

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT ALTERNATIVE FINANCE (INCOME TAX,
CAPITAL GAINS TAX AND CORPORATION TAX)
ORDER 2022

Tuesday 17 May 2022

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The Committee consisted of the following Members:

Chair: SIR EDWARD LEIGH

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|--------------------------------------------------------------------|--------------------------------------------------------------------|
| † Benton, Scott (<i>Blackpool South</i>) (Con) | † Mak, Alan (<i>Lord Commissioner of Her Majesty's Treasury</i>) |
| † Bhatti, Saqib (<i>Meriden</i>) (Con) | † Siddiq, Tulip (<i>Hampstead and Kilburn</i>) (Lab) |
| † David, Wayne (<i>Caerphilly</i>) (Lab) | † Simmonds, David (<i>Ruislip, Northwood and Pinner</i>) (Con) |
| De Cordova, Marsha (<i>Battersea</i>) (Lab) | † Smith, Royston (<i>Southampton, Itchen</i>) (Con) |
| † Edwards, Ruth (<i>Rushcliffe</i>) (Con) | Trickett, Jon (<i>Hemsworth</i>) (Lab) |
| † Fletcher, Katherine (<i>South Ribble</i>) (Con) | † Twist, Liz (<i>Blaydon</i>) (Lab) |
| † Glen, John (<i>Economic Secretary to the Treasury</i>) | † Williams, Craig (<i>Montgomeryshire</i>) (Con) |
| † Grant, Peter (<i>Glenrothes</i>) (SNP) | Liam Laurence Smyth, <i>Committee Clerk</i> |
| Harris, Carolyn (<i>Swansea East</i>) (Lab) | † attended the Committee |
| † Johnson, Dr Caroline (<i>Sleaford and North Hykeham</i>) (Con) | |

First Delegated Legislation Committee

Tuesday 17 May 2022

[SIR EDWARD LEIGH *in the Chair*]

Draft Alternative Finance (Income Tax, Capital Gains Tax and Corporation Tax) Order 2022

2.30 pm

The Economic Secretary to the Treasury (John Glen): I beg to move,

That the Committee has considered the draft Alternative Finance (Income Tax, Capital Gains Tax and Corporation Tax) Order 2022.

May I say what a pleasure it is to serve under your chairmanship, Sir Edward? The draft order before the Committee widens the scope of the alternative finance arrangements provisions so that certain alternative finance arrangements can receive equal tax treatment to conventional arrangements of the same kind. The United Kingdom has established itself as a leading centre for Islamic finance, and the Government took steps to further build on this last year when we issued our second sukuk, the Islamic equivalent of a bond, at more than double the size of the first. The development of Islamic finance products in the United Kingdom is a welcome sign and demonstrates our position as a world leader in this regard.

It is important that our tax rules are reviewed and updated to reflect market developments and ensure a level playing field for alternative and conventional finance products. We already have alternative finance tax provisions that set out rules on the tax treatment of Sharia-compliant financial arrangements, which allow finance to be provided without payment of interest. The provisions allow for returns made by the finance provider to be treated as if they were interest for tax purposes when certain conditions have been met. However, home purchase plans provided by firms that do not fall within the existing statutory definition of a financial institution, and alternative finance arrangements facilitated by peer-to-peer platforms, are not currently within scope of the provisions. Home purchase plans are a Sharia-compliant method of obtaining property finance in a way that ensures no interest is charged. Currently, Financial Conduct Authority-regulated providers of such products are not defined as financial institutions, and their customers are not able to access the alternative finance rules. They therefore face less favourable tax treatment for the purposes of income tax, capital gains tax and corporation tax than providers that are already defined as financial institutions.

Lenders and borrowers entering certain finance arrangements through Sharia-compliant peer-to-peer platforms also face less favourable tax treatment, which means that home purchase plans provided by FCA-regulated providers, and certain alternative finance arrangements facilitated by an FCA-regulated peer-to-peer platform, are on an unequal tax footing with similar products provided by financial institutions and conventional peer-to-peer lending. The changes made by the draft order will allow both of those types of firms to access

the alternative finance arrangements provisions for the purposes of income tax, capital gains tax and corporation tax.

Amending the rules to allow home purchase plans from FCA-regulated providers to fall within the alternative finance provisions will bring parity between conventional financial institutions and non-bank providers, and bringing Sharia-compliant peer-to-peer arrangements within the scope of the rules will encourage investors and operators to enter the Islamic finance market, allowing the Islamic community, especially small businesses, to benefit. It will also contribute towards offering a level playing field for Islamic finance and conventional finance.

When consulting on the draft order, further issues arising from the developing market have been brought to the attention of the Government. They relate to stamp duty land tax rules for Sharia-compliant peer-to-peer lending, and to the individual savings account regulations that may exclude certain arrangements from innovative finance ISAs. I am always grateful to those who bring such matters to the Government's attention, and those points are being assessed.

These changes reflect developments within the Sharia-compliant market and will allow the industry to continue to thrive and grow, maintaining the UK's position as a global hub for Islamic finance. I hope colleagues will join me in supporting this order, and I commend it to the Committee.

2.34 pm

Tulip Siddiq (Hampstead and Kilburn) (Lab): It is a pleasure to serve under you in the Chair, Sir Edward. The Labour party is completely committed to ensuring that every religious community in the UK is able to benefit from the opportunities that access to finance can offer—whether that is taking out a student loan to attend one of our world-leading universities, setting up a new business or getting a mortgage to buy a house and start a family. For a significant number of British Muslims, having to take an interest-bearing loan would exclude them and their families from higher education or home ownership. Interest is prohibited in Islam, as it was in Christianity until the middle ages. Thousands of Muslims living in the UK today adhere to the core concepts of Islamic economics, of which the description of *riba*, the Arabic word for interest, is perhaps the most significant. That is why the role of the UK's Islamic finance sector is so important; it currently supports more than 100,000 retail customers across the UK by offering alternatives to interest-based products.

The City of London is one of the leading centres for Islamic finance in the western world, and the Opposition want to see this vibrant sector continue to thrive and grow. The Minister will be pleased to know that we therefore wholeheartedly welcome the Government's draft regulations today, which will help provide a more level playing field for the providers of conventional and Islamic financial products.

By providing for the equal treatment for tax purposes of Sharia-compliant home purchase plan providers and regulated peer-to-peer platforms with traditional mortgage and loan providers, the regulations are also an important step forward for financial inclusion. I am sure the Minister will agree that my hon. Friend the Member for Bradford West (Naz Shah) and Lord Sheikh of Cornhill

have done some fantastic work in highlighting the role that Islamic finance plays in tackling financial exclusion in the Muslim community. They are co-chairs of the all-party parliamentary group on Islamic finance and have long campaigned for the changes introduced today, which will provide many Muslims with a greater choice of financial products.

The Minister will not be surprised to learn that I have a series of questions for him. Although the Government have taken a welcome step today, will he explain why no such progress has been made on perhaps the other greatest barrier to financial inclusion in the Muslim community—the introduction of Sharia-compliant student loans? For nine years, successive Prime Ministers have pledged to address the shameful situation in which many young British Muslims, faced only with the option of an interest-bearing student loan, have not been able to attend university.

An October 2021 survey by Muslim Census, an organisation that gathers data on Muslims living in the UK—

The Chair: Order. Student loans are not part of the proceedings. You can refer to them briefly, but please do not give a long speech on student loans. They are not part of what we are talking about.

Tulip Siddiq: With all due respect, I think they are connected, but I will listen to the Chair's comments. I would like the Minister to tell us why, despite the Government identifying the solution to this problem six years ago, they continue to stand by as thousands of Muslim students are giving up on university education. I hope the Minister can answer that point.

I want to raise the concerns of the APPG on Islamic finance regarding stamp duty land tax. The APPG has warned that the draft regulations fail to address the fact that Islamic fintech companies, which are regulated by the Financial Conduct Authority, are unable to benefit from the alternative finance rules that relate to stamp duty land tax, because of how a financial institution has been defined in the regulations, which do not recognise Islamic fintech companies as equivalent to banks or building societies. Although the UK may be the leading hub of Islamic finance outside of the Muslim world today, growth in the sector is increasingly driven by fintech. In the absence of a comprehensive strategy for Islamic fintech, the UK is at risk of falling behind its global competitors in Islamic finance. Has the Treasury considered the impact on the UK's Islamic finance sector of the omission of Islamic fintech companies from the extension of the financial institution definitions for the purposes of SDLT?

We welcome and fully support the draft regulations, but why was there no progress over nine years on the introduction of Islamic student finance, and what reassurance can the Minister provide that his Government will support and champion the interests of the Islamic fintech sector?

2.39 pm

Peter Grant (Glenrothes) (SNP): It is a pleasure to serve on this Committee under your chairmanship, Sir Edward. I thank the Minister for his opening comments.

I commend the comments of the hon. Member for Hampstead and Kilburn, with which I would almost entirely associate myself.

I have a few brief comments. I support the proposal, which moves in the right direction. There may be some other steps that could have been taken, as has been referred to. One thing that still grates with me a wee bit is that we talk about conventional and alternative finance. I think, if I was a Muslim, I would not think this was alternative finance—it would be entirely conventional. It may be different from the way we have traditionally done things in Britain, but it is becoming part of a different convention. I do not like terminology that appears to imply that one way of doing things is better and more intrinsically valuable than another.

Whether it is an individual or someone operating as a business, the fact that somebody follows the Muslim faith should never be a barrier to their being able to live their life to the full. There are a number of businesses in my constituency run by devout Muslims that make a significant contribution to the local economy and community. It is only right and proper that if they need to raise finance to expand their business or get over cash-flow difficulties, they should be able to do that in a way that is compliant with their deeply held religious beliefs and that does not put them at a disadvantage for taxation, consumer protection or regulatory purposes, compared with somebody who chooses a different method of financing. This order is another step in that direction, but there are still areas where Muslims and others who choose to follow Sharia law find themselves at a disadvantage. If there is no justification for that, we should legislate the disadvantages out of the system as soon as possible.

For that reason, I hope the Minister can tell us when similar steps will be taken in relation to stamp duty land tax and innovative finance individual savings accounts—ISAs. I am a great fan of ISAs—I have had them for almost as long as they have existed—but I did not realise until today that if I had been a Muslim, I probably would not have been allowed to do that because of the way they are set up. If they are deemed to be paying interest, it is prohibitive for somebody who is a Muslim. If there are other ways that ISAs can be set up to allow Muslims and other followers of Sharia law to participate in them, I do not see why we cannot change the law to allow that to happen.

If there were significant objections—if changes to the legislation would undermine the intention behind it—that would be a different matter, but I have not heard any. I have not heard any suggestion that carrying out our proposed reforms to SDLT would in any way go against the purpose of the legislation. If it allows the legislation to achieve its stated purpose while making it fairer for everybody, we should get on and take those steps.

I look forward to seeing further draft orders in the near future to address the issues I have raised, and which were picked up in the consultation responses to this order. I am happy to support this order, and I look forward to more on a similar theme before too long.

2.43 pm

John Glen: I very much welcome the support of the hon. Members for Hampstead and Kilburn and for Glenrothes. They raised three issues: the treatment of

[John Glen]

ISAs, student loans—notwithstanding your injunction not to address that point too explicitly, Sir Edward, I will refer to it briefly—and stamp duty land tax with respect to fintech.

First, I pay tribute to the hon. Member for Bradford West, who engaged with the consultation as chair of the all-party parliamentary group on Islamic finance. She was very supportive of this order and the changes. There were respondents to the consultation who requested an extension to the stamp duty land tax exemptions for regulated entities in the Islamic fintech industry, such as peer-to-peer platforms. Officials did not consider it feasible to implement those changes in this statutory instrument, and they and I are exploring the issue further through alternative means.

The Government want to ensure that higher education remains accessible to those with the desire and ability to benefit from it. We are currently considering whether alternative student finance could be delivered as we take forward the lifelong loan entitlement. The consultation on the detail and scope of the LLE closed on Friday 6 May, and the Government are currently considering the responses. A further update on alternative student finance will be provided when the Government issue their response to the LLE consultation.

I think that I have mentioned the non-inclusion of the stamp duty land tax. The issue of ISAs, which was raised by the hon. Member for Glenrothes, has also been brought to the attention of my officials. It is likely that the ISA regulations will require some minor amendments to ensure that alternative finance arrangements can qualify for inclusion in innovative finance ISAs. The changes required will be included in the forthcoming technical changes to the ISA regulations. I think that deals with the substantive points that have been raised. As I said, I welcome Opposition Members' support.

This alternative finance order will enable home purchase plans provided by regulated firms that do not fall within the existing statutory definition of that financial institution, and alternative finance arrangements facilitated by regulated peer-to-peer platforms, to receive equal tax treatment for the purposes of income tax, capital gains tax and corporation tax. I sincerely believe that this order will help to level the playing field for those products and will aid the Islamic finance industry to move forward in the UK, and continue to develop, to cement our reputation as global leaders in this area. I hope that the Committee has found this afternoon's session informative and will now be able to support it.

Question put and agreed to.

2.46pm

Committee rose.

