd.)*

This amendment increases the prescribed rate of a penalty for failure to comply with a regulatory requirement under section 77E of the Value Added Tax Act 1994 (as proposed to be inserted by Clause 38(8)).

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 9]

AYES

Blackman, Kirsty	Lee, Ms Karen
Carden, Dan	Pidcock, Laura
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Thewliss, Alison
George, Ruth	

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Rutley, David
Graham, Luke	Stride, rh Mel
Kerr, Stephen	Whately, Helen

Question accordingly negatived.

Clause 38, as amended, ordered to stand part of the Bill.

Clause 39

VAT REFUNDS TO PUBLIC AUTHORITIES

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

The Chair: With this it will be convenient to discuss new clause 1—*Review of retrospective VAT refunds for the Scottish Fire and Rescue Service and the Scottish Police Authority*—

'(1) Within one month of this Act receiving Royal Assent, the Chancellor of the Exchequer shall commission a review of the potential consequences of allowing the Scottish Fire and Rescue Service and the Scottish Police Authority to claim VAT refunds under section 33 of VATA 1994 retrospective to the date of their establishment.

(2) The review shall consider—

(a) the administrative consequences of allowing retrospective claims, and

(b) the impact on revenue of allowing retrospective claims.

(3) The Chancellor of the Exchequer shall lay the report of this review before the House of Commons within six months of this Act receiving Royal Assent.'

This new clause would require the Chancellor of the Exchequer to commission a review into what the potential consequences of allowing the Scottish Fire and Rescue Service and the Scottish Police Authority to make retrospective claims for VAT refunds would be.

Mel Stride: The clause makes a number of changes to section 33 of the VAT Act 1994, which allows certain bodies to recover normally irrecoverable VAT. First and foremost, the clause fulfils the commitment made in

autumn Budget 2017 to legislate to provide VAT refunds to Police Scotland and the Scottish Fire and Rescue Service.

The Committee will be aware that in 2012, the Scottish Government chose to restructure Scottish police and fire services to create national bodies. At the time, the Scottish Government understood that those bodies would not be entitled to VAT refunds as they were no longer locally funded. They none the less continued with the change on the basis that VAT costs would be outweighed by potential savings.

A number of representations have been made to the Government on the issue and the Government have listened carefully to the concerns expressed. I am pleased that the provisions in clause 39 will enable the Scottish services to fully recover VAT, in effect providing £40 million additional financial support each year.

The clause also makes minor changes to the legislative basis by which combined authorities and English and Welsh fire authorities receive VAT refunds. Those bodies are currently eligible for VAT refunds but each authority is added to section 33 individually by statutory instrument, which takes up parliamentary time. The clause removes the need for statutory instruments and ensures that English and Welsh fire authorities are automatically entitled to VAT refunds. It does not substantially affect the VAT treatment of combined authorities or English and Welsh fire authorities. It simply removes an unnecessary administrative barrier, freeing up parliamentary time by allowing authorities to access refunds automatically.

Finally, I will touch on the VAT treatment of police services in Northern Ireland. Northern Irish police services have always had the right to reclaim VAT refunds and it is absolutely right that that is the case. However, it is a complex area of VAT law and the Government have decided to clarify the legislation to put the matter beyond doubt. The clause therefore makes explicit the right of the Northern Irish policing bodies to receive VAT refunds.

The clause makes a number of changes to the treatment of public bodies in the VAT Act, as well as making procedural amendments. It delivers on the Chancellor's Budget announcement on Scottish police and fire services, providing VAT refunds worth around £40 million a year to support the delivery of frontline services. I therefore commend the clause to the Committee.

Alison Thewliss: We support the U-turn by the UK Government to allow VAT to be reclaimed by Police Scotland and the Scottish Fire and Rescue Service. I should declare that I was a councillor on the board of Strathclyde fire and rescue when this was being discussed; I know the matter well and know the issues that the Minister referred to. There was a great deal of correspondence at that time from Scottish Government Ministers to the UK Government, requesting that the change be made, so it is with some incredulity that we hear, "Oh wait; all of a sudden we have just realised, yes, we are going to fix it now"—now, rather than several years earlier.

It seems logical that if the argument stands today and it stood in the Budget, then it stood all along, so the Government should do right by the Scottish Fire and Rescue Service and Police Scotland and refund the VAT that we are due. Given that those services' funding was pushed on to the Scottish Government via the UK Government's austerity agenda, they very much need that money.

Luke Graham (Ochil and South Perthshire) (Con): The hon. Lady is making a fair point, but the simple fact is that the Scottish Government knew that the changes were going to incur VAT charges. Does she accept not only that the Government have changed their policy position, benefiting police and fire services in Scotland, but that they have increased in real terms the block grant to Scotland? It is not austerity: Scotland is getting more funding under this Conservative Administration, not less.

Alison Thewliss: I very much dispute that point, as would the Scottish Fire and Rescue Service.

Luke Graham: You can't—it's a fact.

The Chair: Order.

Alison Thewliss: The hon. Gentleman knows that we have been arguing this case in this House since we got here. I was in this very room—in this very spot—when my colleague Roger Mullin made this argument in July 2015. We tabled amendments to the Finance Bill 2015 and to each subsequent Finance Bill, and we have made this argument on numerous occasions here and in the Chamber. We are glad about the change, but we think it is only good, right and fair that it is backdated to reflect the fact that the argument has stood all along.

It is interesting that the Scottish Conservatives have tried to claim that this is some great victory, but the Government's Red Book, at the top of page 39, speaks of combined authorities in England and Wales being eligible for VAT refund, so I would contend that the Government were almost caught out by this. They had to make the change for Scotland because they were going to make the change for England and Wales, whereupon the argument became utterly compelling and there was no other way for them to get themselves out of the hole. I am very glad indeed that they are doing it.

Stephen Kerr (Stirling) (Con): I interrupt the hon. Lady in her flow only to congratulate her on the convolutions of her argument. Frankly, it could be easily argued the other way round.

Alison Thewliss: The arguments are as compelling today as they were in 2015, in 2012, or at any other point. The coincidence of it having to be done for certain fire services in certain combined authorities in England and Wales makes the case that this should have been done all along.

We welcome this measure. We tabled our new clause, which we will press to a vote at the appropriate stage, because we would like to see some more detail about the administrative consequences and the impact on revenue of allowing retrospective claims. We know that the Government will do things in retrospect—other parts of the Bill enable them to enforce regulations relating to tax avoidance and claim money back in retrospect—so there is no argument that moneys cannot be claimed back if people should have known about them before. The Government are willing to make allowances and

[Alison Thewliss]

make changes if there are things that people might or might not have reasonably known. They have made such changes in other parts of the Finance Bill. We have received lots of correspondence from people who feel as though they have been hard done by a measure the Government are introducing now, which they see as retrospective and unfair. If the Government are allowing retrospective measures elsewhere, why will they not allow it here so that the Scottish Fire and Rescue Service and Police Scotland get the money they have been due all along?

Peter Dowd: I rise to speak to new clause 1, tabled by the hon. Member for Glasgow Central. The Opposition welcome the Government's decision to allow the Scottish Fire and Rescue Service and the Scottish Police Authority to claim retrospective VAT funds. The measures in the clause follow the Scottish Government's decision in 2012 to establish a nationwide fire and rescue service for Scotland. The Treasury Minister at the time, now the Justice Secretary, wrote:

"Based on the information currently available it seems that, following the Scottish government's planned reforms, neither the new police authority nor the fire and rescue service will be eligible for VAT refunds under Section 33 of the VAT Act 1994."

That Government decision meant that the Scottish police and fire services lost out on VAT refunds worth more than £30 million, of which Scottish police forces lost out on about £26 million. As a former chair of a fire and rescue service, long before the cuts to those services, I have to say that this amount of money would have been a strain even in those days. It is even more stressful now, so I can understand the anxieties and concerns of the Scottish Government.

To some extent, one could argue that it is a sign of recklessness that, in a time of austerity, the Government would effectively leave Scottish firefighters and police officers to fend for themselves. The Opposition therefore welcome the Government's decision to reconsider their position, and to allow the Scottish police forces and fire services to retroactively reclaim the VAT—particularly given that the Minister's reasoning at the time for denying Scottish police and fire services access to the funds was insubstantial at best. At times, it seemed to me and to other onlookers potentially malicious. I think that was the perception that people had at the time.

The then chief constable of Scotland, Sir Stephen House, when he testified to the Justice Committee of the Scottish Parliament last year, said that he was bewildered by the fact that the Scottish police force was the only police force charged VAT, as none of the 43 police forces pay VAT, and neither does the Police Service of Northern Ireland or the National Crime Agency, both of which are centralised agencies.

The Government's decision to allow the Scottish police and fire services to claim retrospectively should not be controversial, even if it has taken a little time to get here. The Government have acted a number of times in the past to ensure that public authorities do not pay VAT, which is laudable. A number of Governments have done that, in fact. In 2001, the last Labour Government introduced a scheme to allow eligible museums and galleries to claim back VAT paid on most goods and services purchased, in order to grant free rights of admission to their collections. In 2011, the coalition Government introduced provisions as part of the Finance Act 2011 to ensure that academies, which supply free education but are not under local authority control—the phrase "under local authority control" is a misnomer if ever there was one, but it is important to use the language that people use, so we all know what we are talking about—were allowed to recover their VAT costs in the same way as local authorities. Similarly, in the March 2015 Budget, the coalition Government announced that from 1 April 2015, hospice charities, search and rescue charities and blood bike charities would be entitled to recover VAT incurred on their business activities, so there is a fairly well-trodden path regarding this issue.

Although we welcome the Government's change of heart, allowing the Scottish fire and police forces to reclaim VAT retroactively is a drop in the ocean compared with the levels of gross underfunding and cuts to police and fire services across the country, including services in Scotland. New figures obtained by the Fire Brigades Union show that almost one in five frontline fire service posts—some 11,000 jobs—have been lost since 2010, which is a post-war record of job losses in that crucial service. That is all the more reason why this money should come back to those services. Since 2010, almost 8,000 full-time firefighter jobs have been loss. Fire safety inspections have fallen by 28% since the Government came to power, which is all the more reason why this retrospective or retroactive decision should be put into effect. The general secretary of the Fire Brigades Union said that

"Continued cuts to frontline firefighters and emergency fire control operators…are a serious threat to public safety."

That is worrying.

The VAT refunds, although welcome, will not stop the deeper cuts to the fire service that are currently taking place, resulting in significantly fewer firefighters across the whole country. It is increasingly clear that VAT refunds will not prevent cuts in the service. As far as I can gather, the Prime Minister oversaw that when she was the Home Secretary. This may be the hand of the Prime Minister seeking some sort of retribution—on herself, perhaps—or rather, putting paid to past decisions.

To sum up, we welcome the proposals, but it would be helpful if the Minister could offer some examples where the grant could be claimed and what the criteria would be for things such as rescue charities hoping to access the grant as well. It is regrettable the Government have chosen to spend the last four years playing politics with the Scottish police and fire services. I hope the measure will ensure that VAT on every penny the police and fire services in Scotland spend will be refunded and that the Minister, at the same time, will ask his Government colleagues to look at the state of police and fire services right across the country.

2.30 pm

Kirsty Blackman (Aberdeen North) (SNP): I thank the Labour Front-Bench spokesman for his support for the retrospective refund. If it is right to allow the VAT refund to be reclaimed now, it was right to do it four years ago when the changes were first made to fire services and the police in Scotland. Now that Scotland's budget for frontline services has been reduced by £200 million, it is time for the Government to agree to give us back the money that our services have paid.

Mel Stride: The hon. Member for Glasgow Central asked: why now? Why has this not been done before? I guess, as with all policy decisions taken in politics, there was a balance to be struck between resources available, the lobbying that occurred and the input of competing interests. Without going too far into this point, I think it is fair to say that since 2015, the lobbying became fairly intense. That is not to deny in any way that there was fairly intensive lobbying prior to 2015. The decision was taken in the round at the time of the Budget, when all the competing uses for the UK Exchequer's funds were balanced up. The question, "Why now, rather than at any particular time in the past?" could be applied to almost any tax change. It is a fairly generic point, in that sense.

The hon. Member for Bootle was firm, as was the hon. Member for Aberdeen North, on the perceived unfairness of the original decision. I remind Members that the original decision was taken by the Scottish Government in the knowledge that restructuring their services in this way would have a particular impact on the ability to claim relief for VAT.

Alison Thewliss: Will the Minister acknowledge that the original decision by the UK Government not to allow VAT relief was also part of that process?

Mel Stride: I was not party to the discussions that occurred at that time. The simple fact is that when the Scottish Government took the decision to restructure, they knew what the consequences would be; that is the critical point. There was no question of the UK Government having been vague or imprecise on that point; we made the consequences very clear to them at that point.

The hon. Member for Glasgow Central suggested that the measures in the clause relating to VAT exemptions for other authorities in England and Wales were somehow linked to this, and forced our hand on the decision about VAT relief for the Scottish fire and rescue service. There is no link; that can be seen from what the two different elements of the clause do. Unlike the provisions on Scotland, the measures on English and Welsh authorities do not extend VAT relief where it is not otherwise available; they are simply to do with the mechanics of how authorities benefit from that relief, and absolve Parliament from having to take the time to agree each and every instance through a statutory instrument.

As a matter of principle, the Treasury would not normally look at bringing in taxes retrospectively. We should be thankful that we have now resolved this issue. I hope that as the years roll by, this will fade into the background, and we will reach a point when we can all feel that we are in a good position regarding VAT and Scottish fire and rescue.

Question put and agreed to.

Clause 39 accordingly ordered to stand part of the Bill.

Clause 42

Landfill tax: disposals not made at landfill sites, etc

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

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

That schedule 12 be the Twelfth schedule to the Bill.

New clause 15—*Landfill Tax disposals: review of changes to disposals within charge—*

'(1) The Chancellor of the Exchequer must commission a review of the changes to disposals for which Landfill Tax is chargeable within three months of the passing of this Act.

(2) The review under this section must consider—

(a) the effect on revenue of the changes,

(b) the impact on the volume of disposals at—

(i) sites with an environmental disposal permit, and

(ii) sites without an environmental disposal permit, and

(c) the impact of the changes on the prevalence of illegal disposal sites.

(3) The Chancellor of the Exchequer must lay before the House of Commons the report of the review under this section within twelve months of the passing of this Act."

This new clause would require the Chancellor of the Exchequer to commission and lay before the House of Commons a report into the effects of the changes to disposals for which Landfill Tax is chargeable on tax revenue and on the volume of disposals and the prevalence of illegal landfill sites.

Mel Stride: Clause 42 and schedule 12 extend the scope of landfill tax to disposals made at sites without an environmental permit, in order to prevent rogue operators from profiting by avoiding landfill tax. The clause also brings clarity to what material is taxable at sites that do have a permit. Landfill tax was introduced on 1 October 1996 to discourage the disposal of waste to landfill, and encourage more sustainable ways of managing waste. Since the introduction of the tax in the UK, landfilling has gone down by more than 60%. Illegal waste sites are a blight on local communities and can cause serious environmental damage. Although the Environment Agency can impose fines and criminal sanctions on operators of illegal sites, they are outside the scope of the tax. With no landfill tax to pay, rogue operators can undercut legitimate operators and make significant profits.

The Environmental Services Association estimates that waste crime costs the English economy over £600 million annually, with up to £200 million of tax being avoided. At the spring Budget in 2017, the Government announced a consultation on whether to extend the scope of landfill tax to illegal waste sites. Following strong support from industry, the Government confirmed their intention to legislate to extend the scope of landfill tax to illegal waste sites from 1 April 2018. Alongside this, in response to broad industry support in the consultation announced at Budget 2016, the Government are amending the definition of a taxable disposal. That follows a 2008 Court of Appeal ruling that some material received at a landfill site and put to certain uses is not waste, and therefore not taxable. That has created uncertainty about what constitutes a taxable disposal and has led to increased complexity for operators.

The changes being made by this clause will make all persons who are responsible for disposals at illegal waste sites, across the supply chain, jointly and severally liable for the tax. They may also be liable for a penalty of up to 100% of the tax, and in the most severe cases, HMRC will be able to prosecute those involved. In

[Mel Stride]

order to address the primary concern raised by stakeholders during the consultation, safeguards have been put in place to ensure that any genuinely innocent parties will not be liable for the tax. The clause will give industry certainty about what constitutes a taxable disposal. Currently, material is considered to be waste if certain criteria apply. The changes made by this clause will remove the waste criteria; instead, all material disposed of at a landfill site will be treated as taxable waste unless it is specifically covered by an exception.

To simplify the system further, we are also removing the requirement to notify HMRC of restoration activities undertaken at a landfill site. These changes will support the legitimate waste management industry by simplifying the tax system and providing clarity for landfill operators.

Let me turn briefly to new clause 15, tabled by Opposition Members. This would require the Government to commission a review of these changes within three months of the passing of this Act. A full assessment of the impacts of this measure was published in September 2017. At that time, the Government assessed that the measure would increase the cost of the illegal disposal of waste at unauthorised sites and incentivise the disposal of waste at legal—and more environmentally friendly—waste management operations. Following this, the Office for Budget Responsibility published an assessment of the revenue impact of the changes; £145 million is expected over the five years following implementation. Those impacts were assessed with the full support of the waste industry, and after further contributions from the Environment Agency.

Information about landfill tax revenues and the volume of disposals is publically available. HMRC publishes its landfill tax receipts twice yearly. The Environment Agency publishes additional information annually about disposals at permitted sites and the number of illegal waste sites in England. As such, the Government's view is that the proposed review is unnecessary. I therefore commend the clause to the Committee.

Peter Dowd: The clause amends the Finance Act 1996 to include disposals at sites without an environmental tax disposal permit within the charge to landfill tax.

I would like to declare an interest. My hon. Friend the Member for Liverpool, Walton, will appreciate this; it is not to do with landfill tax, but it is important to give some context. We have a huge dock complex in my constituency. On several occasions in the past couple of years, the scrap metal kept there has gone up in flames, and it has taken days and huge amounts of public resource to get the fire under control. We have had many discussions with the organisations concerned, although that is not landfill. A fire at an illegal waste transfer centre in Hawthorne Road—in a residential area—took a week to put out. There were huge plumes of smoke for weeks on end. *[Interruption.]* That is probably the fire chief now, telling me there is another fire. I hope not. The issue of waste disposal, landfill, and the whole area relating to waste is very important.

The landfill tax was brought in nearly 20 years ago to act as a disincentive to landfilling material, encourage the use of recycled material and incentivise recycling more broadly. The tax is due on material disposed of at landfill sites in England, Wales and Northern Ireland that have an environmental permit or licence for waste disposal.

HMRC collects the tax from the permitted operators of landfill sites based on the weight and type of material landfilled. There are two rates of tax: a standard rate of £86 a tonne, and a lower rate of £2.70 for the least polluting material. The Department for Environment, Food and Rural Affairs and the national environmental protection agencies are responsible for the regulation and enforcement of environmental policy.

I could talk for another hour or two on the issue as it relates to my constituency, but on this occasion, I will spare everybody. Although HMRC is responsible for the administration and collection of the landfill tax, and there are a range of civil and criminal powers to address tax evasion and non-compliance, the question is whether HMRC gets on and does that.

Over the past 20 years of the tax, landfilling has come down by almost 60%, which is a positive achievement for society, but we cannot continue to produce this volume of goods made of materials that vastly outlast the use of the goods. That was the subject of an item on Radio 4 this morning, featuring the chief executive of Iceland. What we are doing is leading to huge accumulations of waste across the land, and the pollution of our ocean, as the recent BBC documentary "Blue Planet" demonstrated so powerfully. It is therefore positive that the Government are extending this disincentive to those operating illegally, to ensure that where enforcement is weak, a further layer of disincentive is put in place.

The Government's consultation set out the logic of that extension, using the examples of three people who were fined by environmental agencies for illegally dumping 6,000 tonnes of waste. Under the law, they can be fined only through environmental protection levies, which in this case amounted to £170,000. However, if further legislation had been put in place to extend the territories that could be included under the landfill tax, that fine could have been as much as £500,000, plus a penalty of 100% of the tax and interest.

The landfill tax gap—the difference between what is collected and the estimates of what it should be—is £150 million, not including the waste dumped at illegal sites. There is clearly much more to be done to address this problem. Strangely, however, the Government's impact assessment does not include information on Exchequer impacts of this extended tax. Fortunately, the OBR is here to help, with a prediction that tackling waste crime will raise £30 million in the first year. That will rise to roughly £45 million a year after. Will the Minister explain why the OBR believes that this measure will recoup only a third of the revenue that the Government estimate is missing? I am sure he will have the figures available, even if not today. As far as I can see, it does not seem a particularly good return on investment.

2.45 pm

The Government's own assessment argues that HMRC is not properly resourced to deal with this burden. As the shadow Chief Secretary to the Treasury, I have heard that complaint over and over. As a result, I have raised the issue many times—only last week on Second Reading of the Taxation (Cross-border Trade) Bill, I

dedicated a section of my speech to the problem of HMRC under-resourcing—yet we still have not received any commitment from the Government to dealing with the problem.

Will the Minister respond to the request from his own Government assessment that specifies that a further £600,000 is required annually to deal with the practical implications of the clause? If so, how much additional funding is set aside to deal with the issue of waste crime? Will it be the full £600,000 requested? How many additional staff does HMRC plan to recruit for that money, and will those staff members work solely on matters relating to waste crime? What is the timetable for recruitment, and by what date will the Government have met the request? The Minister may wish to give some thought to that series of practical questions. Any light he could shed on that would be helpful.

This is another classic case of the Government asking authorities to do more, despite getting less. That is beginning to wear a little thin. My hon. Friend the Member for North Durham (Mr Jones) spoke on Second Reading of a previous Finance Bill in an extensive, comprehensive exploration of, among other things, fraud in relation to landfill sites. He also asked the Chancellor of the Exchequer, in November 2014,

"what the budget is of HM Revenue and Customs to investigate landfill tax fraud".

That elicited the following response, though I have redacted it a little bit:

"In addition to these visits and audit checks, HMRC has launched a cross-tax waste sector pilot exercise which is currently under way, where cases are being worked across all taxes, rather than just landfill tax. HMRC is also working collaboratively with other agencies to tackle non-compliance and develop a joined up multi-agency strategy, capitalising on the full range of sanctions available."

I read that as saying that the Chancellor did not know, and little has changed.

There are also overarching concerns here. One is whether the Government are doing enough to deal with landfill more broadly. That goes to the heart of the need for a review, whether after three, six, 12 or 18 months, or after two years. The Opposition are shackled to some extent in challenging the Bill and in the amendments that we can suggest to it; we can only ask for reviews. It is important to get the message out there that we would like to do far more through the Bill, but we are restricted by the amendment to the law resolution that the Government introduced.

The Prime Minister has acquired an interest in environmental issues, which could have been sparked by the documentary makers at the BBC. It may even be to do with the high turnout among some younger age groups at the previous election. That will remain a mystery—perhaps until the next election. Nevertheless, she has made a series of promises regarding reducing plastic waste, some of which may come to fruition in two or three decades.

The use of landfill is central to the question of sustainability, and it is a glaring reminder of the scale of the challenge ahead and the need for a bold Government who are prepared to act. However, the most recent statistics show that under this Government, the rate of recycling is falling for the first time since data collection began. The UK is obliged to recycle 50% of its waste by 2020, yet we are floundering at around 44%. That means we put 50 million tonnes of waste in landfill every year—an astonishing amount.

The Government's failure—given those figures, it is a failure—to get to grips with this record is pretty grim. If the Government are serious about doing so, they have to step up to the plate. For example, the waste and recycling company SUEZ has warned that the UK faces a disaster scenario in which waste is trucked around the country in search of landfill sites if the Government do not wake up. It also points at the Government's failure to commit to a clear policy on new waste facilities as a central driver of their mounting concerns over waste management, along with a Chinese crackdown on the importation of recycling material and the potential impact of Brexit.

The Chair: Order. Will the hon. Gentleman return to the new clause?

Peter Dowd: Fine. The point I am trying to make is that landfill capacity across the UK has decreased from thousands of sites, with only about 50 sites predicted to be in operation by 2020. Although we have talked about the period of time that our proposed reviews should cover, it is crucial that this one takes place not once, but regularly. The issue is serious, as I have set out.

Crucially, regional capacity also varies greatly, and the Government are not tackling that. This review will help us to identify the differences in a systematic way. For example, Kent is likely to have no landfill sites at all by 2021, according to SUEZ, which suggests that the Department for Environment, Food and Rural Affairs does not have the resources to look at its concerns. Perhaps if the tax was sent in the right direction, the Department would have the capacity. Although it is not his Department, I ask the Financial Secretary what contingency planning DEFRA has put in place in case the record on recycling worsens. It is important that the suggestion of a review is taken into account.

This proposal extends charges to illegal landfill. Illegal landfill will only increase if we begin to produce more waste than our capacity can handle. How does the Minister plan to deal with excess waste that surpasses our current capacity? He may want to pass that question on to one of his hon. Friends. Under the Prime Minister's plan, by of which year will the UK end the use of landfill completely? How are we going to keep tabs on that, and what systematic process will we use? If we use the same methodology that the Chancellor used to get the deficit down, we will all be pushing up daisies by the time it is sorted. We hope that the clause will ensure that landfill waste falls, across both permitted and illegal sites, but the Government seem to be unable to tell us exactly how much landfill will be diverted into ecologically sound management as a result. Perhaps the Minister can enlighten us about those projections.

That is why we have tabled a new clause that is designed to establish how much revenue this measure will generate, as well as to measure the behavioural impact that it sets out to achieve. Our suggested review would look at the impact of extending landfill tax on the volume of disposals at both permitted and illegal sites. Alongside that, we believe it is important to measure the impact on the prevalence of illegal sites, as well as the amount of waste disposed at them. Everybody on the Committee recognises the importance of consigning

[Peter Dowd]

landfill to the dustbin of history. To do so would deliver unquantifiable ecological effects and would, we hope, form part of a new respect shown by our society for the environment on which we rely.

Extending taxation to illegal sites will deliver a reduction in landfill, and it can therefore only be a good thing. I commend the Financial Secretary for introducing this measure. It is all the more important that the Government monitor and assess the impact of the measure, as well as investing revenue to ensure that it is enforced. We hope that all Members present today will support our review, in the name of good governance, to ensure that the UK continues to take steps towards no longer producing damaging and unnecessary landfill.

Mel Stride: I thank the hon. Member for Bootle for commending us for introducing this measure. Many of his remarks were fairly wide-ranging, and I think he recognised that some of them—for example, those concerning the amount of landfill that we have available and what our plans for it might be—related to other Departments. I hope that he will indulge me when I say that on those issues, it might be better for him to go direct to the Departments concerned.

Peter Dowd: I take your exhortation to keep things as tight as possible, Mr Owen, but there are occasions—I have asked the Minister about this—on which Departments really ought to work closely together to ensure that we have the balance right. That is difficult sometimes when we are doing something specific and technical. Nevertheless, I am sure he will agree that it is important to be able to bring other factors into the equation and get a proper bigger picture.

The Chair: I am grateful. Before the Minister proceeds, as both hon. Members have agreed that this is outside the remit of the Bill, I ask them both to confine their remarks to the Bill.

Mel Stride: Thank you for your guidance, Mr Owen. This is predominantly a tax Bill, and I will endeavour to stick to matters relating to that aspect of our considerations. However, there is much that the hon. Gentleman and I can agree on. We agree that we certainly need to cut down on the amount of disposable items out there; he gave some shocking examples of where the situation had got completely out of hand and of the damage to the environment.

The hon. Gentleman spent some time speaking about the landfill tax gap and how much tax we might be forgoing because we do not currently tax illegal sites. By definition, given that illegal sites do not fall to the charge of landfill tax, they are not included in the figures for tax forgone, because there is no mechanism by which they can be taxed. The whole purpose of the clause is to bring them into the scope of taxation. He asked how much the measure is expected to raise once we have brought those illegal sites into the scope of the tax, and the answer is £145 billion over the scorecard period.

The hon. Gentleman asked a number of questions about resourcing and HMRC. At Budget, we announced that we would provide funding for additional HMRC staff to enforce the measure. We have also announced that we are investing an additional £30 million in the Environment Agency in England, to enable the agency to tackle the illegal waste sites as well as the misdescription of waste and illegal exports. With that, I commend the clause to the Committee.

Question put and agreed to.

Clause 42 accordingly ordered to stand part of the Bill.

Schedule 12 agreed to.

Clause 43

Air passenger duty: rates of duty from 1 April 2019

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

The Chair: With this it will be convenient to consider new clause 16—*Review of changes to rates of air passenger duty*—

"(1) No later than 31 March 2019, the Chancellor of the Exchequer must review the effects of the changes made by section 43 to rates of air passenger duty set out in Chapter 4 of Part 1 of FA 1994.

(2) The review under this section must consider—

(a) the effect on airplane usage as a result of the changes to air passenger duty rates, and

(b) the effectiveness of the changes to air passenger duty on reducing carbon emissions and meeting carbon emissions targets.

(3) The Chancellor of the Exchequer must lay before the House of Commons the report of the review under this section as soon as practicable after its completion."

This new clause provides for a review of the effects of the changes to air passenger duty rates on airplane usage and carbon emissions.

Mel Stride: Clause 43 sets air passenger duty rates for the tax year 2019-20. All short-haul rates and the long-haul economy rate will remain frozen at the 2018-19 level. Only those flying long haul in business or first class, or by private jet, will pay more. The changes will ensure that the aviation sector continues to contribute to general taxation while also providing a freeze for more than 95% of all passengers.

Air passenger duty is a per-passenger tax levied on airlines. With no tax on aviation fuel or VAT on international or domestic flights, APD ensures that the aviation sector plays its part in general taxation, raising £3.1 billion a year. The aviation sector continues to perform strongly. The UK has the third largest aviation network in the world, and passenger numbers at UK airports have been strong: in fact, growth has exceeded 15% in the previous five years.

3 pm

Clause 43 will set the APD rates for the tax year 2019-20. The Government are freezing all short-haul rates, as we have done since 2012. We are also keeping frozen the long-haul reduced rate, which affects all passengers travelling long haul in economy class. Together, this approach benefits more than 95% of all passengers. The changes being made by clause 43 therefore only affect the APD rates for passengers flying long haul in the premium bands.

The long-haul standard rate, which applies to premium economy, business and first-class tickets, will increase by £16 compared with 2018-19 levels, to £172. That means that a passenger purchasing a £1,000 premium economy ticket to New York will pay only an additional 1.6% and a passenger travelling to the same destination on a £4,000 business class ticket will pay only an additional 0.4%.

Clause 43 also increases the higher rate for passengers travelling long haul in private and business jets by £47. Together, the changes will affect less than 5% of passengers. To give the industry sufficient notice, we will announce APD rates for 2020-21 at autumn Budget 2018, legislating in next year's Finance Bill.

The Opposition have proposed a new clause asking for a review of the effects of the changes on aeroplane usage and carbon emissions by 31 March 2019. I appreciate that hon. Members want to ensure that the Government continually assess their policies, but a review of that nature is unnecessary for a number of reasons. First, the Government already keep aeroplane usage under review. HMRC publishes passenger number statistics as part of the air passenger duty bulletin, which is updated yearly. As I have outlined, the data show that passenger numbers at UK airports have been strong, with growth exceeding 15% in the past five years.

Secondly, the Government have taken strong action at a global level to address carbon emissions from aviation. For example, the UK worked very hard through the International Civil Aviation Organisation to reach agreement on the carbon offsetting and reduction scheme for international aviation in October 2016. It is the first worldwide scheme to address carbon emissions in any single sector, and it sends a strong signal that international aviation is committed to taking action to tackle climate change.

Finally, airlines sell tickets up to a year in advance, so legislating now for 2019-20 APD rates provides certainty to operators. Undertaking a review of APD before 31 March 2019, as suggested in new clause 16, may reduce certainty for taxpayers. The new clause also asks us to review the effect of tax rates before they come into effect, which of course would be difficult. That is in the interests of neither companies nor consumers.

On that basis, I ask the hon. Member for Bootle to withdraw the new clause, and I commend clause 43 to the Committee.

Anneliese Dodds (Oxford East) (Lab/Co-op): It is a pleasure to be speaking with you in the Chair, Mr Owen. I thank the Minister for his clarifying comments. We on the Labour Benches still wish to have the review proposed in new clause 16. The review would, exactly as described by the Minister, examine the impact of the APD changes on the usage of aeroplanes and their emissions.

On one hand, it is helpful that we are shifting towards greater predictability for air operators and consumers around air passenger duty. It seems appropriate that we have the lag so that we can discuss and determine future rates, rather than having short-term change, but we would like a much stronger indication of the direction of Government thinking in relation to the tax.

The Minister offered the same argument for air passenger duty, to a word, as the one we were given in the previous Finance Bill discussion:

> "With no tax on aviation fuel or VAT on international and domestic flights, APD ensures that the aviation sector plays its part in contributing towards general taxation, raising £3.1 billion per annum."—[*Official Report, Finance Public Bill Committee,* 24 October 2017; c. 111.]

In our discussions in Committee on APD changes in the previous Finance Bill, we went on to talk about the potential environmental impact. I note that at that stage, the Minister said:

> "Like all taxes, it will also change behaviour to some degree, and to the extent that it makes flying a little bit more expensive, it could be expected to have the effect of diminishing demand for air travel. The lower rates for economy, which takes up more space on aircraft than first class, assist in ensuring that flights are as full as they can be."—[*Official Report, Finance Public Bill Committee,* 24 October 2017; c. 114.]

We would find it very helpful to have a review. I take on board the Minister's point about regular information about the operation of APD, but what we do not have at the moment, to my knowledge—if I am wrong, the Minister can set me right—is an indication of the relative merits of this approach against potential others.

A number of transport economists and environmentalists have looked at the impact of levying duty on entire planes, rather than on individuals. The thought was that that would somehow lead to more incentives for more efficient use of space. I take on board the differential rates for private jets and small planes as against larger planes, which tend to be fuller during economy use, but it would be helpful to know whether there will be more impetus towards more intensive use of planes that are already in the air but all of whose seats are perhaps not being used. For the Opposition, that would be part of the stronger analysis of the impact of the duty, compared with other approaches. It would be part of the more general review that we feel we need on the overall impact of environmental taxes and reliefs, so that we can be sure that they are targeted as well as they can be for both economic and environmental purposes.

There are a couple of other issues on which we need clarification. We had a debate on the first during proceedings on the previous Finance Bill. My hon. Friend the Member for Luton North (Kelvin Hopkins) and others raised the matter when they talked about the extent of consultation on existing measures. There are higher rates for long haul in the proposals, as in the existing APD regime, but many Britons have no choice but to travel long haul if their family is in the Caribbean, the Indian subcontinent and so on. The Minister at the time made a commitment to write to my hon. Friend on the extent of consultation with groups of people who might be particularly affected. It would be helpful to have on the record the thoughts of the Minister in Committee on that issue, especially because, in many ways, short-haul flights are a lot easier for people to avoid than long-haul ones, because they can adopt other forms of transport instead. Any indications about that would be useful.

It would also be helpful to have an indication of the Government's thinking about the extent to which they will be able to protect, or otherwise, revenue from APD. Arguably, we are seeing a race to the bottom on the duty. In previous Finance Bill Committees, we have discussed the new system in Scotland—the air departure tax. Clause 43 increases the band B multiplier in Northern Ireland. From the way in which it is written, I assume that that is happening in the absence of the Stormont arrangements coming back into play and giving the

[Anneliese Dodds]

Northern Ireland Assembly control, so we are talking about an increase until the Assembly can make a determination.

Generally, however, the direction of travel appears to be downward, and it would be helpful to know the Treasury's long-term thinking. We have a lot of pressure from airports, particularly those near Scotland, about whether they can protect their business given the potential reductions in the duty in Scotland. My hon. Friend the Member for Newcastle upon Tyne North (Catherine McKinnell) has made that point in the House.

Furthermore, we need consideration of the issue, given the discussion we had in the Chamber only a couple of hours ago, when a Minister—I appreciate that it was not the one in Committee, who is well apprised of all the issues relating to air passenger duty—seemed to indicate that we might change the extent to which we levy duty on incoming flights to the UK, departing from the existing practice under EU rules. That might be a possibility, but it would naturally have an impact on revenues. It would be helpful, again, if the Government indicated how the revenue—the £3.1 billion to which the Minister referred—will be protected.

Mel Stride: I need not repeat my earlier remarks about the reviews we already carry out, and I reiterate the point that the new clause, as worded, would implement a review of the possible impact of the taxation we are considering before such taxation had come into effect, which as an exercise is possibly not that valuable. Of course, we always keep all taxes under review. The hon. Lady talked about seeking beneficial behavioural change through mechanisms other than APD, for example. I am happy to receive any representations that she might make in that vein.

The hon. Lady mentioned her colleague, the hon. Member for Luton North, and the impact of APD on passengers who require a long-haul flight to visit relatives. I will certainly get back to her on that when I return to the Treasury. She also mentioned competition between different airports following the devolution of APD. Scotland will in due course bring in its own form of ADT. She also referred to the Northern Ireland situation. It will be for each of those tax jurisdictions to start to take whatever measures they think are appropriate to ensure that their particular airports and passengers are not disadvantaged. I suspect that, as with competing tax rates, the dynamics will probably be for those tax rates to come down, as a result of the competitive effect or the fact that there is a devolved Government. I commend the clause to the Committee.

Question put and agreed to.

Clause 43 accordingly ordered to stand part of the Bill.

Clause 44

VED: RATES FOR LIGHT PASSENGER VEHICLES, LIGHT GOODS VEHICLES, MOTORCYCLES ETC

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

Anneliese Dodds: The Opposition have received a submission that it is worth asking a question about. It is about the specific case of taxis that are zero-emission capable. As I understand it, they will be exempt from the VED supplement from 1 April 2019, but not until then. There is the complication that taxis are classified as passenger cars because they are built to carry passengers, rather than as commercial vehicles, although in practice they are not really operating as commercial vehicles, which means that at the moment they are subject to the VED standard rates.

As those of us who have done any casework on this will know, taxi drivers need to purchase their car for a long period and there are complicated financing arrangements. In many areas we are keen to promote zero-emission taxis, or taxis that will be capable of transferring to zero or low-emission bases in future. It would be helpful to hear from the Minister whether some further calibration could be done on this measure, so as not to choke off the development of zero-emission capable taxis. I thought the submission was quite interesting in that regard.

Mel Stride: I thank the hon. Lady for her question about taxis. We will publish a consultation this spring, which will clarify who will and will not be eligible for the exemption and address the issues she has raised.

Question put and agreed to.

Clause 44 accordingly ordered to stand part of the Bill.

Clause 45

TOBACCO PRODUCTS DUTY: RATES

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

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

New clause 17—*Review of changes to rates of duty on tobacco products—*

"(1) Within twelve months of the passing of this Act, the Chancellor of the Exchequer must review the effects of the changes made by section 45 to rates of excise duty on tobacco products and the Minimum Excise Tax on cigarettes.

(2) The review under this section must consider—

(a) the effect of the changes on smoking cessation, and

(b) the effect on revenue of the changes in each financial year until 2027-28.

(3) The Chancellor of the Exchequer must lay before the House of Commons the report of the review under this section as soon as practicable after its completion."

This new clause provides for a review of the effect of changes to duty on tobacco products on smoking cessation and on revenue for each financial year until 2027-28.

Mel Stride: Clause 45 implements changes announced at the autumn Budget 2017 concerning tobacco duty rates. The duty charged on all tobacco products will rise in line with the tobacco duty escalator, with an additional 1% rise for hand-rolled tobacco. Smoking rates in the UK are falling, but they are still too high. Just under 16% of adults are now smokers. We have ambitious plans to reduce that still further, as set out by the Department of Health and Social Care in its tobacco control plan, which includes a commitment to continue the policy of maintaining high duty rates for tobacco products in order to improve public health.

The UK now has comprehensive tobacco control legislation that is the envy of the world, but smoking is still the single largest cause of preventable illness and premature death in the UK—it accounts for around 100,000 deaths per year and kills about half of all long-term users. According to Action on Smoking and Health, smoking costs society almost £14 billion a year in England, including £2 billion in costs to the NHS for treating diseases caused by smoking.

In the autumn Budget, my right hon. Friend the Chancellor of the Exchequer announced that the Government are committed to maintaining the tobacco duty escalator until the end of this Parliament. The clause therefore specifies that the duty charged on all tobacco products will rise by 2% above RPI—retail prices index—inflation. In addition, duty on hand-rolled tobacco will rise by an additional 1% this year.

3.15 pm

The clause also specifies that the minimum excise tax—the minimum amount of duty to be paid on a pack of cigarettes—will rise in line with wider cigarette duty. Those new tobacco duty rates will be treated as taking effect from 6 pm on the day that they were announced, 22 November 2017.

New clause 17 seeks to place a statutory requirement on my right hon. Friend the Chancellor to review the effects of changes to tobacco duty. The Opposition have raised important issues. The Government are committed to reducing smoking prevalence and co-ordinating efforts through the tobacco control delivery plan, which is a cross-Department project, led by the Department of Health and Social Care and Public Health England, that seeks to prevent individuals smoking, support current smokers to quit and enforce tobacco regulations.

Tax policy is one part of that plan, alongside various other measures, including effective regulation and public awareness campaigns. The plan is the framework for robust and ongoing policy evaluation. Furthermore, the Chancellor assesses the impact of all potential changes in his Budget considerations every year. The tax information and impact note published alongside the Budget announcement sets out the Government's assessment of the expected impacts. Detail on the revenue impact is set out in the policy costings document, also published alongside the Budget. Both include the expected revenue impact to 2022-23.

The Office for Budget Responsibility expects tobacco clearances to fall, as the long-term trend in the decline in smoking within the population continues. We therefore expect tobacco duty receipts to fall in the longer term. Accordingly, we will review our duty rates at each fiscal event to ensure that it continues to meet our two objectives of protecting public health and raising revenue for our vital public services. I commend the clause to the Committee.

Anneliese Dodds: I am grateful to the Minister for that explanation. I understand broadly that we are essentially talking about three changes across the board: the duty rate increase of 2% across all tobacco products, the extra 1% for hand-rolled tobacco, and the minimum excise tax to ensure that there is a minimum tariff for the very cheapest cigarettes.

We are asking for a review and will continue to do so, because it is so necessary. I think that some of the changes are quite positive. The new measures around hand-rolled tobacco are important, given that that form of cigarette has become increasingly popular—more than a third of smokers now use hand-rolled tobacco. Men, rather than women, and people in more deprived socioeconomic groups are particularly likely to smoke hand-rolled cigarettes. We think it is important for action to be taken in that regard.

The MET is also important to ensure that cigarette taxes on their own do not lead to compensatory behaviour, such as switching to a lower price brands. Evidence from countries such as Thailand suggests that when taxes went up, people just compensated by smoking cheaper cigarettes rather than stopping. We are asking for a review because we are concerned about the sufficiency or otherwise of the duty rises reported here for the Government's overall anti-smoking efforts.

Alison Thewliss: On that point about cheaper brands, does the hon. Lady agree that there is also a huge risk that people will turn to illicit tobacco, which is also a tax avoidance matter with people bringing cigarettes into the country?

Anneliese Dodds: I am grateful to the hon. Lady for making that germane point. I understand that more research is needed into the extent to which people substitute illicit brands. Of course, that is the nature of the beast, because these products are illicit and therefore difficult to discover. Many of those involved in the trade are involved in other forms of criminality. It is enormously important to deal with that and with the health problems associated with illegal products, which can include lots of chemicals in addition to the tar and other noxious substances present in all cigarettes. I absolutely agree with her.

There is evidence that cigarette taxes are leading to a reduction in smoking, and that the reduction is greater when there are measures in place to prevent the proliferation of very low-cost cigarettes. But there is also evidence that the effectiveness of both is greatly enhanced when coupled with health interventions, not just public awareness campaigns. For example, nicotine replacement therapies have been shown to increase the long-term success of quitting by about 3% to 7%, and if a quit attempt is made by a former smoker with the support of a health professional as part of a structured support programme, they are far more likely to keep that quit in place and not to start smoking again.

Similarly, behavioural support has been shown to increase the likelihood of a smoker quitting long term by a similar figure: between 3% and 7%. I mention that now because current developments are extremely worrying in this regard. A recent report by Cancer Research UK and Action on Smoking and Health shows that cuts to the public health budget nationally have led to dramatic changes in services for smokers. Only 61% of local authorities now offer what the National Institute for Health and Care Excellence suggests for evidence-based intervention to help people stop smoking. I am shocked by that, as I am sure are other members of the Committee. There have been huge cuts to local anti-smoking services, and I understand that at least one local authority now has no budget at all for addressing smoking. In one in nine local authority areas GPs no longer prescribe nicotine patches or similar measures.

[Anneliese Dodds]

Why am I mentioning that now? Let us face an obvious point: tobacco taxes are regressive, because they affect those on lower incomes most. We cannot escape that. If help is available for people to quit, then that regressive impact is in some way compensated for. The evidence is that only about half of the people who smoke actually enjoy it, so huge numbers want to quit. The average smoker in the UK spends £23 a week on cigarettes, and obviously that figure is increasing as a result of these additional duties.

There has been a debate within the international evidence, and this may come up within the Minister's responsibility when he returns to the issue. Most of the international examination that says that there might not be a regressive impact has suggested that in the long run, low-income smokers will save on their medical costs. But that does not apply in the UK, thank goodness, because we have a national health service that is free at the point of use so everybody is able to use it and there is no such medical saving in that regard.

If those professional services for stopping smoking are not available, particularly to people on low incomes, it will be difficult to avoid the conclusion that this is a regressive tax being imposed without the help that people need to stop smoking. Only about one in twenty people who try to stop unaided manage to stop smoking for six months. People who do stop smoking for some time do have a number of symptoms, as those trying to do it will know. These symptoms are severe, and in many cases they lead to people going back to smoking even if they do not want to do that. It is therefore particularly important that we have help for young people. Labour—

The Chair: Order. The health implications are important, but we need to get back to the issue.

Anneliese Dodds: Labour said that we would prioritise having a special programme focused on young smokers. The point I am trying to make is that the Minister said this was part of a suite of measures, but he only mentioned public health information campaigns in addition, from what I can remember—I will check *Hansard* to see whether that is correct. The evidence strongly suggests that if we just increase duty, as we are doing now, without that suite of extra measures, we are not going to see the number of people stopping smoking that we really need. We have also seen cuts in trading services, which potentially is enabling more young people to access cigarettes than should be the case. For all those reasons, we urge the Government to review the effectiveness of this measure on overall smoking cessation rates, and we will continue to push for that review.

Mel Stride: The hon. Lady raised the issue of the potential substitution effect in individuals trying to avoid the priced-in tax on cigarettes by purchasing illegal cigarettes, which might increase the amount of illegal trade. I can tell her that tacking illicit tobacco is a key priority for the Government. Since 2000 the UK has adopted a strategic approach, with a wide range of policy and operational responses, in collaboration with other enforcement agencies in the UK and overseas. That effort has achieved a long-term reducing trend in the illicit tobacco market, despite duty rates increasing substantially over the same period. The percentage tax gap for cigarettes was reduced from 22% to 15% and for hand-rolling tobacco from 61% to 28%, so there appears to be some evidence that the substitution effect, or the increase in illicit tobacco coming into the country, is not quite as sensitive to some of the tax rises as one might instinctively imagine.

The hon. Lady asked what other measures the Government are engaged in to try to reduce smoking. As I have said, we are committed to reducing the prevalence of smoking through our tobacco control delivery plan 2017 to 2022, which also provides the framework for robust and ongoing policy evaluation. The plan sets out ambitious objectives to reduce smoking prevalence, including reducing the number of 15-year-olds who regularly smoke from 8% to 3% or less, reducing smoking among adults in England from 15.5% to 12% or less, reducing the inequality gap in smoking prevalence between those in routine and manual occupations and the general population—that touches on her point about the potentially regressive nature of tobacco tax—and reducing the prevalence of smoking in pregnancy from 10.5% to 6% or less.

We will of course continue to keep those measures under constant review. In fact, tobacco and smoking is one of the areas of public policy on which Governments of all colours have placed particular emphasis. There is a huge amount of scrutiny in that area and we will continue in that vein.

Question put and agreed to.

Clause 45 accordingly ordered to stand part of the Bill.

Clause 46

POWER TO ENTER PREMISES AND INSPECT GOODS

Peter Dowd: I beg to move amendment 60, in clause 46, page 40, line 18, at end insert—

"(9A) The powers under subsections (1) to (6) of this section are not available in any case where—

(a) information has been provided on oath by an officer in accordance with section 161A(1) of the Customs and Excise Management Act 1979 (power to enter premises: search warrant) and a justice of the peace has not issued a warrant in consequence, or

(b) an officer could reasonably have been expected to seek a warrant in accordance with the provisions of that section of that Act."

This amendment provides that the powers to enter premises and search goods may not be exercised in cases where a warrant to search premises in relation to goods subject to forfeiture has been sought and refused or where such a warrant could reasonably be sought.

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

Clause 46 stand part.

Clause 47 stand part.

Peter Dowd: As I said earlier, the Opposition are well aware that we need serious measures to tackle VAT evasion in this country. A National Audit Office report published in 2017 revealed:

"HM Revenue & Customs (HMRC) estimates that online VAT fraud and error cost between £1 billion and £1.5 billion in lost tax revenue".

I referred to that figure earlier, but no one is certain that it is accurate. I also referred earlier to the fact that 14.5% of sales in Britain in 2016 took place online. I reaffirm what I said pretty unambiguously in my earlier

speech: the number of online sales is growing and growing, so it is essential that we get to grips with VAT evasion. The picture has the potential to become more complex, depending on our direction of travel in relation to Europe.

We are absolutely clear that evasion is not acceptable and must be clamped down on. The National Audit Office report highlighted:

> "UK trader groups believe the problem is widespread, and that some of the biggest online sellers of particular products, such as mobile phone accessories, are not charging VAT"

at all. It is therefore important that robust action is taken to address the issue before it creates an even bigger tax gap. We have already discussed the potential for that in clause 38, where we think the Government need to take a different approach.

That said, we have serious concerns over the scope of clause 46 in relation to that issue. The clause seems to give HMRC officials pretty wide-ranging and almost uncurbed powers to enter premises and search vehicles and vessels. There might be a civil rights issue regarding that power, and, as a result, the rules might be open to significant abuse. Although it is clear that action must be taken to tackle tax avoidance, we are worried that not enough thought and consideration are being given to the potential impact of the new powers. Indeed, this is evident in the Government's own tax information and impact note on the measure, which was published just a couple of years ago, on 5 December 2016.

The delay here is notable, as this piece of legislation was originally intended for last year's Finance Bill. It was postponed because of the general election and failed to appear in the Ways and Means resolutions once the Bill resurfaced. We have tabled an amendment to add a much-needed layer of security and protection for individual rights, while giving officers what they need to pursue suspicious vehicles or vessels and search buildings as necessary. As a result of our amendment, those actions would not be permitted if they did not satisfy the conditions usually needed for a search warrant. That would at least provide some judicial oversight and security for a procedure that could give HMRC and, potentially, other agencies carte blanche—I am not saying that they would do this—to abuse powers with no recourse.

3.30 pm

The transformation of online retail in the UK in recent years has brought with it an unprecedented challenge in policing our ports and docks to ensure that customs law is complied with. As a Member of Parliament who has a huge port in my constituency, I appreciate that, but the Government are failing to allocate the proper resources to HMRC to enable it to supply enough officers to meet the challenge. Lack of resources is a running theme, and we are not making this up. The Government cannot substitute for those resources wide-ranging powers to interfere in the matters that I have referred to. This is before we have even considered the yawning tax gap brought about by the convoluted tax planning of major corporations.

Another recent report by the Public and Commercial Services Union spelled out how serious the problem is. In spite of the huge challenges we face in cross-border online trading and closing the tax gap—they should mean that HMRC is given more resources, not less—the PCS report shows that, year on year, there have been real-terms cuts to HMRC for more than a decade. Clauses 46 and 47 highlight two major failures on the Government's part: a failure to consider the crucial question of how tax prevention activities connect to citizens' rights and put in place proper safeguards to protect them, and a failure to resource HMRC.

Mel Stride: I thank the hon. Gentleman for his contribution and observations. Clause 46, as he pointed out, extends HMRC's existing powers, allowing it to examine goods thoroughly away from ports, airports and other approved places that are under customs control. The power is expected to be exercised mainly in situations in which goods have been mis-declared at import and thus the correct amount of duty has not been paid.

Under their current legislative powers, HMRC officers working inland and post clearance are not permitted to examine and take account of customs goods; that includes opening, marking, weighing, loading and unloading them. Under section 24 of the Finance Act 1994, a customs officer has the power to enter the premises of a business that contains goods subject to customs duty, and to inspect those goods. That means that if there is reasonable cause to think that there has been a violation of customs law, an officer is only allowed to pick up and inspect goods visible at those premises. Today, HMRC officers often investigate sophisticated frauds involving customs goods, the majority of which are at inland premises and not within the confines of approved places such as ports and airports. It is therefore essential that officers are empowered not only to enter and inspect, but to examine and take account of goods.

The changes made by clause 46 will extend officers' powers to examine goods thoroughly post clearance, inland, where a customs offence is suspected. The power covers all customs offences, but current operational experience suggests it will be largely used where goods have been mis-declared at import. The clause will enable officers to examine and take account of goods found on premises. It will allow the officer to mark, move, open or unpack goods or containers, or require a relevant person to provide assistance that is reasonable for the purpose of examining the goods. As the search power is for the purpose of searching containers, boxes and so on and not the premises, a warrant is not needed.

Amendment 60 seeks to deny HMRC those powers in cases where a search warrant has been sought and refused, or where a warrant could reasonably be sought. The purpose of entry under section 24 will be to carry out compliance checks, which will include examining goods to ensure they comply with any paperwork. That cannot be done effectively under the current power, because it only allows the inspection of goods.

Section 24 is not—and is not intended to be—a substitute for seeking a warrant. A warrant will be used when there is a need to enter and search a building or place where there are reasonable grounds to suspect the presence of forfeitable goods. A warrant also grants the power to force open doors and windows and open any obstruction. Unlike section 24, warrants can be used outside of business hours. If a warrant to enter and search a building or place was required and refused, the amendment could not be used to gain access.

We are amending these customs powers to ensure they work effectively, not as a means of unduly expanding

[Mel Stride]

customs power. At the moment, officers can merely pick up goods that are immediately visible to them, but on some occasions that is not enough. For example, to ensure that the contents of a box correspond to the relevant paperwork, it is necessary to be able to look inside the box and examine the goods. Under section 24, all visits are strictly regulated. They must be carried out during business hours, and most visits will be pre-booked, routine compliance visits. Officers currently receive training in how to conduct visits, which includes the legal basis and powers available to them. In addition, stringent rules, safeguards and guidance place limitations on an officer's powers, ensuring that they are used proportionately and only where necessary. That will be updated when the measure is introduced.

The measure will extend the powers available to officers when visiting premises where there are customs goods. It will allow them to take account and examine goods thoroughly, making operational duties more effective. I therefore commend the clause to the Committee.

Peter Dowd: We take the Minister's reassurances and explanation at face value. I am sure he will appreciate that, from that our side, the civil liberties issues are absolutely crucial. We will not be pressing the amendment to a vote but, given the civil liberties issues, we will be keeping a very close watch on the matter. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 46 ordered to stand part of the Bill.

Clause 47 ordered to stand part of the Bill.

Clause 48

CO_2 EMISSIONS FIGURES ETC

Peter Dowd: I beg to move amendment 61, in clause 48, page 42, line 15, leave out from "effect" to end of line 16 and insert

"from the date on which the Chancellor of the Exchequer lays before the House of Commons a report of the review carried out under subsection (13).

(13) A review under this subsection shall consider the appropriateness of the use of the New European Driving Cycle methodology for calculating carbon dioxide emissions for the purposes of the provisions amended by this section.

(14) A review under subsection (13) shall also consider the effects if carbon dioxide emissions were to be calculated for the purposes of the provisions amended by this section using the Worldwide harmonized Light-duty vehicles Test Procedure including

(a) the effects on the operation of those provisions,

(b) the revenue effects, and

(c) the effects on progress towards the Government's targets for reducing carbon dioxide emissions."

This amendment requires a pre-commencement review of the appropriateness of the current regime for calculating carbon dioxide emissions and the effects of a change to the WLTP procedure.

The Chair: With this it will be convenient to discuss clause 48 stand part.

Peter Dowd: As we move towards the denouement of today's proceedings, I thank you for your chairmanship, Sir Roger. The formalities will ensue later on, no doubt.

Clause 48 is designed to ensure that a car's carbon dioxide emissions for the purpose of the Income Tax (Earnings and Pensions) Act 2003 and the Vehicle Excise and Registration Act 1994 will remain based on the existing testing regime known as the new European driving cycle. I hope that that is not the cycle we were referring to earlier. This is a Government clarification, following the introduction of a new regime for calculating CO_2 emissions that is called worldwide harmonised light-duty vehicles test procedures, or WLTP.

I always welcome clarifications, as the Minister well knows. This clause specifically relates to the car benefit charge and car fuel benefit charge, which are duties paid by motorists and employers who provide and use company cars. Those charges are calculated using CO_2 emission figures published by a car's manufacturer. Higher emission vehicles are subject to higher charges than are vehicles with a smaller environmental footprint.

We need to examine the implications of the clause quite closely, especially in the light of the Government's recent interest in the environment. I expect, as I alluded to earlier, that that is an attempt to enamour young people, and so far they have not taken the bait. This clause, which attempts to demonstrate the Prime Minister's commitment to environmental protection, demonstrates that that commitment is not as deep as it could be. Before we examine the particulars, it is useful to reflect on the reason why the EU developed new emissions testing procedures—the WLTP and the real driving emissions test—which the Government are effectively suggesting we ignore.

In September 2015, the automotive sector was plunged into crisis when the Volkswagen Group admitted that it had installed defeat device software in 11 million vehicles that had been sold across the globe. The implications of that still rumble on. It was a clear case of corporate deception, in which vehicles were mis-sold using information that suggested that their environmental footprint was smaller than it was. The Transport Committee's report into the scandal described how it

"brought the integrity of the auto sector into disrepute"

and "led to confusion".

The same report points out, however, that although the case was one of corporate deception, it was also a matter of regulatory failure. The automotive sector is a large part of the UK's manufacturing base, accounting for nearly £7 billion of turnover and more than £15 billion of value added, and roughly 1 million people are employed in the industry across the UK. It is clearly an important part of the economy, and that is all the more reason to ensure that it is properly regulated and trusted by the British public. I know that the Minister will completely agree with that.

The Transport Committee suggested, however, that regulators have known for years that the test used to measure emissions—the very same new European driving cycle test that the Government suggest we should continue to rely on—is unfit for purpose. The test was introduced in the 1990s and, in the words of the Select Committee, it

"has become unrepresentative of modern vehicle technology and real-world driving."

Under the NEDC, testing takes place under laboratory conditions that are not reflective of real-world driving where, for example, speed and temperature differ.

You may be wondering, Mr Owen, why the specifics of emissions testing should be of concern to Members. One reason is that the evidence around the impact of car emissions on public health is stark. A growing body of evidence shows that nitrogen oxides are a significant hazard to human health. They can increase the risk of heart attacks, strokes and low birth weight, and they can aggravate a number of other lung and pulmonary conditions. According to the Department for Environment, Food and Rural Affairs, nitrogen oxides contribute to 23,500 deaths a year. That is why it is so vital that we get testing right and strengthen enforcement to ensure that a corporate deception akin to the Volkswagen scandal can never happen again.

Indeed, the European Union developed the new emissions testing framework as a direct response to some car manufacturers' bad behaviour with regard to emissions testing. It is therefore odd that the Government should choose to stick to the old system for the purposes of taxation. The question is: why do they seek to do that? My assumption is that they know that taxing emissions on the basis of the new testing procedures will increase the level of taxation being applied through the car benefit charge and the car fuel benefit charge.

The Transport Committee report to which I made reference suggested that the Government should publish information explaining how vehicles tested under the WLTP compare with those tested under the new European driving cycle. Is that information in the public domain? Can the Minister confirm whether the Department has assessed the effects on the Exchequer of using the new testing regimes to calculate the amount of tax due, and can he set out the results of those assessments in due course?

My office made contact with the International Council on Clean Transportation Europe, which identified VW's deception in 2015 and passed the information on to the United States Environmental Protection Agency. The council was clear that the type approval carbon dioxide emission values are expected to be about 20% higher under the new WLTP test than under the NEDC testing procedure, which the Government are suggesting that we stick to. The council said that that was due to a more dynamic speed profile, a more realistic vehicle test mass, lower ambient temperature and other conditions that reflect more closely typical real-world driving conditions.

However, the council informed my office that the political consideration has already been made regarding the jump in emissions figures through the testing regime, and that adjustment has been made to ensure that only three quarters of any increase in emissions will be counted. Can the Minister explain whether the Government have considered a similar compromise in the taxation being applied to emissions—one that recognises that the new tests are a better reflection of the actual emissions being produced, but that does not penalise those paying the car benefit charge and the car fuel benefit charge to the full amount?

3.45 pm

That may be an important consideration. After all, despite the intricacies of the detail, there is a bigger issue at stake. Only a few days ago, the Prime Minister set out a 25-year plan,

"to leave the natural environment in a better state than we found it."

Yet we are debating a clause through which the Government hope to avoid stronger tax incentives for company employees to use low emission vehicles. Does the Minister not see the contradiction between what the clause attempts to do and the Prime Minister's speech?

We know that taxation can operate as an effective tool for behavioural change, and it is clear that the Government agree with that. Only today, we have debated measures to increase taxation on smoking in the hope of driving cessation. We have also debated the behavioural effects of air passenger taxation on the use of air travel, and the taxation of illegal landfill sites to reduce the prevalence of disposal, so behavioural change is a theme here. Why do the Government see fit to use taxation to reduce some harmful behaviours but not this one, despite the serious public health and environmental effects of vehicle emissions?

Turning to amendment 61, we are reasonably asking the Government to review this decision, to look again at the appropriateness of the NEDC procedure for measuring emissions when compared with the new WLPT regime that the EU developed in the light of the recent emissions scandals. Our suggested review would look at several of the effects of the provisions, including the revenue effects of sticking with the NEDC testing procedure rather than, say, taking up the WLPT regime.

As I have described, it is also important to review the impact of the measure on our overall ambitions for the environment. We have therefore included a provision in our amendment to ensure that the impact of the decision is measured against our progress towards the UK's commitment to reducing carbon dioxide emissions—we all accept that they cause much harm to public health—in our environment.

If the Government do not at least pay attention to what we are saying, their strategy will be confused. On one hand, the Prime Minister is committed to protecting the environment; on the other, the Chancellor is giving tax breaks to higher emission vehicles. It just does not make sense. Our amendment will require the Government to come clean about the evidence on the matter and look again at their decision. I am sure that many Committee members will think on what I have said as they reach their decision.

Mel Stride: Clause 48 confirms that for vehicle excise duty and company car tax purposes, the data for a car's CO_2 emissions will continue to be based on the new European driving cycle, or NEDC. As the hon. Gentleman says, NEDC, which is the current testing methodology for producing definitive car emissions values, is being replaced by a new lab test, known as the worldwide harmonised light vehicles test procedure, or WLTP, which is designed to be more representative of normal driving behaviour. For example, it contains more accelerating/decelerating and includes variable-speed driving. At the autumn Budget, it was announced that the Government will transition the tax system to using these improved readings from April 2020. The announcement was made now to give notice to drivers and the industry.

The Government will discuss with the industry next year whether the current CO_2 band thresholds in VED and CCT are appropriate. In the interim, this clause clarifies that vehicle taxes will continue to use NEDC values until April 2020. The hon. Member for Bootle

[Mel Stride]

asked why we could not use the real-world driving emissions test in the interim. It is used as a complement to lab tests, to check whether cars produce similar emission values on the road as in the laboratory. We could not use the RDE as the primary basis for saving tax bands, because that is not how these tests work; they would not allow us to compare two cars on a like-for-like basis. The changes made by the clause will ensure that drivers' tax rates are unaffected for vehicle excise duty, company car tax and fuel benefit charges.

Let me turn to amendment 61, which proposes that the Chancellor review the appropriateness of the NEDC regime prior to the clause commencing, and the effects of the change to the WLTP on the Government's targets for reducing carbon dioxide emissions and on revenue.

I appreciate that Opposition Members want to ensure that the Government continually review the appropriateness of their policies for reducing carbon emissions. However, delaying the commencement of the clause to review the appropriateness of NEDC would be inappropriate, as it would mean that the Driver and Vehicle Licensing Agency and HMRC would not have clarity about which emissions figures they should use to set tax rates for vehicles. For clarity, I reiterate that NEDC is the established methodology for calculating CO_2 values.

Clause 48 is designed to clarify the law. Since September, manufacturers seeking type approvals for new cars have been required to show two different CO_2 readings for their vehicles—one produced under the new WLTP test and another consistent with the current NEDC test. We cannot use both numbers for tax purposes. Therefore, to avoid confusion, the clause makes it clear that the DVLA and HMRC will continue to assign tax bands using the current NEDC procedure.

The Government will transition the tax system to the new WLTP test from April 2020. That transition period gives the Government time to consider, in consultation with industry, what the effects of the new system will be and whether the band thresholds remain appropriate in the context of recorded WLTP results. We are actively discussing that topic with industry, and we will announce our decisions at the Budget in the usual way. On that basis, I believe that the amendment is unnecessary, and I ask the hon. Member for Bootle to withdraw it.

Peter Dowd: Again, I appreciate what the Minister has said about keeping this under review, and about the 2020 date. We will keep looking closely at this issue, but on that basis, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 48 ordered to stand part of the Bill.

Clauses 49 and 50 ordered to stand part of the Bill.

The Chair: I am conscious of the television monitor, as there may be a Division in the Chamber at any time. When it is called, we will suspend for 15 minutes if there is one vote, and for an additional 10 minutes for each vote thereafter.

New Clause 1

REVIEW OF RETROSPECTIVE VAT REFUNDS FOR THE SCOTTISH FIRE AND RESCUE SERVICE AND THE SCOTTISH POLICE AUTHORITY

'(1) Within one month of this Act receiving Royal Assent, the Chancellor of the Exchequer shall commission a review of the potential consequences of allowing the Scottish Fire and Rescue Service and the Scottish Police Authority to claim VAT refunds under section 33 of VATA 1994 retrospective to the date of their establishment.

(2) The review shall consider—

(a) the administrative consequences of allowing retrospective claims, and

(b) the impact on revenue of allowing retrospective claims.

(3) The Chancellor of the Exchequer shall lay the report of this review before the House of Commons within six months of this Act receiving Royal Assent.'—*(Kirsty Blackman.)*

This new clause would require the Chancellor of the Exchequer to commission a review into what the potential consequences of allowing the Scottish Fire and Rescue Service and the Scottish Police Authority to make retrospective claims for VAT refunds would be.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 9, Noes 10.

Division No. 10]

AYES

Blackman, Kirsty	Lee, Ms Karen
Carden, Dan	Pidcock, Laura
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Thewliss, Alison
George, Ruth	

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Rutley, David
Graham, Luke	Stride, rh Mel
Kerr, Stephen	Whately, Helen

Question accordingly negatived.

New Clause 4

REVIEW OF THE IMPACT OF INCREASING RESEARCH AND DEVELOPMENT EXPENDITURE CREDIT

'(1) Within one month of Royal Assent to this Act, the Chancellor of the Exchequer shall commission a review of the impact of increasing the Research and Development Expenditure Credit from 11% to 12%.

(2) The review shall consider—

(a) the effect of the 1% increase on companies' research and development spending in the UK, and

(b) what effect the increase in Research and Development Expenditure Credit will have on changes to companies' research and development spending in the UK as a result of leaving the EU.

(3) The Chancellor of the Exchequer shall lay the report of this review before the House of Commons within six months of this Act receiving Royal Assent.'—*(Kirsty Blackman.)*

This new clause would require the Chancellor of the Exchequer to commission a review of the effect of the increase in Research and Development Expenditure Credit from 11% to 12% on companies' research and development spending and what effect the increase will have on any changes to companies' R&D spending as a result of the UK leaving the EU.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 9, Noes 10.

Division No. 11]

AYES

Blackman, Kirsty	Lee, Ms Karen
Carden, Dan	Pidcock, Laura
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Thewliss, Alison
George, Ruth	

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Rutley, David
Graham, Luke	Stride, rh Mel
Kerr, Stephen	Whately, Helen

Question accordingly negatived.

New Clause 8

EIS, SEIS, SI AND VCT RELIEFS: REVIEW OF OPERATION

'(1) Within twelve months after the passing of this Act, the Chancellor of the Exchequer must review the operation of the reliefs established under Parts 5, 5A, 5B and 6 of ITA 2007.

(2) The review under this section must consider—

(a)the revenue effects of the reliefs and changes made to those reliefs since the passing of the Finance Act 2012,

(b) the employment effects of the reliefs and those changes,

(c) other economic effects of the reliefs and those changes, and

(d) the extent to which trusts or other entities have been created to secure benefits from the reliefs and those changes without providing wider employment or economic benefits.

(3) The Chancellor of the Exchequer must lay before the House of Commons the report of the review under this section as soon as practicable after its completion."—*(Peter Dowd.)*

This new clause provides for a review of the operation of the enterprise investment scheme, the seed enterprise investment scheme, income tax relief for social investments and venture capital trusts income tax relief.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 9, Noes 10.

Division No. 12]

AYES

Blackman, Kirsty	Lee, Ms Karen
Carden, Dan	Pidcock, Laura
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Thewliss, Alison
George, Ruth	

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Rutley, David
Graham, Luke	Stride, rh Mel
Kerr, Stephen	Thewliss, Alison

Question accordingly negatived.

New Clause 9

REVIEW OF CHANGE TO LEVEL OF RESEARCH AND DEVELOPMENT EXPENDITURE CREDIT

'(1) No later than 31 March 2019, the Chancellor of the Exchequer must review the effects of the change to the level of research and development expenditure made by section 19(1).

(2) The review under this section must consider—

(a) the revenue effects of the change, and

(b) the effects on levels of research and development expenditure.

(3) The Chancellor of the Exchequer must lay before the House of Commons the report of the review under this section as soon as practicable after its completion."—*(Peter Dowd.)*

This new clause provides for a review of the change to the level of research and development expenditure credit.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 9, Noes 10.

Division No. 13]

AYES

Blackman, Kirsty	Lee, Ms Karen
Carden, Dan	Pidcock, Laura
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Thewliss, Alison
George, Ruth	

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Rutley, David
Graham, Luke	Stride, rh Mel
Kerr, Stephen	Whately, Helen

Question accordingly negatived.

New Clause 11

REVIEW OF FINANCIAL IMPACT OF POSTPONEMENT OF CHARGE ON SHARE EXCHANGE IN OVERSEAS TRANSFEREE COMPANY

'(1) Within twelve months after the passing of this Act, the Chancellor of the Exchequer must review the financial impact of the changes made by section 27 of this Act to section 140 TCGA.

(2) The review under this section must consider—

(a) the revenue effects of the change made, and

(b) the extent to which the change has supported UK companies to conduct international business.

(3) The Chancellor of the Exchequer must lay before the House of Commons the report of the review under this section as soon as practicable after its completion."—*(Peter Dowd.)*

This new clause provides for a review of the revenue impact and the impact on business of the change to TCGA to prevent a postponed chargeable gain from becoming chargeable following further restructuring of a UK Company's overseas business.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 9, Noes 10.

Division No. 14]

AYES

Blackman, Kirsty	Lee, Ms Karen
Carden, Dan	Pidcock, Laura
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Thewliss, Alison
George, Ruth	

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Rutley, David
Graham, Luke	Stride, rh Mel
Kerr, Stephen	Whately, Helen

Question accordingly negatived.

New Clause 12

FIRST YEAR TAX CREDITS: REVIEW OF EFFECTIVENESS

'(1) The Chancellor of the Exchequer must commission a review of the effectiveness of First Year Tax Credits.

(2) The review under this section must consider—

(a) the effectiveness of First Year Tax Credits on—

(i) encouraging investment in efficient plant and machinery,

(ii) reducing the consumption of energy by business,

(iii) aiding the UK's carbon reduction obligations, and

(b) the impact on revenue of the tax credits.

(3) The Chancellor of the Exchequer must lay before the House of Commons the report of the review under this section within twelve months of the passing of this Act."—*(Peter Dowd.)*

This new clause would require the Chancellor of the Exchequer to commission and lay before the House of Commons a report into the effectiveness of First Year Tax Credits.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 9, Noes 10.

Division No. 15]

AYES

Blackman, Kirsty	Kerr, Stephen
Carden, Dan	Pidcock, Laura
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Thewliss, Alison
George, Ruth	

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Rutley, David
Graham, Luke	Stride, rh Mel
Kerr, Stephen	Whately, Helen

Question accordingly negatived.

New Clause 13

REVIEW OF EFFECTIVENESS OF LIMIT TO DOUBLE TAXATION RELIEF

"(1) No later than 31 March 2019, the Chancellor of the Exchequer must review the effects of the limit to double taxation relief made by section 30.

(2) The review under this section must consider—

(a) the effects of the change on annual revenue, and—

(b) the size and type of companies benefiting from the relief and the impact of the changes on them.

(3) The Chancellor of the Exchequer must lay before the House of Commons the report of the review under this section as soon as practicable after its completion."—*(Peter Dowd.)*

This new clause provides for a review of the new limit for double taxation relief available to companies for foreign tax paid on income of a foreign permanent establishment.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 9, Noes 10.

Division No. 16]

AYES

Blackman, Kirsty	Lee, Ms Karen
Carden, Dan	Pidcock, Laura
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Thewliss, Alison
George, Ruth	

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Rutley, David
Graham, Luke	Stride, rh Mel
Kerr, Stephen	Whately, Helen

Question accordingly negatived.

New Clause 14

FIXED RATE DEDUCTION FOR EXPENDITURE ON VEHICLES: REVIEW OF CHANGE TO ELIGIBILITY

'(1) Within twelve months after the passing of this Act, the Chancellor of the Exchequer must review the effects of the amendments made by section 36 allowing unincorporated property businesses to use flat rates for mileage when calculating allowable deductions for vehicle expenditure for income tax.

(2) The review under this section must consider—

(a) the revenue effects of the change made, and

(b) the effect of the change on rates of car usage in unincorporated property businesses.

(3) The Chancellor of the Exchequer must lay before the House of Commons the report of the review under this section as soon as practicable after its completion.'—*(Peter Dowd.)*

This new clause provides for a review into the effects on revenue and on car use of allowing unincorporated property businesses to use flat rates, commonly referred to as mileage rates, when calculating allowed deductions for income tax.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 9, Noes 10.

Division No. 17]

AYES

Blackman, Kirsty	Lee, Ms Karen
Carden, Dan	Pidcock, Laura
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Thewliss, Alison
George, Ruth	

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Rutley, David
Graham, Luke	Stride, rh Mel
Kerr, Stephen	Whately, Helen

Question accordingly negatived.

4.1 pm

Sitting suspended for Divisions in the House.

4.47 pm

On resuming—

New Clause 15

LANDFILL TAX DISPOSALS: REVIEW OF CHANGES TO DISPOSALS WITHIN CHARGE

'(1) The Chancellor of the Exchequer must commission a review of the changes to disposals for which Landfill Tax is chargeable within three months of the passing of this Act.

(2) The review under this section must consider—

(a) the effect on revenue of the changes,

(b) the impact on the volume of disposals at—

(i) sites with an environmental disposal permit, and

(ii) sites without an environmental disposal permit, and

(c) the impact of the changes on the prevalence of illegal disposal sites.

(3) The Chancellor of the Exchequer must lay before the House of Commons the report of the review under this section within twelve months of the passing of this Act.'—*(Peter Dowd.)*

This new clause would require the Chancellor of the Exchequer to commission and lay before the House of Commons a report into the effects of the changes to disposals for which Landfill Tax is chargeable on tax revenue and on the volume of disposals and the prevalence of illegal landfill sites.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 7, Noes 10.

Division No. 18]

AYES

Carden, Dan	Lee, Ms Karen
Dodds, Anneliese	Pidcock, Laura
Dowd, Peter	
George, Ruth	Smith, Jeff

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Rutley, David
Graham, Luke	Stride, rh Mel
Kerr, Stephen	Whately, Helen

Question accordingly negatived.

Question proposed, That the Chair do report the Bill, as amended, to the House.

Mel Stride: As is traditional on such occasions, I will say a few words about the Committee. I thank everybody who has participated in what has been a full and robust debate at every stage. I particularly thank the Opposition Front Benchers for their contributions and the good humour and levity that has been on display at various points in our proceedings.

I thank the hon. Member for Bootle for his frequent biblical and literary allusions, his classical quotations—a few of which I actually understood, but they were impressive none the less. We concede on this side that there were no Marxist mumblings, for which we were very grateful. At one point, he compared the Labour party to John the Baptist, but then accepted that that did not end very well. We were grateful for his contributions.

I thank the hon. Member for Oxford East for her forensic examination of all issues. It is agreed by popular acclaim, and by Members on both sides of the Committee, that that was impressive to say the least. When serving with her on a particularly memorable Statutory Instrument Committee, I was horrified to discover that she had digested in microscopic detail not only the treaty that we were discussing, but its forerunner as well, and she was able to draw on that experience in our exchanges.

I thank the hon. Member for Aberdeen North, who is not in her place, for her thoughtful contributions and the gentle but firm and persistent way in which she pursued the points that mattered to her.

It is fair to say that we have spent much time together—especially today, what with Treasury questions and the Committee. We have statutory instruments to look forward to, and we will also be engaged in considering the customs Bill. I hope that we do not forget sharing these golden moments. When we retire and Parliament disappears into the dim distance, perhaps we will have some kind of revival band and go out on the road to share our highlights of these occasions with the general public, like a band of ancient rockers who just keep going. Of course, the highlight of all highlights will be the story about the dead dog and the bicycle, which will never fade from our memories.

More seriously, Mr Owen, I thank you and Sir Roger very much for having chaired the Committee with such good humour, patience and impartiality; of course, we take that for granted. I thank the Whips as well. Having served as a Whip, I know how hard they work. They do not often receive much glory, but we are grateful to them for having kept things running so smoothly that the Committee is finishing early.

I thank Back Benchers on both sides of the room for their contributions—some were very good contributions, and there was a wealth of contributions from Members on our side of the Committee—which were gratefully received. I thank the Committee Clerks, *Hansard* and the Doorkeepers for their good service. I also thank all those who provided evidence to the Committee earlier on.

Almost last but certainly not least, I thank my officials at HMRC and at the Treasury: Dom Curran, Rachel Crade, Harry Pearse, George Houghton and Hugo Popplewell from my private office, all of whom have served and looked after me with great efforts, and to great effect. Finally, I thank parliamentary counsel, with whom I have struggled on this third Finance Bill of the last 12 months. Until we meet again, Mr Owen, thank you very much.

Peter Dowd: I would like to mirror everything that the Minister has said. It is not goodbye but au revoir, as far as I can gather. I thank you, Mr Owen, all Members who have participated, the Minister for his assiduous answers to questions—some of which I never asked—and all my colleagues. I also want to thank my staff and my colleagues' staff, who have worked hard behind the scenes, while we have taken the credit.

The Chair: May I echo what both Front Benchers have said? I thank the House staff and the Clerks for the support that they have given us throughout proceedings on the Bill.

Question put and agreed to.

Bill, as amended, accordingly to be reported.

4.55 pm

Committee rose.

Written evidence reported to the House

FB27 This person wishes to remain anonymous

FB28 This person wishes to remain anonymous