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Public Bill Committee

FINANCE BILL

Seventh Sitting

Tuesday 16 June 2020

(Morning)

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PBC (Bill 114) 2019 - 2021

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Saturday 20 June 2020

The Committee consisted of the following Members:

Chairs: SIOBHAIN MCDONAGH, † ANDREW ROSINDELL

† Badenoch, Kemi *(Exchequer Secretary to the Treasury)*
† Baldwin, Harriett *(West Worcestershire)* (Con)
† Browne, Anthony *(South Cambridgeshire)* (Con)
† Buchan, Felicity *(Kensington)* (Con)
† Cates, Miriam *(Penistone and Stocksbridge)* (Con)
† Flynn, Stephen *(Aberdeen South)* (SNP)
† Jones, Andrew *(Harrogate and Knaresborough)* (Con)
† Millar, Robin *(Aberconwy)* (Con)
† Norman, Jesse *(Financial Secretary to the Treasury)*
† Oppong-Asare, Abena *(Erith and Thamesmead)* (Lab)
† Phillipson, Bridget *(Houghton and Sunderland South)* (Lab)
† Ribeiro-Addy, Bell *(Streatham)* (Lab)
† Rutley, David *(Lord Commissioner of Her Majesty's Treasury)*
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Streeting, Wes *(Ilford North)* (Lab)
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Williams, Craig *(Montgomeryshire)* (Con)

Chris Stanton, Kenneth Fox, Johanna Sallberg, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 16 June 2020

(Morning)

[ANDREW ROSINDELL *in the Chair*]

Finance Bill

9.25 am

The Chair: Good morning, everyone. As you are aware, social distancing guidelines are in place, so I remind all Members to sit only in marked seats. Tea and coffee are not permitted in Committee Rooms. Will all Members please ensure that mobile phones are turned off and switched to silent mode during Committee meetings? The *Hansard* reporters will be grateful if Members email any electronic copies of their speaking notes to hansardnotes@parliament.uk.

We now continue line-by-line scrutiny of the Bill.

Clause 72

EXCLUDED PROPERTY ETC

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

The Chair: With this it will be convenient to discuss clause 73 stand part. I call the Minister, Kemi Badenoch. *[Interruption.]* Sorry—Jesse Norman.

The Financial Secretary to the Treasury (Jesse Norman): Thank you, Mr Rosindell. My hon. Friend and I are sharing the duties on the Front Bench today, and it is I who rises to speak to clauses 72 and 73. The clauses make changes to ensure that additions of assets made by UK domiciled or deemed-domiciled individuals to trusts made when they were non-domiciled cannot be treated as excluded property. As that explanation indicates, it is a somewhat technical measure, which means that such additions are within the scope of inheritance tax.

The clauses have been introduced following a decision by the Court of Appeal. To give some background, the inheritance tax treatment of trusts depends on the domicile status of the person setting up the trust when it was made, known as the settlor, and the location of the assets. If the settlor is UK domiciled, inheritance tax is chargeable on their worldwide assets. By contrast, non-domiciled individuals do not pay inheritance tax on assets in trusts situated outside the UK.

The long-established position of Her Majesty's Revenue and Customs has been that a settlement is made when a trust is created, and that a settlement is also made when assets are added to that trust. That means that assets would be within the scope of inheritance tax if they were added to a trust by an individual who is currently UK domiciled, even if the trust was set up when the same individual was non-UK domiciled. The Court of Appeal decision created uncertainty by ruling that a settlement was made only when assets were first added to the trust. That ruling meant that the domicile of the settlor for later additions to the trust would not matter. In turn, all subsequent settlements of assets into the trust would not be liable for inheritance tax in the UK.

The measure was announced in the autumn Budget 2018, and stakeholders have had nearly two years' notice of the change.

In July 2019, the draft legislation was published, which provided an opportunity to give feedback to Her Majesty's Revenue and Customs. HMRC received feedback from a range of bodies including the Chartered Institute of Taxation, the Society of Trust and Estate Practitioners, the Institute of Chartered Accountants in England and Wales, the Tax Faculty and PricewaterhouseCoopers by the deadline for responses. HMRC then made a number of amendments based on the feedback provided, and stakeholders have since provided further feedback regarding the legislation.

Together, the measures will confirm that additions of non-UK assets by UK domiciled or deemed-domiciled individuals to trusts are chargeable for inheritance tax, even when the trust was originally set up while that individual was non-domiciled. The measures will also ensure that transfers between trusts made by a UK-domiciled individual are chargeable for inheritance tax. That will affect UK-domiciled or deemed-domiciled individuals who created an offshore trust when they were previously non-UK domiciled and have subsequently made additions of assets to that trust.

Although the measure will apply only to a small number of individuals, the tax saving for them could have been significant, and there have been claims for tax repayments as a result of the case. The clauses will ensure that the legislation is applied as intended and all tax is collected as expected. The changes introduced by the clauses will add clarity and remove any doubt from the legislation by confirming HMRC's published and widely accepted views. I commend the clauses to the Committee.

Bridget Phillipson (Houghton and Sunderland South) (Lab): It is a pleasure to see you back in the Chair, Mr Rosindell. We regard the measure as a welcome imposition to provide for a fairer tax system. HMRC figures indicate that the number of individuals who live in the UK but pay no tax on their offshore income has fallen, with the number of UK-based individuals with non-domiciled tax status falling by 13% on the previous year. HMRC believes that that is explained by individuals switching to domiciled status and other individuals leaving the UK tax system. Thus the clauses reflect that particular change. However, there are some issues reported by stakeholders.

Responding to clauses 72 and 73, the Chartered Institute of Taxation states that among its members transfers between trusts are most commonly undertaken for family or related reasons, and without any intention to avoid inheritance tax or to circumvent the excluded property rules. It argues that the main thrust of the legislation should be to limit additions by the settlor after they become deemed or actually UK domiciled.

The institute expresses concern about some scenarios in which property could inadvertently be brought into the scope of inheritance tax because a change is made to a trust, not an addition of assets, that could be treated as a resettlement, or trustees make a transfer between two settlements, both set up when the settlor was non-domiciled. In neither case is inheritance tax avoidance being attempted. There are some situations where trustees, not the settlor, are involved in transferring between two settlements, both set up when the settler is foreign domiciled, or when the second is set up by the trustees of the first. We believe that there should be no loss of excluded property status because of the changing status of the settlor. I would be interested to hear the Minister's assessment of those concerns.

Secondly, both the Institute of Chartered Accountants in England and Wales and the London Society of Chartered Accountants were critical of the potential for retrospection. The former argued that if clause 72 is

"to be treated as always having been in force, this will result in unexpected IHT charges arising as a result of past events."

The institute says:

"Given that the clause is not countering avoidance but is changing long-standing rules that are familiar to trustees and are clearly stated in the existing law…new legislation on this point should not affect events that happened earlier than the measure is enacted, ie Royal Assent."

Similarly, the London Society of Chartered Accountants believes that this

"clause changes the IHT status of trusts to which assets are added. This change will have effect from the time that the trust was set up, so is retrospective. However, as the clause is not an anti-avoidance measure but is just a change to the law, retrospection is not appropriate and the clause therefore does not follow Parliamentary convention."

I understand that these comments presume that the individuals in question do not seek to avoid tax when transferring assets between trusts, but I would be grateful if the Minister responded to these concerns.

Last, I heard the Minister's comments, but the Institute of Chartered Accountants in England and Wales has raised the lack of a consultation period or of any follow-up, despite being led to believe that that would happen after a meeting with HMRC in November 2018. It reported that

"trustees of offshore trusts are unlikely to have considered these changes in the necessary detail"

and had concerns that there would be

"insufficient time for trustees to take advice to help them understand the full implications and…whether they want to take any action to unwind structures."

In working with the intention of the measures the Government have introduced, I would be grateful if the Minister responded to those concerns and addressed the lack of a consultation period.

Jesse Norman: I am grateful to the hon. Lady for her questions and for her support on this technical but important measure.

The hon. Lady asks about unanticipated negative effects. I am happy to put on the record that HMRC has given reassurance that it will adopt a cautious approach if there is a case in which a taxpayer may accidently taint a trust that contains a mixture of excluded and non-excluded property. Hopefully, that will address many of the concerns about unexpected consequences that she touched on.

The hon. Lady asks whether this measure is retrospective. As she will be aware, we do not believe that it is retrospective. The key point is that HMRC's application of the legislation, and therefore the legal position, was widely accepted in practice before the Court of Appeal decision put that position in doubt. The effect of it is going to be that individuals have been liable to the tax owed in the spirit of the legislation. Formally, clause 72 is not retrospective because it does not create any new changes pre-Royal Assent, but we recognise the concern that is raised. It is true that in some cases there may be what I would describe retroactable, and not retrospective, effects. That is precisely because HMRC and the Government are seeking to restore what might be referred to as the position as it had always been understood previously. That is the intended effect of the legislation.

The hon. Lady asks whether there should have been more consultation. As I outlined in my speech, the Government have had this in the public domain for a considerable period and discussed it, with plenty of occasion for people to conform their tax affairs to what is, after all, only a reaffirmation of existing tax law through legislation. There is also the counterpart problem, which the hon. Lady will understand: if the clause is not introduced now, it may allow opportunities for individuals to avoid paying inheritance tax on assets they put into trust or on properties transferred between trusts. I am sure she would not wish to abet or support those opportunities and that she would wish, overall, to join us in protecting revenue and providing certainty to taxpayers.

Question put and agreed to.

Clause 72 accordingly ordered to stand part of the Bill.

Clause 73 ordered to stand part of the Bill.

Clause 74

Relief for payments to victims of persecution during Second World War era

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

Jesse Norman: This is a small measure, but a very important one. The clause exempts compensation payments received under the Kindertransport fund from an inheritance tax liability. In late 2018, the German Government agreed to provide compensation payments for child survivors of the Kindertransport. As you will know, Mr Rosindell, the Kindertransport was an organised rescue effort for Jewish children, who were transported unaccompanied from Germany to escape persecution from the Nazi regime. I must say, it is one of the most shining examples of effective humanitarian action in Germany's history—and in our history—in a very difficult time.

The Kindertransport fund, launched in January 2019, awarding one-off payments of €2,500 to survivors is subject to specified criteria as set out by the German Government. The measure will ensure that Kindertransport payments are not subject to inheritance tax. Changes made by clause 74 will be backdated to take effect so that no inheritance tax is paid on payments from the scheme from its opening date on 1 January 2019.

The clause provides reassurance to the original survivors of the Kindertransport that any payment made in connection with or under this compensation scheme will not be subject to IHT. While no amount of money could ever remove the suffering those children and their families experienced, the Government remain committed to supporting survivors of Nazi persecution. I trust that all agree that it is fundamental that the clause stand part of the Bill.

Bridget Phillipson: The Opposition welcome the provision. As the Minister says, it is a very important measure. Exempting from inheritance tax compensation payments made to the survivors of the Kindertransport is a just measure for those who had to face the devastating experience of being torn from their families as children in order to escape persecution. The House of Commons Library states that around 100,000 children were brought to the UK under the Kindertransport scheme, but of course many of those survivors have since passed away. It is only right that in the spirit of the Kindertransport fund all survivors receive their compensation payment in its fullest form and that that remains the case if the compensation is inherited.

According to the claims conference, to be eligible for payment survivors have to have been under 21 when the Kindertransport took place, between November 1938 and September 1939. However, the UK set an age limit of 17 for those transported. The oldest would therefore be born around 1921 or 1922, suggesting that they would be nearly 100 if they were alive today. The average age of the children who were transported was nine, so many would be in their mid-nineties today. Given those figures, we know that many people claiming compensation from the compensation fund will be survivors' inheritors, so it is welcome that the payment is not subject to inheritance tax. However, I gently urge the Government to consider the issues that child refugees face today, and I urge Ministers to show the same level of commitment and dedication today that our country demonstrated in the past.

The Kindertransport survivor and incredible campaigner Lord Dubs worked tirelessly to protect child refugees following our withdrawal from the European Union, but the Government's amendment of clause 37 watered down the UK's commitment to protect unaccompanied child refugees in Europe who seek to reunite with their families in the UK. I hope that the Government will review their approach to child refugees and take seriously their commitment to protect child refugees fleeing violence and persecution in our present, just as they have taken seriously compensating child refugees of the past. Meaningful dedication to supporting child refugees requires both.

Jesse Norman: I thank the hon. Lady for her comments. She spoke very well about the Kindertransport scheme. As the Committee knows, the Government stand by our position on child refugees, and this country has a proud record in that area.

Question put and agreed to.

Clause 74 accordingly ordered to stand part of the Bill.

Clause 75

Stamp duty: transfers of unlisted securities and connected persons

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

The Chair: With this it will be convenient to discuss clause 76 stand part.

Jesse Norman: In the spirit of proper scrutiny of legislation, we should chew carefully on clauses 75 and 76. They are quite technical clauses, which address the use of contrived arrangements involving the transfer of unlisted securities to connected companies for an artificially low consideration in order to minimise stamp duty and stamp duty reserve tax liability on company reorganisations.

In the Finance Act 2019, the Government introduced a targeted market value rule to prevent the artificial reduction of the stamp tax due when listed shares are transferred to a connected company. That was introduced with immediate effect to prevent forestalling. The Government consulted on extending the rule to unlisted shares, to ensure that we fully understood the potential effect of the change on small businesses. That is why draft legislation is narrowly targeted only at companies that enter into contrived arrangements that are used to minimise stamp tax on reorganisations.

The Finance Bill 2020 therefore extends the market value rule to the transfer of unlisted shares to connected companies. This form of avoidance seeks to exploit the way stamp duty and stamp duty reserve tax are currently charged: on the payment given as consideration, rather than on the value of what is received. Some taxpayers have been using contrived arrangements that reduce the value of the consideration paid when they transfer unlisted shares to a company with which they are connected as part of a company reorganisation.

The changes made by clauses 75 and 76 will mean that when unlisted shares are transferred to a company and the person transferring the shares is connected with the company, the tax charge is based on the value of the consideration for the transfer or the market value of the shares transferred, whichever is higher. The new rule will apply only when there is an issue with shares by way of consideration, narrowly targeting the measures to the circumstances where contrived arrangements are used to minimise the share of the tax on the transfer of unlisted shares. The measures will have effect for stamp duty in relation to instruments executed on or after Royal Assent of this Bill, and for stamp duty reserve tax in relation to agreements to transfer made on or after Royal Assent.

Clauses 75 and 76 prevent the artificial reduction of the stamp tax due on share acquisitions when unlisted shares are transferred to connected companies. It is expected to raise £25 million over the scorecard, and I commend the clauses to the Committee.

9.45 am

Bridget Phillipson: The Opposition welcome the measures implemented by these clauses to minimise the scope of continuing avoidance of stamp duties by extending the stamp duty and stamp duty reserve tax market value rule to the transfer of unlisted securities to connected companies. However, I raise a point regarding the impact of the clauses.

HMRC's impact assessment of the policy notes that there will be a negligible impact on 250 to 350 businesses in the first year, disproportionately affecting small and microbusinesses. It estimates that the arrangements are most likely to affect private companies with a small number of stakeholders, such as owner-manager businesses, with an average value of £2.5 million. These may include family businesses, many of which we understand to be struggling in the face of the current pandemic. What assessment has the Minister made of this, and who is really the intended target of these clauses?

The Chartered Institute of Taxation expressed concern that unintended consequences could arise from clause 76 due to significant additional costs that are disproportionate to the tax at stake in many cases. It goes on to say that this

"may in some situations prevent commercially advantageous transactions, with no avoidance motive, from going ahead. The…vague description of policy rationale and the contrived arrangements being targeted has prevented stakeholders from assisting in designing a targeted rule so as to reduce the unintended consequences."

Similarly, legal firm Cleary Gottlieb notes that

"the new rule is not limited to cases of stamp duty or SDRT avoidance, and it should not be assumed that transactions driven entirely by commercial considerations will fall outside its scope."

I will be grateful if the Minister explains how the Government will seek to minimise unintended consequences of this measure being the targeting of businesses that are not seeking to avoid stamp duties.

Respondents to the consultation suggested that it would be preferable to introduce a targeted anti-avoidance rule into the legislation, or to extend the general anti-abuse rule or the disclosure of tax avoidance scheme provisions. What consideration have the Government given to inserting a targeted anti-avoidance rule into the legislation?

Last, the Chartered Institute of Taxation points out that, in relation to clause 77, there are a number of circumstances in which a shareholding of 25%—required for this exception to section 77A of the Finance Act 1986 to apply—will be an excessive hurdle, reasoning that it is not uncommon for a company to be owned equally by five or six entrepreneurs or a family group. It suggests that a requirement that the relevant shareholding is at least 10% would be more appropriate to cover a wide range of commercial scenarios. I will grateful if the Minister will address those concerns.

Jesse Norman: I am very grateful to the hon. Lady for the questions she raises. Let me take them in order.

On whether these measures will affect most small businesses or organisations, as the hon. Lady highlights, a relatively small number of organisations will be affected. The measures were subject to consultation, and interestingly the respondents were satisfied that there would be little impact on commercial activity as the measures were suitably targeted, and expressed some pleasure that the concerns they raised during the policy consultation about the impact of a more wide-ranging measure had been heard. This is, of itself, a tightly focused measure. It falls—where it falls—on a relatively small number of organisations, as I said.

However, it is important to pick out the logic of what I think the hon. Lady is saying. We all recognise the importance of combating the pandemic. She will be aware that the Government have spent many tens of billions of pounds on supporting businesses, families and jobs during this process. This measure is about something else: avoid a form of tax avoidance, or rather heading off a form of tax avoidance; curbing and preventing it. I do not think people's concerns about the pandemic should be allowed to obtrude on that.

The hon. Lady asked a question about unintended effects. Our analysis is that precisely because of the targeting that was noted during the consultation phase, unexpected effects, while they can never be ruled out, should be limited and minimal. It is also important to say that there will be a modest additional administrative burden that will decline over time as people become accustomed to the new rules.

The hon. Lady asked whether it would be better to address this with a more targeted anti-avoidance rule, but this is quite a targeted anti-avoidance rule. It picks out particular forms and is restricted to company reorganisations of a certain kind, and it builds on the existing approach for listed shares. I therefore think that it addresses her concerns.

Question put and agreed to.

Clause 75 accordingly ordered to stand part of the Bill.

Clause 76 ordered to stand part of the Bill.

Clause 77

Stamp duty: acquisition of target company's share capital

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

Jesse Norman: Clause 77 prevents a double stamp duty charge from arising on some company reorganisations, and follows on from clauses 75 and 76. During the consultation on extending the market value rule to unlisted securities, it was put to the Government that a double charge could arise on a type of company reorganisation known as a capital reduction partition demerger. We are very heavily in the long grass of tax intricacy. Such a demerger is where shares in a company are cancelled and shareholders are compensated with shares in a new company, rather than with cash. A corporate group may pursue this strategy where, for commercial reasons, it wants to split a group and ensure that the companies in that group are held separately by the original shareholders.

Currently, taxpayers who follow the rules can incur two stamp duty charges on such demergers, while other taxpayers use contrived arrangements to avoid paying any stamp duty on the same reorganisation. This clause, together with clause 75, ensures that one charge arises on most capital reduction partition demergers by more tightly targeting existing anti-avoidance provisions related to company reorganisations.

Stamp duty is a transaction tax. When a company is split using a demerger arrangement, there are a number of steps, two of which are potentially subject to stamp duty unless a relief applies. Usually relief applies on one step only, so that there is just one charge on the overall transaction. In some demergers, known as capital reduction partition demergers, relief is unavailable on both steps due to anti-avoidance provisions. Clause 77 will prevent a stamp duty double charge from arising, so that only one charge will arise on most capital reduction partition demergers. It does this by better targeting the existing anti-avoidance provisions. The measure applies to stamp duty instruments that are executed on or after Royal Assent.

Clause 77 works together with clause 75 to ensure that one charge will apply on most capital reduction partition demergers. This increases fairness and consistency. I therefore commend the clause to the Committee.

Bridget Phillipson: I raised these points in an earlier debate, but I will do so again so that the Minister can respond.

On clause 77, the Chartered Institute of Taxation points out that there are a number of circumstances in which a shareholding of 25%, which is required for the exception to section 77A of the Financial Act 1986 to apply, will be an excessive hurdle. Its reasoning is that it is not uncommon for a company to be owned equally by five or six entrepreneurs or a family group. It suggests that a requirement that the relevant shareholding be at least 10% would be more appropriate to cover a wide range of commercial scenarios. I would be grateful to hear the Minister's response on that issue.

Jesse Norman: The hon. Lady raises a very specific circumstance. It would be appropriate for me to write to her about the specifics of the decision about percentages, rather than try to go through the argument here.

The discussion has already been had between HMRC and stakeholders, and therefore it has to some extent already been addressed through the consultation process, but I am happy to revisit the issue.

Question put and agreed to.

Clause 77 accordingly ordered to stand part of the Bill.

Clause 78

Call-off stock arrangements

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

The Chair: With this it will be convenient to discuss new clause 13—*Call-off stock arrangements: sectoral review of impact*—

'(1) The Chancellor of the Exchequer must make an assessment of the impact of section 78 on the sectors listed in (2) below and lay a report of that assessment before the House of Commons within six months of the passing of this Act.

(2) The sectors to be assessed under (1) are—

(a) leisure,

(b) retail,

(c) hospitality,

(d) tourism,

(e) financial services,

(f) business services,

(g) health/life/medical services,

(h) haulage/logistics,

(i) aviation,

(j) transport,

(k) professional sport,

(l) oil and gas,

(m) universities, and

(n) fairs."

This new clause would require the Government to report on the effect of Clause 78 on a number of business sectors.—(Alison Thewliss.)

Jesse Norman: Clause 78 simplifies the rules for accounting for VAT on goods moving from the UK to member states of the EU or vice versa in advance of goods being "called off", as it is known, for delivery. This is known as "call-off stock". These changes represent a simplification for businesses that use call-off stock arrangements and provide common rules across the EU. They apply to goods removed from or to the UK from 1 January 2020, and will apply for the remainder of the UK's transition period with the EU. We expect the changes to have a negligible effect on businesses that adopt them.

The clause transcribes EU call-off stock law—new article 17A to the principal VAT directive—into UK legislation. It sets out the conditions for the rules to apply and provides sellers with statutory obligations to adhere to strict record keeping and reporting requirements. These changes are an administrative easement; the primary benefit is to UK businesses that will no longer have to register and account for VAT in the customer's country, and vice versa. However, the quid pro quo is additional reporting requirements as well as EU regulations, which have direct effect, that set out new record keeping requirements, as I have indicated.

There is no obligation on a business to restructure transactions so as to meet the conditions and fall within the new rules. We expect that they would use the simplification only because they might derive a benefit for their business. Businesses that do not meet the conditions and so do not fall within the new rules should continue with the current VAT accounting mechanisms for EU cross-border transactions.

The Government published the draft legislation and guidance on the operation of the rules in December. The legislation was laid before the House in the Finance Bill at Budget earlier this year. A resolution under the Provisional Collection of Taxes Act 1968 means that the legislation currently has effect.

Call-off stock are goods that are bulk-shipped by a supplier across a border to a warehouse from where they will be supplied, or called off, as the customer requires. Different EU member states previously had different VAT accounting rules for call-off stock. Some required the seller of the goods to register and account for VAT in the country where the goods were to be called off. The UK avoided the need for the overseas supplier to register for VAT here. We allowed the customer to account for the VAT when the goods first arrived and in advance of being called off. The measure implements the changes adopted by ECOFIN on 4 December 2018, which were designed to simplify the rules and make them more consistent within the single market.

In normal circumstances the new rules, like the existing UK rules, do not require the seller to register and account for VAT in the country where the goods are called off. The new rules delay accounting for VAT until the goods are called off. To avoid VAT fraud, suppliers are required to report the initial movement of the goods to their tax authority, and both the supplier and the customer are required to keep additional records of the stock. When the goods are called off, normal VAT accounting and reporting procedures will apply and the customer will account for the acquisition of VAT. The Government had some concerns over the potential burden on business of keeping the new records required under the new rules and pushed for the right of business to continue using the existing rules if they so wished. A business is not required to arrange its affairs such that the new rules must be used. A supplier and their customer can agree to continue to use the existing UK rules for goods called off in the UK.

HMRC has produced guidance reflecting the introduction of the changes, and the measure is expected to be revenue neutral. It constitutes a simplification for

UK businesses. The measure updates UK law to take account of the approach in the EU. It simplifies the VAT rules for call-off stock transactions and avoids the requirement for the supplier to register in the destination state.

New clause 13 would require the Government to conduct a review on the impact of the new call-off stock rules on a variety of different sectors within six months of the Bill receiving Royal Assent. The new legislation provides a simplification for businesses that choose to meet the conditions for it to apply. With that in mind, we expect it would have a negligible impact on businesses. I can inform the Committee that recent figures show that fewer than 200 UK businesses have reported that they are using the new rules, and we are not aware of any being in the sectors mentioned in the amendment. I therefore ask the Committee to reject the amendment and commend the clause to the Committee.

10 am

Alison Thewliss (Glasgow Central) (SNP): It is a pleasure to see you in the Chair, Mr Rosindell. I take what the Minister says about the measure affecting relatively few businesses at the moment, but as this develops, that might not remain the case. There is a certain irony in the EU providing mechanisms for simplifying and harmonising these rules and trading across the EU—people moving their goods around the place—when the UK stands to come out of the EU and lose some of those benefits for businesses in all our constituencies.

There is an irony as well that the Government have decided to adopt these new rules. I am sure the Brexiteers in the room are no less keen on being rule takers, but that seems to be what the Government are doing in this case. We want to see as much harmonisation and simplification for businesses, because that is to their benefit. That is why we think it is important to stay in the EU in the first place.

Figures from the Scottish Government suggest that Scottish GDP could be 1.1% lower after two years, on the current cumulative loss of economic activity from leaving the EU, and up to £3 billion over those two years, on top of the devastating effects of the coronavirus outbreak. There will be an impact without having a free trade deal or an extension, at least for Scotland's agriculture, fisheries and manufacturing sectors.

We want to see a comprehensive assessment of how all the sectors listed in the amendment will be affected—leisure, retail, hospitality, tourism, financial services, business services, health, life and medical services, logistics, aviation, transport, professional sport, oil and gas, universities—because they could all be affected by this clause. It would be wise for the Government to look at the impact of what they are proposing. It is always wise for the Government to look at the impact of their proposals on anything, I suppose, and we encourage them to do that.

Because the measure is retrospective, will the Minister say what notifications have gone out to business that may be affected and what guidance has been given? He said that companies can opt to use these rules or not. How does that work, and how does the guidance ensure that people know what they have to carry out, whether they decide to use the rules or not? It sounds quite confusing from what the Minister said. Finally, because he did not make it clear, will he say what happens to these measures after the transition period?

Wes Streeting (Ilford North) (Lab): Let me begin by picking up on a point made by the Member for Glasgow Central about the provenance of clause 78. As we heard from the Financial Secretary, the clause transposes into UK law an EU directive that provides for simplified VAT treatment of call-off stock.

To begin, it is tempting to make the same point, and I know that repetition is not a novelty. Let me put it this way: it is very welcome to hear from the Treasury that divergence from EU rules and regulations is not considered by the Government to be an end in and of itself. I was curious last night, as I walked past the Annunciator in the Tea Room, to see the right hon. Member for Wokingham (John Redwood) making a lengthy speech on a fairly straightforward statutory instrument on electricity. I reviewed his speech this morning in *Hansard*, because it piqued my curiosity, and I received in passing from my hon. Friend the Member for Hove (Peter Kyle) a precis of the thrust of the right hon. Gentleman's argument. It seems that a number of Conservative Members consider divergence from EU rules and regulations to be an aim in and of itself. Regardless of the merits of the case and the merits of continued co-operation, it is clear that, for a section of the House, there is a virtue in divergence.

I am glad that the Treasury does not share that view, although of course the Treasury looks at the numbers. We may not have had an impassioned exposition from the Financial Secretary of the arguments in favour of this particular alignment with EU rules and regulations, but what we did hear was a very clear argument from Her Majesty's Treasury that, even having left the European Union, there are still benefits to be found for UK businesses from continued alignment, co-operation, simplification, axing bureaucracy and making things simpler.

I hope that that common-sense approach to our future relationship with the European Union prevails. As much as those of us who campaigned in a different direction in the referendum accept the result and the outcome, and accept that this is a settled political question, it is in all our interests and in our national interest that we maintain a future relationship with the European Union that is based on co-operation, where that is in the interest of our own country.

I turn to the specifics of clause 78. The Financial Secretary's speech seemed to me to address some of the concerns expressed by businesses and chartered tax advisers, but I will raise them for the sake of clarity. Writing in *Taxation*, Angela Lang-Horgan, a German and British chartered tax adviser and lawyer, said:

> "If businesses have continued to operate under the old simplification rule after 31 December 2019, VAT returns must be corrected once the new legislation is in place. This will add additional confusion to the situation. So far, HMRC has not indicated whether it would apply a soft-landing period. There is no transition period either because under EU law the UK was obliged to introduce the changes from the beginning of this year."

Could I get some clarity from the Financial Secretary on those points? Will HMRC provide a soft landing period for the implementation of the new rules, or is a

[Wes Streeting]

soft landing period not even necessary? If I understood him correctly—I may have misunderstood, in which case he will clarify—it seems that there is a degree of flexibility and choice on the part of businesses over whether to adopt this approach. Some clarity in direct response to the concern expressed by Angela Lang-Horgan would be welcome.

What efforts have the UK Government made to communicate with affected businesses in anticipation of the rules, which are effectively already in place? It is worth saying, although it is a mild digression from clause 78, that concern has been expressed—particularly by colleagues in the shadow Business team—that the Government are not communicating with businesses in a timely way with respect to changes in Government policy and their impact on businesses. I think that for some time there has been a cultural problem in government of not giving businesses long enough to anticipate and adjust to new rules; I wonder whether in this case that communication has been a bit more proactive.

The explanatory notes state that

"businesses could structure transactions to remain outside the scope of the new rules if businesses found them onerous."

What proportion of businesses are expected to exercise that discretionary power?

Jesse Norman: I am grateful to hon. Members for their comments. The hon. Member for Glasgow Central regards it as an irony that the Government are bringing forward this rule. I would not describe it as an irony; it is a simplification for those companies that wish to use it, and it is optional. Some companies will prefer the current arrangements as more settled and simpler, while others may not—I do not think that there is anything more to it than that. So far, 200 companies have already taken it up; of course, we cannot say in advance how many may have chosen to do so by the end of the transition period, but it is a relatively small number of companies, as I have indicated.

Alison Thewliss: Can the Financial Secretary tell us how many companies are using the previous rules?

Jesse Norman: I certainly do not know the number of companies operating under the previous rules, but I would be happy to drop the hon. Lady a letter with any number that HMRC may have that can be publicly disclosed. The point is that there is a relatively small number of companies; they have seen this coming and it is an optional advantage for them. In reply to the point raised by the hon. Member for Ilford North, it applies only during the transition period, which will end at the end of this year.

We will be leaving the transition period on 1 January, which is not only stated by Government but is commonly understood. That goes to the question of divergence, which was raised by the hon. Member for Ilford North. We are bound by EU law while we are in the transition period. The Government certainly do not have any interest in divergence for the sake of divergence; the Government have an interest in the ability to set our own law, including our own tax law, as we as a sovereign nation see fit. That might or might not involve divergence, but this measure will not apply after the transition period.

The hon. Member for Ilford North also raises an important question about whether there is enough time for business to accommodate rules. I cannot comment on behalf of other Departments, but it certainly is a concern that has been raised in relation to the creation of tax law. Wherever possible, the Government try to abide by rules that we introduced after 2010 in order to have a more effective tax process. As he knows, it involves several stages and periods of consultation. We are coming up to an L day for legislation to be considered for the 2020 Budget, for the autumn Budget—if there is one—and for a Finance Bill next year. There is an orderly process, but I take his point about the importance of ensuring that it is as orderly and well structured as possible.

Question put and agreed to.

Clause 78 accordingly ordered to stand part of the Bill.

Clause 79

Post-duty point dilution of wine or made-wine

Stephen Flynn (Aberdeen South) (SNP): I beg to move amendment 10, in clause 79, page 67, line 25, at end insert—

'(3) The Chancellor of the Exchequer must review the expected effects on public health of the changes made to the Alcoholic Liquor Duties Act 1979 by this Section and lay a report of that review before the House of Commons within one year of the passing of this Act."

This amendment would require the Government to review the impact of the proposed changes to alcohol liquor duties on public health.

It is a pleasure to serve under your chairmanship, Mr Rosindell. The amendment is quite simple and would require the Government to review the impact of alcohol duties on public health. It should come as no surprise, given that the SNP has long called for duty to reflect content, but we do not have the powers in Scotland to do that. Instead, we have to rely once again on the Westminster system in that regard. That is a real pity, because where we have powers in Scotland in relation to public health and alcohol, we have made great strides. For instance, we have seen the banning of irresponsible promotions and the lowering of the drink-drive limit. We ended multi-buy discounts, something that was certainly contentious at the time. As a young student, I was not overjoyed about the fact that I could not buy three crates of Tennent's for £20. None the less, it was an important measure that no doubt changed the behaviour of many people, including myself at that time.

Of course, we have seen the overwhelming success of minimum unit pricing in Scotland. That was, again, an extremely contentious measure at the time, whereby we placed a 50p-per-unit charge on units of alcohol. The cumulative effect of all those measures has seen something that we all wanted to see in Scotland, where we have a difficult relationship with alcohol—one that was challenging to confirm but that we needed to confirm. We saw off-duty sales fall by 3.6% in the first year since minimum unit pricing was introduced. In England and Wales during the same period, off-duty sales increased by 3.2%. That is a very telling figure.

When I first came to Parliament, one of the very first debates that I took part in was in Westminster Hall. I cannot remember which hon. Member secured the debate, but it was about alcohol duty. I think the purpose of the debate was to galvanise hon. Members to stop the Government increasing alcohol duty and, hopefully, to reduce it. There was extreme passion in that Chamber and there were a lot of hon. Members present—more than are often seen debating any given matter in the main Chamber. There was a lot of passion about pints, but we cannot be passionate about pints without also having passion for public health and the consequences of the decisions being made. The stark reality is that the two are inextricably linked, and the UK Government need to be mindful of that fact. Supporting the amendment would be a good, positive first step on that journey to a more sensible approach that takes into account public health.

10.15 am

In that Westminster Hall debate, in which numerous Government Members spoke, not a single person mentioned public health, despite the consequences of alcohol in our communities. That is not good enough.

Alison Thewliss: Does my hon. Friend agree that the minimum unit pricing introduced in Scotland had the effect of removing from our shelves some of the most harmful drinks, including the high-strength industrial ciders that cause so much harm to so many people in our communities?

Stephen Flynn: Absolutely. My hon. Friend makes an excellent point. We did not have to walk far to find a shop in Scotland that sold ciders. White Lightning is incredibly strong. Often, individuals would buy it early in the morning, and by the afternoon the remnants were across our city. We were able to stop that, and that was important because it was having an impact on every single person who lived and worked there. This amendment gives the Government the opportunity to make sensible strides in recognition of the fact that public health and alcohol are inextricably linked.

Wes Streeting: I shall begin by addressing the SNP's amendment 10. It is important to look carefully at the relationship between alcohol taxation and public health. We have seen in other areas of taxation, notably the sugar tax, the huge impact that decisions taken by the Treasury can have on public health and public health outcomes. It is long past time for us to look seriously and sensibly at whether more can be done to reduce the impact of alcohol and alcoholism on people's lives and communities.

Turning to clause 79, I have had the opportunity to do a much deeper dive into some of the issues, not least because of the determined efforts of my hon. Friend the Member for Chesterfield (Mr Perkins). Anyone who has ever been lobbied by him will know that when it comes to standing up for his constituents and for businesses in his constituency, there is no more determined, stubborn and irrefutable representation than that which he provides. He has raised serious concerns about the impact of the clause on businesses in his constituency. I shall outline some of those concerns, in the hope that Ministers will consider their bearing on Government policy.

We understand perfectly what the Government are trying to achieve with clause 79. The clause amends the Alcoholic Liquor Duties Act 1979, to introduce sanctions for post duty point dilution of wine or made-wine, which, if carried out before the duty point, would have resulted in a higher amount of duty being payable. That change has, in effect, already come into force and we are legislating for it this morning. The change is perfectly understandable. It is designed to bring more revenue into the Treasury that would otherwise be, and is being, lost. I understand the Government's position that post duty point dilution carries significant legal and revenue risk for the Exchequer.

The Wine and Spirit Trade Association is against the legislation, claiming it would put hundreds of jobs at risk and place more pressure on the industry. Recently, thanks to the initiative of my hon. Friend the Member for Chesterfield, I had the opportunity to speak to Global Brands, a business based in his constituency that makes VK and Hooch, among other products. We know that covid-19 is having a huge impact on the licensed trade industry and on alcohol sales in particular, affecting not only pubs but the producers of wines, spirits and other beverages. Global Brands is concerned that, because of the financial burden placed on its business by the clause, combined with the impact of covid-19, it expects to make 50% of its workforce redundant, putting 200 jobs at risk as a result of this change. If I can characterise our discussions in this way, it would be accurate to say that Global Brands accepts that this change is inevitable, and that the Treasury has a settled view on it, but it hopes that the Treasury might consider a 12-month delay in implementation—from April 2020 to April 2021—arguing that this would give it time to recover from the covid-19 shock, leaving it better able to absorb the change.

Global Brands makes other arguments that the Treasury may want to take into account. In particular, Global Brands sells what were commonly known as alcopops, a low alcohol by volume product—typically around 4% ABV. It is concerned that the impact of the change will be that, ironically, its low alcohol product would be taxed higher per unit of alcohol than much higher strength products, which flies in the face of the Government's stated policy of discouraging high-strength alcohol and its impact on public health.

It is also worth highlighting that the Government have already announced their intention to conduct a wider review of alcohol taxation. I wonder whether it makes sense, from the point of view of business resilience and of giving companies such as Global Brands more time to cope with the covid-19 shock before absorbing this change, for the Treasury to consider this delay alongside the range of other issues that it will consider as part of its wider review of alcohol taxation. We might have been minded to table an amendment to probe the 12-month delay, but we were advised that such an amendment would not be in scope because the foundation resolution is clear about the date on which this change takes effect.

That is another reason why—I gently make this point again to Ministers—we feel strongly about the way in which the Treasury has restricted the scope of amendments and the debate by not introducing an amendment of the law resolution, as has been the case historically. As well as denying Opposition Members the opportunity to table broad, sweeping, political amendments to the Finance Bill, that also has practical implications. I impress on Ministers and the usual channels the need to reconsider that for future Finance Bills.

[Wes Streeting]

Finally, when my hon. Friend the Member for Chesterfield and I spoke to Global Brands just the other week, I was particularly impressed not just by the jobs and economic activity it provides in Chesterfield, but at the fact that its wider supply chain is virtually entirely British. Its ingredients, packaging and labelling are all derived from a British supply chain. I do wonder whether the Treasury has really thought through the timing of the change, the impact that it will have on businesses such as Global Brands, and where it might position such businesses in relation to their international competitors that are not providing jobs in this country and do not have a supply chain rooted here.

Given the unemployment statistics out today, we know that structural unemployment will become one of the biggest political issues and economic challenges in our country. Structural unemployment in Britain will become a feature of our life in a way that, frankly, it was not 10 years ago, in the wake of the financial crisis, and has not been for decades. The Government must do everything they can to protect jobs, which is why we have called today for them to come forward not just with fiscal measures in July, but a full-on, jobs-first Budget—because we are worried about the impact of covid-19 on unemployment.

The representations on clause 79 from Global Brands and from my hon. Friend the Member for Chesterfield remind us of the risk of the unintended consequences of Government policy. Given the impact on jobs and the supply chain and the fact that the Treasury is in any case preparing to undertake a review of alcohol taxation, I wonder whether the call for the Government to delay the measure by 12 months is not eminently reasonable—and whether they might come forward with their own change to the Bill on Report.

The Exchequer Secretary to the Treasury (Kemi Badenoch): Clause 79 makes changes to alcohol duty legislation to introduce prohibitive sanctions for anyone who dilutes wine or made-wine once that product has passed a duty point. It will ensure fairness by providing equity of treatment across the drinks industry and will tackle future revenue risks for the Exchequer.

Post duty point dilution is a practice that enables wine and made-wine producers to reduce the excise duty that they pay by diluting the product after duty has been paid. Because the dilution increases the volume of wine and made-wine for sale, with no additional duty being paid, less duty is paid than would otherwise be due. UK legislation does not expressly prevent post duty point dilution for wine and made-wine, although it is prohibited for all other alcohol products. The practice gives certain wine or made-wine producers a tax advantage over those who produce other categories of alcohol, of which dilution is not permitted, and over others in their own sector who cannot make use of the practice.

Clause 79 will introduce new prohibitive sanctions for anyone who dilutes wine or made-wine once that product has passed a duty point on or after 1 April 2020. Introducing new sanctions to prevent the practice will maintain the principle that excise duty is calculated only on a finished product when it is released from production premises or on import. It will ensure fairness by providing equity of treatment across the drinks industry and will tackle future revenue risks for the Exchequer.

A review of the practice was launched at autumn Budget 2017, during which HMRC engaged extensively with industry and gathered a large amount of evidence to inform a decision. At Budget 2018, the Government announced the findings of the review and their intention to stop the practice being used for wine and made-wine, as is already the case for other types of alcohol. However, the Government also announced that that would not take effect until April 2020. That has given those businesses affected almost three years to prepare for the change, allowing them time to reformulate or diversify into the production of new lines.

Amendment 10 would require the Chancellor to review the public health effects of the post duty point dilution sanctions. When making changes to the alcohol duty system, the Government take into account a wide range of factors, including economic inequalities and health impacts. The new sanctions follow an extensive review by HMRC in 2017. Draft legislation was published in July 2019, alongside which a tax information and impact note was published on the gov.uk website, detailing the various factors that the Government have considered. The amendment is therefore unnecessary, as the Government have already published our assessment of the effect on public health. For the convenience of the Committee, I will reiterate that assessment. The Government expect that

"wine or made-wine may become slightly more expensive…there may be a positive health impact with less wine being consumed. However, this benefit may be offset if any increase in price leads to consumers switching to higher strength products."

Alison Thewliss: I am sure the Minister has seen the graph that sets pence per unit against alcohol by volume. To say that it looks as though it was drawn by a child with a crayon is being generous to children with crayons. Will she consider a wider review of the duty per unit of alcohol by product type, because at the moment it makes absolutely no sense?

10.30 am

Kemi Badenoch: I thank the hon. Lady for her intervention. I am not quite sure which chart she is referring to, and I do not accept her comments. We must remember that the purpose of the clause is primarily to close a tax loophole.

Wes Streeting: I understand what the Minister says about closing a loophole and about the time that businesses have been given to prepare for the change, but does she not think that the impact of covid-19 has a bearing here? Given the representations that are being made about the impact of the double whammy, would she at least go away and consider the merits of a 12-month delay, and write to me and my hon. Friend the Member for Chesterfield to set out her thinking once she has had a chance to do that?

Kemi Badenoch: I thank the hon. Gentleman for that question. That is something that I have considered. I have had representations from the hon. Member for Chesterfield, Global Brands and other Members of Parliament, and I will take into account the points made by the hon. Member for Ilford North made in his speech.

On job losses, the announcement was made with enough time for people to prepare. We may not have been aware of covid, but postponing implementation any further would mean that the companies that adapted to the announcement about prohibiting post duty point dilution would be disadvantaged compared with companies that have not prepared since the announcement. We do not believe that that is fair.

On the point about the low alcohol value and moving the measure to stronger products, that is something that we have factored in. We will have a wider alcohol duty review—the hon. Gentleman referenced that. The Treasury has considered all those things, and we still do not feel that they are appropriate.

Wes Streeting: I am grateful to the Minister for being generous in giving way again. She will be pleased to hear that I will not labour the previous point.

As part of the Treasury's review, will the Minister take into account the case for minimum unit pricing for alcohol? We have already heard the positive case from Scotland, and there is an active campaign for it. It would be useful for all of us involved in policy making if the Treasury review looked at the merits and the arguments against so that Parliament can make informed decisions.

Kemi Badenoch: The Government are monitoring the emerging evidence from the introduction of minimum unit pricing in Scotland and, recently, Wales, and we have addressed public health concerns in the duty system. For example, in February 2019, duty rates on white ciders were increased to tackle consumption. We must remember that the UK operates a single excise regime, so it is not possible to devolve duty rates. It is worth noting that many of the problems that have been raised are actually caused by EU rules, according to officials. I can write to the hon. Gentleman and other Members who want further clarification on that point.

Felicity Buchan (Kensington) (Con): Does my hon. Friend agree that, although this is a very interesting debate, we are here to talk about taxation, not public health policy on alcohol?

Kemi Badenoch: I completely agree. I hope I have given enough answers to address the point raised by the amendment. We have already carried out an assessment on public health grounds, but this is tax legislation. I therefore ask that amendment 10 be withdrawn.

Clause 79 introduces a new sanction to prevent a practice that is currently available only in the wine and made-wine sectors and is used by only a small number of producers. Prevention of the practice by the use of prohibitive sanctions will address inequity of treatment across the alcohol industry and will create a level playing field so that alcohol products can compete more fairly in the marketplace. I therefore commend the clause to the Committee.

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 10.

Division No. 4]

AYES

Flynn, Stephen
Oppong-Asare, Abena
Phillipson, Bridget
Ribeiro-Addy, Bell
Smith, Jeff
Streeting, Wes
Thewliss, Alison

NOES

Badenoch, Kemi
Baldwin, Harriett
Browne, Anthony
Buchan, Felicity
Cates, Miriam
Jones, Andrew
Millar, Robin
Norman, rh Jesse
Rutley, David
Williams, Craig

Question accordingly negatived.

Clause 79 ordered to stand part of the Bill.

Clause 80

Rates of tobacco products duty

Stephen Flynn: I beg to move amendment 11, in clause 80, page 68, line 5, at end insert—

"(3) The Chancellor of the Exchequer must review the expected effects on public health of the changes made to the TPDA 1979 by this Section and lay a report of that review before the House of Commons within one year of the passing of this Act."

This amendment would require the Government to review the expected impact of the revised rates of duty on tobacco products on public health.

This amendment is in part very similar to the previous amendment, but it addresses tobacco duty, not alcohol duty. We want to review the impact of tobacco rates on public health. I take exception to the suggestions made in the previous debate that taxation and public health are not inextricably linked. The hon. Member for Ilford North said that we need a joined-up approach in the Treasury and across all sectors so that we can see the impact of taxation on other aspects of life. That certainly applies to tobacco as much as it does to alcohol duty.

Much like alcohol duty, tobacco duty is reserved to the UK Government. Again, that is deeply frustrating to those of us in Scotland, because it is the desire of the Scottish Government and the SNP to have a tobacco-free generation in Scotland by 2034. Obviously, tobacco rates will play a role in that, but that is not necessarily stopping us entirely and we are still making positive efforts to get there. The raft of different measures put in place by the Scottish Government include the 2020 ban on smoking near hospitals. There is also the regulation of electronic cigarettes and MVP devices, which will be an interesting and hot topic of debate in the coming years. A new national brand, Quit Your Way, was launched in 2018 and is being promoted on behalf of the stop smoking service. A Scottish ministerial working group on tobacco control is helping develop policy to reduce the impact of tobacco on Scotland's health and to manage the register of tobacco and nicotine vapour product retailers.

That is all in addition to the Scottish Government's previous efforts, including making prisons smoke free in November 2018, banning tobacco advertising in 2002, and banning smoking in enclosed public spaces in 2006, which is something that we all remember only too well. There are certainly many establishments in Scotland—I am sure the same is true in England—where one can still get the waft of the cigarettes that used to be smoked on those premises. A great deal of good has been and will be done, but ultimately the key lever of power lies, again, with the UK Government. That being the case, it is vital that consideration is once again given to public health and to the impact on it of decisions taken by the

[Stephen Flynn]

UK Government. I therefore suggest that the Government agree to the amendment, because it will be in their interests and in the interests of people across the United Kingdom.

Wes Streeting: If the hon. Member for Kensington does not think that there should be a relationship between public health and taxation, I am afraid she is really going to hate what I have to say on clause 80 and the Scottish National party amendment. For the same reason as before, I think there is a real case for looking at these issues in a joined-up way, and ensuring that our public health objectives are reinforced by the Treasury.

In its January 2020 Budget submission, the UK Centre for Tobacco and Alcohol Studies, in partnership with Action on Smoking and Health, recommended that the minimum excise tax should be updated annually to ensure that the minimum tax for tobacco products is the rate due for products sold at the weighted average price. In the light of those representations, I wonder whether the Government will consider the advice of public health experts, and what consideration they have given to committing to updating the MET on an annual basis from the date of the passing of this legislation.

As the all-party parliamentary group on smoking and health has noted, the covid-19 crisis means that reducing tobacco-related health inequalities should be a priority, now and in the longer term, to improve population health and resilience to any future disease outbreaks. Differences in smoking prevalence and smoking-related diseases are an important factor in the differences in morbidity and mortality from covid-19. If we are not going to think seriously about some of these public health challenges in the middle of a public health crisis, when will we, frankly?

There has also been a rise during lockdown in people's exposure to second-hand smoke in the home. Households with children are twice as likely to report second-hand smoke in the home. We have already heard about the Scottish Government's determination in that respect, but the Government's prevention Green Paper set the target of the UK being smoke-free by 2030, which is defined as a prevalence of 5% or less. If we are going to do that, we really have to commit to doing it and make changes across the board to support that important goal, which we across the House share.

The argument that public health and taxation are not intertwined does not hold water. It is not fashionable to be nice about George Osborne in today's Conservative party—it is even less fashionable in the Labour party, but I already have a cross to bear in my own party—and his sugar tax was hugely controversial when it was introduced. I do not mind saying that as I sat watching the announcement in the Budget I was a big cynic, not least because I am generally in favour, as a point of principle, of progressive taxation. I worry about any new charges or levies that have flat implications for people and households with different levels of income.

Taxation by its nature ought to be progressive wherever possible, but the sugar tax has been shown, over the fullness of time, to have had a really positive impact on sugar consumption in this country. The evidence shows that a public health epidemic, which I think is what obesity is, particularly affects those from the poorest backgrounds. The same is probably true of smoking and its health consequences not just for smokers, but for the people—particularly children—who breathe the smoke around them.

The all-party parliamentary group on smoking and health, ASH, the British Heart Foundation, Cancer Research UK, the Royal College of Physicians and many others are calling on the Government to adopt their road map to a smoke-free 2030. That would include the creation of a smoke-free 2030 fund, into which tobacco manufacturers would be legally required to give funds to finance the action needed to achieve the smoke-free 2030 goal.

What consideration have the Government given to the road map to a smoke-free 2030 and, in particular, the proposal that there should be some kind of levy on tobacco manufacturers? In the same way as the sugar tax was hypothecated to tackle obesity, what consideration have the Government given to introducing a hypothecated levy to take action to eliminate smoking?

10.45 am

Kemi Badenoch: Clause 80 increases the duty charge on all tobacco products by RPI inflation plus 2% in line with the tobacco duty escalator. In addition, the duty on hand-rolling tobacco will rise by an additional 4% to 6% above RPI inflation this year.

Smoking rates in the UK are falling, but they are still too high. Around 14% of adults are 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. That includes a commitment to continue the policy of maintaining high duty rates for tobacco products to improve public health. The UK has comprehensive tobacco control legislation, which is the envy of the world. However, 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 per year, including £2 billion in costs to the NHS of treating disease caused by smoking.

At the Budget, my right hon. Friend the Chancellor announced that the Government were committed to maintaining the tobacco duty escalator until the end of the Parliament. The clause therefore specifies that the duty charged on all tobacco products will rise by 2% above RPI inflation. In addition, duty on hand-rolling tobacco will rise by an additional 4% to 6% above RPI inflation this year. The clause also specifies that for the minimum excise tax—the minimum amount of duty to be paid on a pack of cigarettes—the specific duty component will rise in line with cigarette duty.

The new tobacco duty rates will be treated as taking effect from 6 pm on the day they were announced: 11 March 2020. Recognising the potential interactions between tobacco duty rates and the illicit market, the Government announced at the Budget that they would publish a consultation on proposals for strengthened penalties for tobacco tax evasion as part of the track and trace system, including a £10,000 fixed penalty and a sliding scale for repeat offenders. In addition, the Government will strengthen the resources of trading standards and HMRC to help to combat the illicit tobacco trade, including the creation of a UK-wide HMRC intelligence-sharing hub. I hope the hon. Member for Ilford North will support that. I believe I have addressed quite a number of the points that he has raised.

I turn to amendment 11, which is designed to place a statutory requirement on my right hon. Friend the Chancellor to review the public health effects of changes to tobacco duty. 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. The Government are committed to improving public health by reducing smoking prevalence, and we co-ordinate these efforts through the tobacco control delivery plan 2017 to 2022, which also provides the framework for robust and ongoing policy evaluation. Accordingly, we review our duty rates at each fiscal event to ensure that they continue to meet our two objectives of protecting public health and raising revenue for vital public services.

I hope that reassures the Committee, and I ask Members to reject the amendment. The clause will continue our tried and tested policy of using high duty rates on tobacco products to make tobacco less affordable and continue the reduction in smoking prevalence, thus reducing the burden that smoking places on our public services.

On the point about a tobacco levy, I believe the Government laid out their position on introducing a levy in 2015. We do not believe a levy is an effective way to raise revenue or protect public health.

Amendment 11 negatived.

Clause 80 ordered to stand part of the Bill.

Clause 81

Rates for light passenger or light goods vehicles, motorcycles etc

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

Kemi Badenoch: Clause 81 makes changes to uprate the RPI vehicle excise duty rates for cars, vans and motorcycles with effect from 1 April 2020. VED is paid on vehicle ownership, and rates depend on the vehicle type and first registration date. The Government have uprated vehicle excise duty for cars, vans and motorcycles with inflation every year since 2010, which means rates have remained unchanged in real terms during this time. As announced in the 2018 Budget, all vehicle excise duty revenues will be used specifically for the national roads fund from this year, to provide certainty for road investment.

The changes made by clause 81 will uprate vehicle excise duty for cars, vans and motorcycles by RPI for the 10th successive year. As a result, the rates are unchanged in real terms since 2010, and that comes on top of the Government's decision to freeze fuel duty rates for the ninth successive year. By April 2021, this will have saved the average car driver £1,200 in comparison with the pre-2010 escalator.

From April 2017, a reformed VED system was introduced that strengthened the environmental incentive when cars are first purchased, with all cars paying a standard rate in subsequent years. The standard rate will increase by only £5, the flat rate for vans will increase by £5 and the rate for motorcyclists will increase by no more than £2. These changes will ensure that the Government continue to support motorists with the cost of living, and that the vehicle excise duty system continues to incentivise the purchase of lower emission vehicles.

Felicity Buchan: Does my hon. Friend agree that as the economy comes out of the dislocation of coronavirus, we need to build a greener and cleaner economy? Incentivising the use of low-carbon cars is part of that, and clearly we cannot do so just through the tax system; we also need a structure of electric charging points. I am glad to say that my borough is one of the top boroughs in the country in that regard. As we look to build a greener economy, I commend this clause and the related clauses.

Kemi Badenoch: I thank my hon. Friend for her intervention, and I agree with her.

Wes Streeting: Following a previous theme, we support this approach to incentivising the use of greener and more environmentally friendly vehicles. It shows how decisions taken at the Treasury can support the public policy aims of other Departments and promote positive consumer change. Clearly, we have to do a lot more to ensure that people are using environmentally friendly vehicles, which produce fewer emissions and have a less detrimental impact on air quality and the wider environment than other vehicles do. I, in common with many stakeholders, welcome the reduced rate applied to alternatively fuelled light passenger vehicles, including hybrids and those powered by bioethanol and liquid petroleum gas.

Kemi Badenoch: I think that is a point we can all agree on. The Government are doing a lot to encourage the uptake of low emission and zero emission vehicles. As I mentioned earlier, the reformed VED system was introduced in 2017 for new cars. To elaborate, on first registration the owners of zero emission models pay nothing, while those of the most polluting pay more than £2,000. In subsequent years, most cars move to a standard rate, which is currently set at £145. The exceptions are electric cars, which attract a zero rate, and hybrids, which receive a £10 discount.

In the Budget, the Government announced a number of further steps to reduce zero emission vehicle costs, including exempting zero emission cars from the vehicle excise duty expensive car supplement; extending low company car tax rates for 2024-25, as we discussed earlier; and extending the plug-in grant scheme for zero emission cars and ultra-low emission vans, taxis and motorcycles until 2022-22.

Question put and agreed to.

Clause 81 accordingly ordered to stand part of the Bill.

Clause 82

Applicable CO2 emissions figure determined using WLTP values

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

Kemi Badenoch: Clause 82 makes changes that ensure that CO_2 emissions figures for vehicle excise duty will be based on the world harmonized light-duty vehicles test procedure—WLTP—for all new cars registered from

[Kemi Badenoch]

1 April 2020. Until 1 April 2020, the owners of new cars were liable to pay VED based on CO_2 emissions figures provided under the new European driving cycle test procedure, which is otherwise known as the NEDC. That test underestimates real-world driving emissions by up to 40%. In the 2018 Budget, it was announced that from April 2020, VED would be based on WLTP, which closely reflects real-world driving emissions. Consequently, vehicle excise duty liabilities for new cars purchased from April 2020 may change.

In the 2018 Budget, the Government announced a review of the impacts of WLTP on vehicle taxes. In July 2019, the Government announced that as mitigation to help the industry manage the transition to WLTP, company car tax rates would be temporarily reduced, and that the Government would publish a call for evidence on vehicle excise duty. Draft legislation for the Finance Bill was published on L day 2019 to switch on WLTP from April 2020 and to implement the new CCT rates.

Clause 82 confirms that CO_2 emissions figures for vehicle excise duty will be based on WLTP for all new cars registered from 1 April 2020, and that all cars registered before 1 April 2020 will continue to use existing NEDC CO_2 values for VED purposes. As WLTP is more representative of real-world driving conditions, this measure ensures that VED is based on a more robust regime for measuring CO_2 emissions. It will also allow motorists to make more informed purchasing decisions when considering the CO_2 impact of their new car.

Wes Streeting: I do not think that we need to dwell too long on this, but it is worth exploring a few points that were made during the Government's consultation and to test some stakeholders' arguments. Assertions are sometimes made, but it is important to revisit the arguments and see whether they stand up to the scrutiny of evidence. It will be interesting to hear the Treasury's view on that.

There was a concern that the WLTP charging rates could lead to distortion ahead of April 2020, because consumers might bring forward purchasing decisions to avoid potential tax increases on new cars. Given that April 2020 has passed, it would be interesting to know whether such distortion has actually occurred. What assessment has the Treasury made of that?

On the environmental impact, some respondents stressed that company cars were more environmentally friendly than private cars. The argument goes that it is important to keep people in that market by adjusting company car taxation to reflect the lower impact. What analysis has the Treasury done of that claim? Does the Treasury think that that is a valid argument, or simply an assertion?

Finally, some concern was raised that under WLTP values, there could be an above-average increase in the reported CO_2 emissions of cars with smaller engines, whereas cars with higher CO_2 emissions would not be affected by the change to the same extent. How much does that argument hold water with the Minister?

Kemi Badenoch: On the question of why we are treating cars registered before 6 April 2020 differently and whether that would create a distortion, the WLTP testing standards were introduced in 2017 and EU legislation required manufacturers to record the CO_2 emissions for both regimes. We have not sought to change the tax treatment of existing cars; we aim to encourage people who purchase new cars to choose low-CO_2-emitting models.

On the analysis that the hon. Gentleman asks for, it is probably too soon to tell. The impact is linear, and we published some findings in July 2019 when we set rates. I can have that information provided to him, and I can write to him on that point. I do not have the full answers for the analyses that he is asking for.

Question put and agreed to.

Clause 82 accordingly ordered to stand part of the Bill.

Clause 83

Electric vehicles: extension of exemption

11 am

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

Kemi Badenoch: Clause 83 makes changes to exempt all zero-emission cars from the vehicle excise duty supplement that applies to cars with a list price exceeding £40,000 from 1 April 2020. The background is that the Government use vehicle taxes, including vehicle excise duty, to encourage the take-up of cars with low carbon dioxide emissions to help to meet our legally binding climate change targets. Vehicle excise duty incentives help to reduce the cost of zero-emission cars, which is one of the most significant barriers to uptake. From April 2017, on first registration, zero-emission cars paid no vehicle excise duty, while the most polluting cars paid more than £2,000. In subsequent years, while most cars move to a standard rate—£150 in 2020-21—electric vehicles attract a zero rate. Previously, however, all vehicles with a list price exceeding £40,000, including electric vehicles, paid a vehicle excise duty supplement of £325 in 2020-21 from years two to six following registration.

Under the changes made by clause 83, from 1 April 2020, all zero-emission light passenger vehicles registered from 1 April 2017 until 31 March 2025 will be exempt from the vehicle excise duty expensive car supplement. That will reduce vehicle excise duty liability for almost a third of zero-emission cars by an estimated £1,625. This demonstrates that the Government will continue to incentivise the uptake of zero-emission cars through the 2020s. The measure will incentivise uptake by reducing tax liabilities and aid the Government in achieving net zero. I therefore commend the clause to the Committee.

Wes Streeting: Clause 83 is obviously a welcome measure; we have heard from industry representatives that removing the VED surcharge for electric vehicles will encourage uptake. The RAC's head of policy, Nicholas Lyes, states:

> "Our research suggests that cost is one of the biggest barriers for drivers who want to switch to an electric vehicle and the steps taken"

by the Government

> "will provide clarity and certainty for both consumers and manufacturers."

I wonder whether the Government are looking at what more they can do to reduce the cost burden for people switching to electric vehicles. People make choices all the time about the purchase of new vehicles, and price sensitivity is one of the biggest aspects of that. If someone uses their car every day for regular journeys—to commute to and from work, for example—and has access to charging points at home, at work or in the vicinity, switching to an electric vehicle will make a real difference. It can be cost-effective as well as an environmentally friendly choice, particularly in the light of the clause.

However, for lots of people who do not commute regularly but have a family car for use at weekends and perhaps over the summer holidays, the financial choice is not always as straightforward. Although the environmental factors may be compelling and people might want to switch to an electric vehicle, the financial barrier is still too high. I wonder what more the Government can do, through industry support or other means, to further incentivise the switch to electric vehicles, as it would make a real difference.

On infrastructure, it is important that more is done to ensure that electric vehicle charging points are readily available for use—that is really an issue for the Department for Transport and local authorities, but at some point they will come knocking at the Treasury's door. The Minister is smiling; I am sure that she is very familiar with that experience. I wonder how favourably she is looking on those arguments, because although progress is being made to expand electric charging points—the Mayor of London cares strongly about the issue, and I discussed it recently with the Mayor of Greater Manchester, Andy Burnham—much more progress can still be made in all parts of the country, so Treasury support would be very welcome.

Kemi Badenoch: The hon. Gentleman makes a point that we hear again and again about the cost of low emission vehicles. These changes are part of a wider package of tax and spend incentives—I have mentioned company car tax rates and the plug-in car grant.

On the question of what more we can do, the best mechanism is the call for evidence that the Government published at the Budget, which includes how vehicle excise duty can further incentivise the uptake of zero-emission cars. That is probably the best way for the industry and Parliament to suggest what more we can do to make low emission vehicles more affordable.

The hon. Gentleman is right that we get asked a lot about infrastructure and what more we can do to provide charge points. We understand that access to high-quality, convenient charging infrastructure is critical if drivers are to make the switch to electric vehicles confidently. That was why, at the Budget, we announced £500 million over the next five years to support the roll-out of a fast charging network for electric vehicles, ensuring that drivers will never be more than 30 miles from a rapid charging station.

Question put and agreed to.

Clause 83 accordingly ordered to stand part of the Bill.

Clause 84

MOTOR CARAVANS

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

Kemi Badenoch: Clause 84 reduces vehicle excise duty liability for new motorhomes to support British motorhome manufacturers and UK holidaymakers. From 12 March 2020, most new motorhomes pay a flat rate of VED at £270 annually. To ensure that, in the future, motorhome vehicle excise duty liabilities reflect environmental impact and to incentivise the development and uptake of lower emission motorhomes, from 1 April 2021, motorhome VED liabilities will be aligned with graduated van vehicle excise duty.

From September 2019, EU regulatory changes have required motorhomes to record carbon dioxide emissions on the vehicle type approval document. Previously, the majority of motorhomes attracted a flat rate of £265, but from September 2019, due to their high emissions, new motorhomes saw a significant increase in their first-year vehicle excise duty liabilities. Motorhome dealerships and the main industry body, the National Caravan Council, expressed concern about the changes. The sector argued that, as motorhomes are generally derived from vans, their VED liability should be aligned with vans, rather than passenger vehicles.

The changes made by clause 84 mean that, from 12 March 2020, new motorhomes are more closely aligned with vans for VED purposes. Manufacturers are no longer required to provide a CO_2 emissions figure when they register the vehicle with the Driver and Vehicle Licensing Agency. As a result, all new motorhomes will move to a flat rate of vehicle excise duty. Most new motorhome vehicles will be included in the private light goods vehicle tax class, with the minority that weigh more than 3,500 kg included in the private heavy goods class. As a result, new motorhomes' first-year VED liabilities will be reduced by up to £1,905. The change will affect owners of motorhomes first registered from 12 March 2020. There are typically about 15,000 motorhomes registered in the UK annually.

The change will reduce new motorhome vehicle excise duty liabilities, and better align them with vans, rather than passenger vehicles. It will support British motorhome manufacturers and holidaymakers using motorhomes throughout the UK. I therefore commend the clause to the Committee.

Wes Streeting: This debate is particularly timely, given last night's Adjournment debate, which was led by my hon. Friend the Member for Kingston upon Hull West and Hessle (Emma Hardy), who told the House that Hull is the capital of caravan manufacturing. Along with my hon. Friends the Members for Kingston upon Hull North (Dame Diana Johnson) and for Kingston upon Hull East (Karl Turner), she has been a doughty champion of the industry. That industry has been particularly hard hit by covid-19 because it relies so much on the leisure and tourism industry, which is still effectively shut down. Industry bodies and users were looking for this change, so I am happy to indicate that we support the clause.

Miriam Cates (Penistone and Stocksbridge) (Con): I welcome the measure. The Moto-Trek manufacturer in my constituency makes exclusive hand-built motorhomes, so I know that the clause is very much welcomed by the industry. It certainly makes sense to tax motorhomes as vans, since they are mostly built on van chassis and do not do many miles, although they do, of course, emit carbon dioxide. It is right that we incentivise the manufacture of low emission vehicles, but motorhome users are very much committed to UK holidays and do not fly as a result, which is very positive for the environment.

[Miriam Cates]

As we come out of covid, it is really important that we do everything that we can for UK manufacturers, for UK motorhome vehicle sales and, of course, for tourism. I therefore very much welcome the clause.

Question put and agreed to.

Clause 84 accordingly ordered to stand part of the Bill.

Clause 85

Exemption in respect of medical courier vehicles

Alison Thewliss: I beg to move amendment 12, in clause 85, page 72, line 33, after "supplies" insert ", including human breastmilk".

This amendment would ensure that vehicles carrying human breastmilk would benefit from the exemption from Vehicle Excise Duty.

I am delighted to continue my personal journey to ensure that breastfeeding is mentioned in every possible place in this House. I am chair of the all-party group on infant feeding and inequalities, so I declare that interest up front.

The measure I seek to add to the Bill would cost the Government very little, if anything at all, but would send a very strong signal that the Government support and recognise breast milk banks across the UK. Sub-paragraph 2(b) of proposed new paragraph 6A to schedule 2 to the Vehicle Excise and Registration Act 1994 refers to

"medicines and other medical supplies".

I am not quite sure whether that would capture breast milk. I seek clarification from the Minister on that, because I do not think it is clear enough, which was why I tabled the amendment.

Human breast milk banks exist across the UK. Some do not exist quite to the size and scale that we would like, so the amendment would help to encourage them that there is Government support for what they are doing. I mention the Human Milk Foundation, the Northwest Human Milk Bank, Hearts Milk Bank and Milk Bank Scotland, which is based in Glasgow and the one that I know best. Having spoken to Debbie Barnett, its donor milk bank co-ordinator, I know that Milk Bank Scotland does not have its own vehicles at the moment, but relies on the Glasgow Children's Hospital Charity volunteers, who transport the milk, after picking it up from donors, and take it out to those who need it. Having its own vehicles would be something for a future point, but the amendment would certainly support the milk bank, and others across the UK, in doing that.

Like blood, breast milk has to be properly processed, and there are procedures in place for doing so. Like blood, it needs special carriage to take it from donors to the milk banks for processing, and back out again. The National Institute for Health and Care Excellence guideline 93 on donor breast milk banks says that, when transporting milk to the milk bank, critical conditions for transport include

"temperature and time limit, to ensure that donor milk remains frozen during transport."

The guideline also states that donor milk should be transported

"in secure, tamper-evident containers and packaging"

and that a range of procedures are in place for achieving that.

In chapter 33 of its guide to the quality and safety of tissues and cells for human application, on the distribution of and transport conditions for human milk, the European directorate for the quality of medicines states:

"During transport, milk should remain frozen and dry ice may be used for this purpose.

The use of validated, easily cleaned, insulated transport containers is recommended.

The transport procedure should be validated, and the temperature of the transport container monitored during transportation."

All those measures are relatively similar to how blood and other blood products are transported around the UK, and would fit quite well with the medical courier vehicles exemption set out in the Bill. Many of these organisations are charities, and they would very much appreciate support in moving milk around the country.

I appeal to the Government to accept the amendment, which is uncontentious—and indisputable, really. Doing so would send a good signal that the UK Government support milk banks, the people across the UK who wish to use them, and the science behind them. They are particularly important in supporting premature babies in their earliest days. The World Health Organisation recently indicated the significance of breast milk during coronavirus, and that women should be supported whenever possible to feed their babies with human breast milk. Covid-19 is not present in breast milk, and the milk is therefore of huge benefit in supporting babies in their earliest days. I encourage Ministers to take on the amendment, if they can take on anything at all, and to show support for milk banks across the UK.

Kemi Badenoch: Amendment 12 would extend the exemption so that it applied to people carrying human breast milk. I do not think that any of us would disagree with that, but clause 85 already covers the transportation of human breast milk. The purpose-built vehicles used by medical courier charities, which are exempted from VED by the measure, transport not just blood, but a wide range of medical products, including X-rays, MRI scans, plasma and human breast milk.

The inclusion of the amendment in the Bill would make things more difficult. Its wording is quite vague, it does not clearly define the vehicles that it is trying to capture, and it would create the risk of abuse. We believe that the matter is already covered by clause 85. Although the Government fully support the sentiment of the amendment, as breast milk is already captured under the clause, I ask the Committee to reject the it.

Alison Thewliss: I would like to press the amendment to a vote, to add to the clarity of the clause.

Amendment 12 negatived.

Clause 85 ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned.—*(David Rutley.)*

11.17 am

Adjourned till this day at Two o'clock.