PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

(Except clauses 7 to 12, schedules 1 and 2, clauses 15 to 18, schedule 3, clauses 47 to 53 and any new clauses or new schedules relating to the subject matter of those clauses and schedules.)

Third Sitting

Thursday 30 January 2025

(Morning)

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Clauses 57 to 72 agreed to.
Adjourned till this day at Two o'clock.

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not later than

Monday 3 February 2025

The Committee consisted of the following Members:

Chairs: DAVID MUNDELL, † VALERIE VAZ

† Ballinger, Alex *(Halesowen)* (Lab)
Blake, Rachel *(Cities of London and Westminster)* (Lab/Co-op)
† Caliskan, Nesil *(Barking)* (Lab)
† Cross, Harriet *(Gordon and Buchan)* (Con)
† Davies, Gareth *(Grantham and Bourne)* (Con)
† Kohler, Mr Paul *(Wimbledon)* (LD)
† MacDonald, Mr Angus *(Inverness, Skye and West Ross-shire)* (LD)
† Murray, James *(Exchequer Secretary to the Treasury)*
† Osborne, Tristan *(Chatham and Aylesford)* (Lab)
† Poynton, Gregor *(Livingston)* (Lab)
† Reynolds, Emma *(Economic Secretary to the Treasury)*
† Ryan, Oliver *(Burnley)* (Lab/Co-op)
† Stephenson, Blake *(Mid Bedfordshire)* (Con)
† Strathern, Alistair *(Hitchin)* (Lab)
† Wakeford, Christian *(Bury South)* (Lab)
† Wild, James *(North West Norfolk)* (Con)
† Yang, Yuan *(Earley and Woodley)* (Lab)

Lynn Gardner, Kevin Maddison, *Committee Clerks*

† attended the Committee

Public Bill Committee

Thursday 30 January 2025

(Morning)

[Valerie Vaz *in the Chair*]

Finance Bill

(Except clauses 7 to 12, schedules 1 and 2, clauses 15 to 18, schedule 3, clauses 47 to 53 and any new clauses or new schedules relating to the subject matter of those clauses and schedules.)

11.30 am

The Chair: Good morning everyone. Will Members please ensure that all electronic devices are turned off or switched to silent? We continue line-by-line consideration of the Finance Bill. The selection list for today's sitting is available in the room and on the parliamentary website. It shows how the clauses, schedules and selected amendments have been grouped together for debate. If any Member wishes to press an amendment in a group to a vote—this includes the new clauses that have already been debated—they need to let me know before we reach them on the amendment paper.

Clause 57

Rate bands etc for tax years 2028-29 and 2029-30

Question (28 January) again proposed, That the clause stand part of the Bill.

The Exchequer Secretary to the Treasury (James Murray): It is a pleasure to serve on this Committee with you as Chair, Ms Vaz. Tuesday's debate on this clause concluded before we came to the decision, but I think the Opposition indicated that they would not oppose it. I commend the clause to the Committee.

Question put and agreed to.

Clause 57 accordingly ordered to stand part of the Bill.

Clause 58

EBTs: prohibition on applying property for benefit of participators etc

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

The Chair: With this it will be convenient to discuss clauses 59 and 60 stand part.

James Murray: Clauses 58 to 60 make changes to strengthen the conditions that must be met for transfers of shares into an employee benefit trust to be exempt from inheritance tax. An employee benefit trust is a trust that provides benefits and rewards to employees of a company, often in the form of shares in the company. Under certain conditions, such shares are exempt from inheritance tax. All or most employees need to be capable of benefiting from the trust for the inheritance tax exemption to apply, so it cannot be limited to shareholders of the company or family members, for example.

In 2023, the previous Government launched a consultation on employee ownership trusts and employee benefit trusts. The consultation set out concerns that such trusts were increasingly being used as a tax planning vehicle for shareholders and their families, rather than for a wider class of employees. At the autumn Budget, the current Government responded to that consultation and announced changes to strengthen the conditions that must be met for the transfer of shares into an employee benefit trust to be exempt from inheritance tax.

The changes made by clause 58 will mean that restrictions on shareholders and their family members benefiting from an employee benefit trust must apply for the entire lifetime of the trust. The clause will address cases in which the trust deed allows individuals who are closely connected with a shareholder to benefit after the participator's death. The clause ensures that the Government's position is explicitly clear in legislation. The change will come into effect on Royal Assent.

Previously, family members of the shareholder who were excluded from benefiting from the capital of the trust could still receive income payments from the trust. The changes made by clause 59 will ensure that no more than 25% of employees who can receive income payments from an employee benefit trust may be family members of the shareholder. This reinforces the original policy intent of employee benefit trusts to reward and motivate a wide group of employees.

Previously, an individual could set up a company, immediately make a transfer of shares to an employee benefit trust, and obtain an inheritance tax exemption. The changes made by clause 60 will mean that shares must have been held for at least two years before being transferred into the employee benefit trust. The provision will take into account shares held prior to any share reorganisation, and will strengthen protections against employee benefit trusts being used purely for inheritance tax planning purposes.

Clauses 59 and 60 are treated as having come into effect for transfers of value to new and existing trusts on or after 30 October 2024. The clauses will ensure that the tax treatment of employee benefit trusts is consistent with the original policy intent of rewarding and motivating employees, while minimising opportunities for abuse. I commend them to the Committee.

Gareth Davies (Grantham and Bourne) (Con): It is, as always, a great pleasure to see you in the Chair, Ms Vaz.

As the Minister set out, clauses 58 to 60 make amendments to requirements for inheritance tax exemptions involving employee benefit trusts. Clause 58 provides that restrictions on shareholders and connected persons benefiting from employee benefit trusts will now apply for the lifetime of the trust. Clause 59 provides that no more than 25% of employees who receive income payments from an EBT can be connected to the shareholders in the company. Clause 60 provides that shares will now need to have been held for at least two years prior to being transferred to the EBT.

As the Minister said, the measures follow on from the consultation launched in 2023, which we referred to when we discussed clause 31 and employee ownership trusts. Although we will not oppose the clauses, I would be grateful if the Minister could comment on one specific issue that was raised during the consultation on the changes. In response to the measure introduced by clause 59, concerns were raised at consultation on behalf of smaller companies using EBTs that may now be forced to exclude certain employees from participating in share scheme arrangements in order to comply with the new requirement. What was the Minister's assessment of that particular impact? Is he content that the benefits of the changes outweigh that particular risk cited in during the consultation?

James Murray: I welcome the Opposition's support for the clauses, which build on the consultation that started when they were in office. The shadow Minister's question related to what effect the changes might have on small businesses in particular. I will try to answer now, but he is free to contact me if he feels I have not covered his point fully.

The changes we are making to employee benefit trusts will not have an adverse effect on small businesses, because the original policy intent of exempting transfers of value to employee benefit trusts from inheritance tax was to encourage businesses to reward and motivate a wide range of employees. To qualify for the exemption, conditions need to be met that ensure that EBTs that benefit only shareholders and their families, or other people closely connected to shareholders, do not receive preferential inheritance tax treatment. Given that that is the aim in the principles behind the clauses, I am confident that they will not have the adverse effect that the shadow Minister fairly raised. I hope that provides him with some reassurance.

Question put and agreed to.

Clause 58 accordingly ordered to stand part of the Bill.

Clauses 59 and 60 ordered to stand part of the Bill.

Clause 61

Agricultural property relief: environmental management agreements

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

James Murray: The clause extends the scope of agricultural property relief from 6 April this year to land managed under certain environmental agreements. Agricultural property relief is an inheritance tax relief that reduces the amount that farmers and landowners must pay on land and other property that is owned and occupied for the purposes of agriculture. That will usually be land or pasture that is used to grow crops or to rear animals. Currently, access to APR may be lost where such land is taken out of agricultural production. Some tax advisers and industry representatives believe that provides a potential barrier for some farmers, particularly tenant farmers, to enter certain environmental land management agreements. Following consultation, the previous Government announced that they would extend agricultural property relief to such agreements.

Harriet Cross (Gordon and Buchan) (Con): It is of course welcome that more land is to be brought under the scope of agricultural property relief, but given the introduction of the £1 million cap on agricultural property, is it not somewhat redundant? I know the Government use different numbers, but the industry believes that the majority of farms will be over that threshold anyway, so bringing more land within the scope of APR does not actually make much difference to the bill they will have to pay at the end.

James Murray: As the hon. Lady knows, because we have debated this many times, the data that we have published, based on His Majesty's Revenue and Customs data, shows that the large majority of small farms will not be affected. I am sure she knows well the statistics on the 530 farms affected by the reforms to APR and business property relief in '26-27, because she will have seen them in the Chancellor's letter to the Treasury Committee and we have discussed them many times in this place.

Clause 61 relates specifically to land managed under certain environmental agreements, and was a measure proposed by the last Government. If the hon. Lady allows me to continue explaining why the clause is important, she might feel able to support it, given the benefits it will bring. The clause was welcomed by the sector, and the Government agree with the approach. I can confirm that there have been no changes to the design outlined by the previous Government in March 2024, which is why I hope to get the Opposition's support for the clause.

As a result of the changes made by clause 61, from 6 April 2025 APR will be available for land managed under an environmental agreement with or on behalf of the UK Government, devolved Governments, public bodies, local authorities or approved responsible bodies. This includes but is not limited to the environmental land management schemes in England and equivalent schemes elsewhere in the UK, as well as any agreement that was live on or after 6 March 2024.

The Government are fully committed to increasing the uptake of environmental land management schemes in England, and we are providing the largest ever budget of £1.8 billion for this in 2025-26. The changes made by clause 61 will ensure that the tax system is not a barrier to uptake, thereby supporting farmers and land managers to deliver, alongside food production, significant and important outcomes for the climate and environment. I commend the clause to the Committee.

Gareth Davies: As the Minister said, clause 61 brings land managed under an environmental agreement—be that with the UK Government, devolved Governments, public bodies, local authorities or approved responsible bodies—within the scope of agricultural property relief.

I am afraid we have here Labour taking with one hand and providing far less with the other. For the £5 million, which we welcome, that they will give back to farmers each year with this measure, they will take away some £500 million a year through the family farm tax, if the Office for Budget Responsibility's highly uncertain costings are to be believed. Many farmers, and bodies such as the National Farmers Union, have raised concerns about this. The Chartered Institute of

[Gareth Davies]

Taxation has queried why the relief remains limited to schemes entered into with public authorities, rather than allowing enterprising landowners to enter into other schemes. I would be interested to hear the Minister's thoughts on that, but we will not oppose the measure.

James Murray: I thank the hon. Gentleman for his support for the measure. He made wider points about reforms to agricultural property relief, which we have debated several times. The clause focuses in a targeted way on environmental land management schemes.

The hon. Gentleman asked why private environmental land management that is outside of agreements is not included. I confirm that relief will be available for land managed under an environmental agreement with or on behalf of the UK Government, devolved Governments, public bodies, local authorities or approved responsible bodies. This will ensure that the extension of the relief applies only where there are high, verifiable environmental standards.

Question put and agreed to.

Clause 61 accordingly ordered to stand part of the Bill.

Clause 62

National Savings Bank: statements from HMRC no longer to be required

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

James Murray: The clause makes changes to remove requirements in limited circumstances that the National Savings Bank, more commonly known as NS&I, obtains from HMRC a statement of inheritance tax paid before making a payment. The regulations concerned are consolidated regulations that confer powers and administrative obligations on NS&I which, before paying out a deceased person's national savings and securities to personal representatives, must make due diligence checks, such as whether the payee has a grant of probate.

The changes made by the clause remove the requirement to contact HMRC directly to check inheritance tax paid in limited circumstances, including certain domicile conditions. This is no longer required in line with the modern compliance processes. This is a minor change that is connected to, but slightly out of scope of, the reforms for non-UK-domiciled individuals. It is consequential on the non-UK-domicile reforms. I commend the clause to the Committee.

11.45 am

Gareth Davies: The Minister may think that this is a minor issue—and he will be pleased to know that I agree with him. *[Laughter.]* I am just waking everybody up. The requirement is redundant and we will not oppose the clause.

James Murray: I applaud the hon. Gentleman's theatre in delivering his response, and welcome his support.

Question put and agreed to.

Clause 62 accordingly ordered to stand part of the Bill.

Clause 63

Rates of alcohol duty

Mr Angus MacDonald (Inverness, Skye and West Ross-shire) (LD): I beg to move amendment 66, in clause 63, page 68, line 10, leave out "£32.79" and insert "£31.64".

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

Clause stand part.

Clause 64 stand part.

New clause 2—*Review of sections 63 and 64*—

"(1) The Chancellor of the Exchequer must, within six months of the passing of this Act and every six months thereafter, review the impact of the measures contained in sections 63 and 64 of this Act.

(2) Each review must consider the impact of the measures on—

(a) Scotch whisky distilleries,

(b) small spirit distilleries,

(c) wine producers and wholesalers,

(d) the hospitality industry, and

(e) those operating in the night-time economy.

(3) Each review must also examine the expected effect of the measures on exports and the domestic wine trade.

(4) A report setting out the findings of each review must be published and laid before both Houses of Parliament."

New clause 4—*Statements on increasing alcohol duty*—

"(1) The Chancellor of the Exchequer must, within six months of this Act being passed, make a statement to Parliament about the increase to alcohol duty introduced by section 63 of this Act.

(2) The statement under subsection (1) must include details of the impact on—

(a) hospitality sector,

(b) pubs, and

(c) UK wine sector."

This new clause requires the Secretary of State to make a statement about the impact of increasing alcohol duty.

Mr MacDonald: The amendment would mean the relevant rate of duty would be unchanged from last year. I am one of the few MPs from Scotland on the Committee, but I am sure I am not alone in understanding the vital importance of the Scotch whisky industry not just to Scotland but to the UK economy. However, it bears repeating just how significant the industry is, and I would like to highlight a few key statistics.

Scotland is home to the production of 70% of UK spirits—whisky, gin and vodka. In 2023, Scotch whisky accounted for 74% of Scotland's food and drink exports, and the industry employed 41,000 people in Scotland and an additional 25,000 throughout the UK. The Prime Minister himself recognised the importance of the industry. He went to the InchDairnie distillery in November 2023, and afterwards tweeted:

"Labour will put growth at the heart of our government and back Scotch producers to the hilt."

The hon. Member for West Dunbartonshire (Douglas McAllister) echoed this sentiment when he co-signed a letter to the Chancellor prior to the Budget, urging her to:

"Back one of our great industries, undo the damage of last year's duty increase, and allow Scotch Whisky to deliver for the economy."

Despite those commitments, the 2024 autumn Budget fails to deliver the support that the Scotch whisky industry so urgently needs.

A new survey reveals that 43% of 18 to 34-year-olds have given up drinking alcohol entirely. The share prices of the biggest two spirit companies halved over the past year. The Bill proposes 1p off a pint of beer, which I think we can all agree is a bit of a stunt, while increasing the tax on spirits by 32p, with a related VAT increase of 6p. That means that the duty is £9.18 on a standard bottle of vodka, gin or Scotch whisky.

Over the past 16 years, the duty on spirits has doubled. I am concerned, and so are many others, that we are plucking the golden goose one time too many. UK alcohol duty is the highest in the G7. A double measure of spirits is taxed four times more than the average-strength pint of cider in pubs, even when the cider contains more alcohol. Effectively, we are taxing whisky, gin and vodka four times as much.

What is worse, this punitive duty does not even deliver more revenue for the Treasury. This is an important point. Last year, the previous Government increased the duty on spirits by 10.1%, but according to HMRC the revenue from the duty fell by £237 million in the following 17 months. That clearly demonstrates that higher taxes on Scotch and spirits do not lead to higher revenue. The increase was forecast to bring in £800 million. Revenue from the duty has therefore fallen dramatically.

I understand that in recent years alcohol duty has risen in line with inflation under the new system. However, freezing it in this Budget would send a clear message that the Government stand behind one of our greatest industries. The troubled hospitality industry and the Scotch whisky industry do not need hollow words of support: they need meaningful action. I urge the Government to freeze alcohol duty on Scotch whisky and other spirits, and keep their promise. The Prime Minister said that we need to

"back Scotch producers to the hilt."

Let us give this industry the angels' share that it deserves.

The Chair: Does the shadow Minister wish to speak?

Gareth Davies: My hon. Friend the Member for North West Norfolk will speak to this clause, Ms Vaz.

James Wild (North West Norfolk) (Con): I apologise for the confusion on our side, Ms Vaz. The Committee will be pleased to know that I have lots to say on this clause, so we can all settle in for a while.

Clause 63 increases the headline rate of alcohol duty in line with the retail price index, provides a reduction to the rates for draught alcoholic products and cuts to the rates paid by eligible small producers. The Government have also chosen not to extend the temporary easement for certain wine products. I say at the outset that His Majesty's Opposition is a strong supporter of the broader alcohol sector, and we have some concerns about the impact that some of the provisions will have on important sectors. As well as speaking to clauses 63 and 64, I will speak to new clause 4, which stands in my name and that of my hon. Friend the Member for Grantham and Bourne.

In 2023, the previous Government introduced a progressive strength-based duty system following the alcohol duty review, which was the biggest review of alcohol duties for more than 140 years. The new and simplified alcohol duty rates system was based on the common-sense principle of taxing alcohol by strength, with the aim of modernising the existing duties, supporting businesses and meeting our public health objectives. That was the first time that public health objectives had been inserted into the alcohol duty system. The reforms also introduced two new reliefs: the draught relief to reduce the duty burden on draught products sold at on-trade venues, and small producer relief.

At the autumn statement 2023, the previous Government froze alcohol duty rates until August 2024, and that was extended until February 2025 at the following Budget. According to the OBR, alcohol duty receipts are expected to raise £12.4 billion this year, falling by 0.6% compared with last year as the rates remain frozen, but receipts are then forecast to increase by 5% a year on average, to reach £15.9 billion by the end of the Parliament.

Pubs make a huge contribution to our culture, economy and communities. When the Conservatives were in government, we recognised that and introduced a raft of supportive measures, including draught relief, small producer relief and the Brexit pubs guarantee, which I am sure all hon. Members remember and welcome. I therefore welcome the increased draught relief from February, from 9.2% to 13.9%, and the fact that the relative value of small producer relief will be maintained. Although we welcome the inclusion of both reliefs, the increase to draught relief will mean that beer duty on a 5% pint of beer is reduced from 54p to 53p—a 1p saving. I fear that drinkers will not be toasting the Exchequer Secretary over that.

Turning to whisky—although it is a little early in the day for me—as the hon. Member for Inverness, Skye and West Ross-shire set out, Scotch whisky is one of our most iconic and successful industries. Some 43 bottles of scotch whisky are exported per second and the industry supports more than 66,000 jobs across the UK, many of which are in rural areas. The decision to uprate duty rates by RPI has been met with deep concern by the industry—indeed, the Scotch Whisky Association said that it represents a broken commitment, after the Prime Minister claimed last year that his Government's trade strategy would

"back Scotch producers to the hilt."

That sounds rather like the promise that he gave to farmers, which Labour's family farm tax has broken. The managing director of Diageo said:

> "This betrayal will leave a bitter taste for drinkers and pubs, while jeopardising jobs and investment across Scotland."

I would be interested to hear the Minister's response to those comments. Have the Government calculated the risk to jobs in the sector more widely?

A similar picture is painted by the cider industry, which supports more than 11,500 jobs and attracts more than 1 million tourists each year. The National Association of Cider Makers has raised fears that raising the headline rate, alongside the national insurance increases and the family farm tax, could put elements of the UK cider industry at risk. Has the Minister calculated the cumulative impact that these tax rises will have on the sector?

[James Wild]

At this point, we should consider the wider context in which we are discussing these increases. Time and again we hear about the Budget placing a range of cost pressures on the hospitality industry, which is a key contributor to the UK economy. According to UKHospitality:

"In the past six years, hospitality has increased its annual economic contribution by £20 billion to £93 billion."

The tax rises in the Budget, including the £25 billion a year jobs tax, will make it much harder for the industry to succeed. Just look at the impact of recent measures. Colliers, a professional property services company, reported that cutting the hospitality business rate relief from 75% to 40% means that restaurants will face a bill of, on average, over £13,000 a year, up from £5,500.

Mr MacDonald: Will the Minister comment on whether, when the Government fix all these additional taxes, they take into account what happens in Scotland, where many in the hospitality industry do not get business rate relief? We are getting it twice on exactly the same issue.

James Wild: The hon. Gentleman makes an important point that I am sure the Minister will want to cover when he responds.

The average bill for pubs will go from £4,000 to £9,642 a year. Any hon. Member who talks to hospitality businesses in their constituency will know the real-world challenges they are facing. As it happens, my favourite pub in my constituency closed its doors on Sunday, in part due to the increased costs and taxes the sector is facing. Have the Government considered the impact of the combination of these tax rises on pubs and the wider sector?

Turning to wine, as part of our reforms we introduced a wine easement for 18 months until February 2025. The Minister will be aware of the concerns of some in the sector that because that easement is coming to an end, duty will increase by 98p in just over 18 months. While we support the transition to the new regime and the end of the easement, I would be grateful if the Minister clarified what engagement he has had to understand how prepared the industry is for the new system.

We have many incredible wineries here in the UK. In 2023, sales rose 10% to reach nearly 9 million bottles. Supporting domestic wine producers should be a priority. In my constituency, I am fortunate to have Burn Valley winery, Cobble Hill winery and others. They are producing great products, proving very popular and helping to improve the rural economy and employment. However, growers have higher production and establishment costs, which will be made more challenging by the tax rises in these clauses and the wider Budget.

To support the industry, WineGB has proposed the introduction of a cellar door duty relief scheme modelled on the Australian scheme, to promote wine tourism, which a VisitBritain survey demonstrated could attract 16 million visitors. The Government have an ambitious target to increase annual visits to the UK to 50 million by 2030—up from 38 million last year. In the spirit of trying to help the Government lift their foot off the growth brake lever, perhaps the Minister will have a look at that idea and consider whether introducing it has any merit.

It is because of the challenges facing producers and the hospitality sector that we have tabled new clause 4, which would require the Chancellor, within six months of the Bill being passed, to make a statement to Parliament about the impact on various sectors of the increases in alcohol duties. As we have heard, increases to duty rates place significant additional costs on hospitality, pubs, whisky, spirits, wine, cider and other sectors, and we are concerned that this could inhibit growth and business investment. The previous Government recognised the significant contribution made by those sectors and saw an increase in business investment in the hospitality sector. Given the headwinds facing alcohol producers and hospitality businesses, which support so many jobs, it is only right that the Government report back to Parliament on the impact of their choices.

Clause 64 abolishes the duty stamps scheme for spirit drinks from 1 May 2025, fulfilling a commitment made by the Conservative Government in the spring Budget. We welcome this. The scheme was important when it was introduced, but it became an increasingly diminishing part of HMRC's compliance response. Unnecessary regulation should of course be removed where possible, and I welcome this Government's apparent commitment to deregulation, as set out in the Chancellor's speech, though it would have more credibility if the Government were not also bringing forward the unemployment Bill that will add £4.5 billion to business costs.

As I set out, we support this change to reduce administrative burdens. I look forward to the Minister's response to the concerns I have raised on behalf of the sector and producers in relation to these clauses.

12 noon

Mr Paul Kohler (Wimbledon) (LD): It is a pleasure to serve under your chairship, Ms Vaz. May I draw Members' attention to my entry in the Register of Members' Financial Interests? I own a bar called Cellar Door—though not the same cellar door as the ones the hon. Member for North West Norfolk just referred to.

I want to speak about wine and the hospitality and night-time economy in general. Under the current regime of the wine easement, 85% of all wine sold in the UK is subject to the same rate of duty. That is now to be replaced by 30 different rates. That fails to take account of fundamental differences between wine and other manufactured alcoholic drinks.

The alcohol by volume of wine cannot be predicted with precision before or during the wine-making process. The alcohol content is stable only at the point when the wine goes into the bottle. The ABV varies between different years and different vats. Until bottling, we do not know the ABV of a particular bottle of wine. It therefore creates huge uncertainty about price and profit margins for the industry if there are different rates of duty depending on the specific ABV, down to a gradation of 0.1% ABV. This is particularly important with low-cost wines. The point is that this regime is utterly impractical for wine producers and wine merchants.

Hal Wilson, co-founder of Cambridge Wine Merchants, told me:

"In my business this feels like death by a thousand cuts, or even two thousand cuts. We sell over 2,000 different wines each year and from February will need to know the precise ABV of each and every one before being able to calculate their full cost. For each 0.1% ABV difference there is a different amount of tax to be paid."

I wrote to the Minister about this and got a long and detailed response, for which I am grateful. He made the point that HMRC will change its practices and accept the ABV on the label of the bottle to the nearest 0.5%, but that is current practice; it is not in the legislation as I understand it, and it is still far too complex and much of my criticism still holds. Secondly, the letter fundamentally misunderstands why people drink wine. Wine is consumed for the taste, not the strength. An ABV goes through the taste profile. Compare a light Beaujolais with a robust Rioja. It is all about taste, not about whether it is stronger so one can get more drunk. That is not how people consume wine.

The hospitality and the night-time economy industry is facing an existential crisis owing to rising energy prices, recent inflation, labour shortages following Brexit, changes to commuting patterns and the more than doubling of business rates. Now, alcohol duties are to be another burden. It is death by a thousand cuts. Every incremental cost makes survival more difficult. That is why we are asking for a review after six months to see the effect on the wine industry, hospitality industry, night-time economy and other industries.

James Murray: I will attempt to address the points raised by the Opposition parties. Let me make it clear that clause 63 makes changes to the alcohol duty rates from 1 February 2025. Alcohol duty rates for products qualifying for draft relief will be cut by 1.7% to take a penny of duty off an average-strength pint, while rates of all other products will increase by the retail price index.

Mr MacDonald: May I intervene?

The Chair: You can respond to the debate at the end. Would you still like to make an intervention?

Mr MacDonald: In that case, I will not, Ms Vaz.

James Murray: As I was saying, the clause also increases the relative value of small producer relief for both draught and non-draught products, and clause 64 ends the alcohol duty stamps scheme. To reassure Members, in consideration of what position to take at the autumn Budget, I had meetings and officials had further meetings with representatives from the wine, beer, spirits and cider industries, as well as with public health people, to understand the full range of opinions and how we could carefully calibrate our policy response.

Harriet Cross: The Scotch Whisky Association is not on the list of people the Minister met. Can he confirm whether he did meet the association?

James Murray: The association is included under "spirits".

As we know, alcohol duty is frozen until 1 February. The OBR's baseline, reflected in its forecast, is that alcohol duty will be uprated by RPI inflation each year. The Government have decided to maintain the value of alcohol duty for non-draught products by uprating it from 1 February. At the same time we are recognising the social and economic importance of pubs, as well as the fact that they promote more responsible drinking, by cutting duty for draught products, which account for the majority of alcohol sold in pubs.

A progressive strength-based duty system was introduced on 1 August 2023 by the previous Government following the alcohol duty review. The reforms introduced two new reliefs: a draught relief to reduce the duty burden on draught products sold in on-trade venues, and small producer relief that replaced the previous small brewers relief. The clause increases the generosity of both reliefs.

The alcohol duty stamps scheme is an anti-fraud measure applied to larger containers of high-strength alcoholic products, typically spirits. It requires the mandatory stamping of certain retail containers with a duty stamp. In 2022, HMRC was commissioned to review the effectiveness of the scheme. It found that it is outdated, susceptible to being undermined and now plays a diminished compliance role, and concluded that the cost and administrative burdens imposed on the spirits industry could no longer be justified. The previous Government announced the end of the scheme at spring Budget 2024. That is a decision that this Government will implement from 1 May 2025. That date was chosen after consultation with businesses, which requested sufficient time to prepare.

Clause 63 makes four changes. First, it increases the rates of alcohol duty for non-draught products to reflect RPI inflation. Secondly, it reduces the rates of alcohol duty on draught products by 1.7%. Thirdly, it amends the tables in schedule 9 to the Finance (No. 2) Act 2023 that are used by small producers to calculate their duty discount under small producer relief. This increases the value of small producer relief for both draught and non-draught products in relation to the main rates for these products.

In cash terms, the current cash discount given to small producers for draught products is maintained, while the discount provided to small producers for non-draught products is increased. Small producer relief provides the same relative discount, irrespective of whether a product also qualifies for draught relief. As a consequence of the RPI increase in non-draught rates, it increases the simplified rates in schedule 2 to the Travellers' Allowances Order 1994, which is used for calculating duty on alcoholic products brought into Great Britain.

Some hon. Members raised questions about the impact of these measures on pubs and the hospitality industry. To support the hospitality industry, particularly recognising the role that pubs play in local communities, the Government have announced a reduction in the alcohol duty rates paid on draught products. This reduces businesses' total duty bill by up to £100 million a year and increases the duty differential between draught and non-draught products from 9.2% to 13.9% for qualifying beer and cider.

As we have mentioned a couple of times in this debate, the reduction to draught relief rates will also result in the average alcoholic strength pint at 4.58% ABV paying 1% less in duty. Draught relief provides a reduced rate of duty on draught products below 8.5% ABV packaged in containers of at least 20 litres designed to connect to a qualifying system for dispensing drinks.

[James Murray]

Clause 64 ends the alcohol duty stamps scheme from 1 May this year, removing the provisions in the Finance (No. 2) Act 2023 and the secondary legislation in the Duty Stamps Regulations 2006. It also makes consequential changes and removes references to the scheme where they appear elsewhere in legislation.

Amendment 66 would freeze alcohol duty for alcoholic products above 22% ABV. That is contrary to the Chancellor's decision at the autumn Budget to increase those duty rates to reflect inflation, and would cost the Exchequer £150 million a year.

Specifically in relation to the Scotch whisky industry, I would like to set out that the overall alcohol package balances commercial pressures on the alcohol industry with the need to raise revenue for our vital public services and reduce alcohol-related harms. Consumers and brewers in Scotland will benefit in line with the rest of the UK, with consumption and production patterns roughly equal nationwide. Of course, 90% of Scotch whisky is exported, which means it pays no duty. The Scotch Whisky Association's own figures show the health of the industry. The Budget offers support to the Scotch whisky industry by removing the alcohol duty stamps scheme, which we have just considered, and through investment in the spirit drinks verification scheme by reducing fees for geographical verification.

New clauses 2 and 4, which were also tabled by Opposition Members, would require the Chancellor to make additional statements about the impact of the alcohol duty measures. The Government do not believe further statements to be necessary. As usual, a tax information and impact note was published at the autumn Budget, outlining the anticipated impacts of the measures on alcohol producers and the hospitality sector. Alcohol duty, like other taxes, will be reviewed in future Budgets.

New clause 2 also requires a review of the impact on trade, but UK alcohol duty is, of course, not charged on exports. Some hon. Members raised the impact of the changes to business rates on the hospitality sector in Scotland, but business rates are, of course, devolved. The Scottish Government are accountable to the Scottish Parliament on devolved areas.

Hon. Members also raised questions around the wine easement and why it had not been extended or made permanent. I remind them that the wine easement was intended as a transitional arrangement to give the wine industry time to adapt to the strength-based duty calculation for wine. The revised alcohol duty system simplified and reduced differences between categories of alcohol. Making the wine easement permanent would introduce a new differential into the system and add to the complexity of that system. It would further lead to a duty regime in which stronger ABV wines pay less in proportion to their alcohol content than lower ABV wines. Making the wine easement permanent would, therefore, undermine the simplification and public health objectives of the revised alcohol duty system.

In conclusion, the changes to the alcohol duty balance public health objectives, fiscal pressures, cost of living pressures and the economic and social importance of pubs, while also supporting small producers by increasing the generosity of small producer relief. Furthermore, the end of the alcohol duty stamps scheme will simplify procedures for approximately 3,500 registered alcohol importers and producers, reducing overall costs on the spirits industry by an estimated £7 million a year. I therefore commend the clause to the Committee, and urge it to reject amendment 66 and new clauses 2 and 4.

Mr MacDonald: I do not have a great deal to add. I did miss out, when we declared our interests earlier, the fact that I own a pub, which hon. Members are very welcome to visit when they are next in Fort William—do not all rush at once. It never rains there.

I want to come back, briefly, to the 1p a pint reduction that we were promised. The whole hospitality industry and beer industry have come together to agree that that is a stunt, and that that 1p will not be passed on to the customer. It is just not relative at all, because the reduction in business property relief and the national insurance and minimum wage increases effectively mean that the cost to the hospitality industry is going through the roof. The Minister knows that perfectly well, but he still continues to trot out his line.

On the whisky industry, I am not sure that account has been taken of the potential tariffs. We talk about exports being very strong, but they are not actually very strong at the moment.

Lastly, on tax overall, when I make a submission to Scottish Government Ministers about the tax on hospitality, the whisky industry and so on, they all blame Westminster, but when I speak to Westminster Ministers about it, they all blame Scotland. The net result is that industries such as hospitality in Scotland are suffering from both sides, and that is simply not fair.

Gregor Poynton (Livingston) (Lab): On business rates, they are clearly devolved to the Scottish Government, so it fully sits within their remit to help the hospitality industry. If we are talking about standing behind the whisky industry, one of the first things that the Secretary of State for Business and Trade did was go to Brazil to work out that protected status for the Scotch whisky industry, which will mean millions of pounds extra in exports to Brazil.

We are also discussing clause 64, which deals with the abolition of duty stamps for alcoholic products, and that will also help the whisky industry. The Government are doing a number of things to support the whisky industry and stand behind it, including the provisions on its tax status and the Secretary of State's efforts to increase exports. The hon. Member should perhaps reflect that in his comments.

12.15 pm

Mr MacDonald: I have finished my remarks.

The Chair: Would you like to press the amendment to a vote?

Mr MacDonald: Yes.

Question put, That the amendment be made.

The Committee divided: Ayes 2, Noes 10.

Division No. 2]

AYES

Kohler, Mr Paul

MacDonald, Mr Angus

NOES

Ballinger, Alex	Reynolds, Emma
Caliskan, Nesil	Ryan, Oliver
Murray, James	Strathern, Alistair
Osborne, Tristan	Wakeford, Christian
Poynton, Gregor	Yang, Yuan

Question accordingly negatived.

Clauses 63 and 64 ordered to stand part of the Bill.

Clause 65

RATES OF TOBACCO PRODUCTS DUTY

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

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

New clause 5—*Review of effects of section 65 on illicit tobacco market*—

"The Chancellor of the Exchequer must, within six months of this Act being passed, publish an assessment of the impact of the changes introduced by section 65 of this Act, on the illicit tobacco market."

This new clause requires the Chancellor to review the impact increased rates of tobacco duty on the illicit tobacco market.

James Murray: The clause implements changes announced at the autumn Budget 2024, concerning tobacco duty rates. The duty charged on all tobacco products will rise in line with the tobacco duty escalator, with an additional increase being made for hand-rolling tobacco to reduce the gap with cigarettes. Smoking rates in the UK are falling but they are still too high; around 12% of adults are now smokers. Smoking remains the biggest cause of preventable illness and premature death in the UK, killing around 80,000 people a year and up to two thirds of all long-term users.

We have plans to reduce smoking rates further to achieve our ambition of a smoke-free UK. To realise that ambition, we announced our intention to phase out the sale of tobacco products for future generations, as part of the Tobacco and Vapes Bill, along with powers to extend smoke-free legislation to some outdoor areas.

At the autumn Budget, the Chancellor announced that the Government will increase tobacco duty in line with the escalator. Clause 65 therefore specifies that the duty charged on all tobacco products will rise by 2% above RPI inflation. In addition, duty on hand-rolling tobacco increases by 12% above RPI inflation. These new tobacco duty rates will be treated as taking effect from 6 pm on the day that they were announced, 30 October last year.

Recognising the potential interactions between tobacco duty rates and the illicit market, HMRC and Border Force launched their refreshed illicit tobacco strategy in January 2024. The strategy is supported by £100 million of new funding, which will be used to scale up ongoing work and support new activities set out in the strategy, including enhanced detection and intelligence capabilities.

New clause 5 would require the Chancellor to review the impact of increased tobacco rates on the illicit tobacco market within six months of the Bill being passed. The Government respectfully will not accept this new clause, as the potential impact on illicit markets is already one of several factors the Government take into account when a decision on tobacco rates is made. I also note that the approach used in the costings at the Budget, certified by the Office for Budget Responsibility, accounts for behavioural responses to changing excise rates, including the impact of illicit markets. HMRC also publishes tobacco tax gaps annually, which allow for an analysis for the long-term trends in illicit trade.

Although the Government are rejecting new clause 5, I assure Committee members that the Government will continue to monitor illicit trade and to support the efforts of our enforcement agencies to counter it. HMRC and Border Force have had strategies in place to reduce the illicit trade in tobacco for over 20 years, which have helped to reduce the tobacco tax gap from 21.7% in 2005-06 to 14.5% in 2022-23. That happened during a prolonged period in which tobacco duties were consistently increased, as the attitude of all Administrations, including I believe the last one, has been that the threat of illicit tobacco needs to be addressed by reducing its availability, rather than allowing it to dictate our public health and tax policies.

On that matter, I hope that all Committee members, and I assure them that that will continue to be this Government's approach. The clause will continue the tried and tested policy of using high duty rates on tobacco products to make tobacco less affordable. It will help to continue the reduction in smoking prevalence, supporting our ambition for a smoke-free UK, and will reduce the burden placed by smoking on our public services. I comment the clause to the Committee and urge it to reject new clause 5.

James Wild: As we have heard from the Minister, clause 65 increases excise duty on all tobacco products and the minimum excise tax on cigarettes by the duty escalator RPI plus 2%. In addition, the excise duty rate for hand-rolling tobacco increases by an additional 10%. This is a one-off increase in addition to the restated policy of increasing rates in line with RPI plus two percentage points. We are broadly supportive of these measures but I have some questions around purchaser behaviour and its impact on the illicit market and enforcement. In addition to speaking to clause 65, I will also speak to new clause 5, which stands in my name.

Tobacco receipts are expected to be £8.7 billion this year, down by 2.7% on last year. They are forecast to decline by 0.5% a year on average over the rest of the forecast period to £8.5 billion, as declining tobacco consumption offsets increasing duty rates. The tax information and impact note explains that over the four years from 2019 to 2023, the tobacco escalator coincided with a reduction in smoking prevalence from 14.1% to 11.9% of people aged over 18. That is clearly welcome. The Government are bringing forward the Tobacco and Vapes Bill, which the Minister referred to and which includes lots of measures to make vapes less attractive to children and harder to get hold of. There is a lot to be said about that Bill, but fortunately, that is the job of another Committee.

Increasing the price of tobacco clearly comes with the risk of boosting the illicit market. The tax information and impact note suggests that some consumers might engage in cross-border shopping and purchase from the illicit tobacco market. HMRC will monitor and respond

[James Wild]

to any potential shift. Indeed, the OBR has suggested that the duty rate is beyond the peak of the Laffer curve—the revenue-maximising rate of tax. Can the Minister confirm what measures will form HMRC's response to any shift in illegal consumption?

There are also questions around the figures. Although HMRC estimates that 10% of cigarettes and 35% of hand-rolling tobacco consumption is from illegal and other non-UK duty paid sources, evidence submitted by the industry believes that is a significant understatement. Its data shows that the consumption of tobacco from non-UK duty paid sources currently accounts for 30% of cigarettes and 54% of hand-rolling tobacco consumption. Has the Minister discussed with HMRC the difference between those figures and the basis on which they have been put together?

The Tobacco Manufacturers' Association said that the illegal market is not in decline but that, contrary to HMRC's claims, it is expanding. As well as providing more accurate figures on the scale of the illegal market, it would be useful to know whether the Government have calculated the potential consequences for retailers and law enforcement of an expanding illegal market.

Alex Ballinger (Halesowen) (Lab): Does the hon. Member agree that the tobacco market's estimates are not unbiased? It has form in exaggerating the scale of the illicit tobacco market in the UK.

James Wild: The hon. Member has probably seen the same evidence produced by the industry as I have; I do not think that we should dismiss it out of hand. Representatives from the industry do, for example, go around football terraces, pick up the empty packets, see where they came from, and do sampling or take other measures. Of course the industry's evidence should be challenged and tested, but my point is about whether HMRC has worked with the sector to see if its figures are wrong. If they are, and HMRC's are perfectly right, we can follow the HMRC figures. I am raising a legitimate concern about the accuracy of the data to make sure that we are all operating from the same page because, as the OBR has pointed out, we may already have reached the peak point where the tax will be doing harm.

The Minister referred to the success of enforcement over the last couple of decades. In March last year, the previous Government set out a new strategy to tackle illicit tobacco. With evidence of a substantial illegal market—and whichever set of figures we take, it is substantial—what steps are the Government taking? Are they taking the previous Government's strategy forward or will they introduce their own strategy?

The industry has specifically proposed that the Government provide trading standards with full access to the powers granted to HMRC under the Tobacco Products (Traceability and Security Features) (Amendment) Regulations 2023. At present, the legislation allows trading standards to refer cases to HMRC, which will then consider imposing on-the-spot penalties of up to £10,000 on those selling tobacco.

The industry proposed that it would be far more effective for trading standards to apply the penalty at the point of enforcement rather than having to refer the case to HMRC. It also suggested allowing trading standards to keep the receipts from any such penalties to reinvest in its enforcement action—we are all familiar with the pressures that trading standards is facing. Will the Minister say whether the Government have considered those proposals and, if they have not, will he?

I have tabled new clause 5 to ensure there is better understanding of the risk around the illicit market. The Minister respectfully dismissed the need for it, but it would require the Chancellor to, within six months of this Act being passed, publish an assessment of the impact of the changes introduced by clause 65 of the Bill on the illicit tobacco market. As we have heard, increasing tobacco duty could alter the behaviour of consumers, and we could see greater illicit market share.

Evidence from the industry—which may be contested—shows that non-UK duty paid sources are significant. There is clearly a risk that a further increase to tobacco duty could boost the illicit market, and HMRC needs to act to protect lawful revenues for the taxpayer. We would therefore welcome the Chancellor publishing an assessment of the impact of the changes. As I set out, we will not oppose clause 65, but I look forward to the Minister's response to my points, particularly on the illicit market.

James Murray: I welcome the Opposition's support for these measures. I will write to the hon. Gentleman in response to some of the queries he raised about specific figures. I will address the points that he made about the illicit tobacco market, because that is obviously something we all want to consider in some depth in connection with anything that we do around the tobacco duty.

As I mentioned in my earlier remarks, HMRC and Border Force launched their refreshed illicit tobacco strategy in January 2024. That is being implemented under this Government. It is supported by £100 million of new funding, which will be used to scale up the ongoing work and support the new activities outlined in the strategy, including enhanced detection and intelligence capabilities.

The hon. Gentleman also asked about the impact of increasing tobacco duty on the demand for illicit products, and whether increasing duty rates might push some smokers towards illicit products. It will be helpful if I set out the context for this discussion. Under the assumptions that were used in the tobacco costings for the autumn Budget, which were of course certified by the OBR, the overall level of increase decided on by the Government raises revenue while continuing to reduce tobacco consumption.

The approach used in costings, certified by the OBR, takes into account a number of potential behavioural responses to changing excise duty rates, such as quitting or reducing smoking, substituting with vapes, and moving from UK duty paid consumption to the non-UK duty paid market, including the impact on illicit products. However, the threat from illicit tobacco needs to be addressed by reducing its availability, rather than allowing it to dictate our tax and public health policies.

Finally, the hon. Gentleman asked whether HMRC had worked with the sector to authenticate its figures. HMRC has analysed how external figures are calculated, but World Health Organisation rules prohibit extensive engagement with the industry on such issues.

Question put and agreed to.

Clause 65 accordingly ordered to stand part of the Bill.

Clause 66

RATES OF VEHICLE EXCISE DUTY FOR LIGHT PASSENGER OR LIGHT GOODS VEHICLES ETC

12.30 pm

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

The Chair: With this it will be convenient to discuss new clause 6—*Review of effects of £40,000 expensive car supplement threshold—*

"(1) The Chancellor of the Exchequer must, within six months of this Act being passed, publish an assessment of the impact of the £40,000 expensive car supplement threshold included in section 66.

(2) The assessment in subsection (1) must consider the effects of the threshold on the proportion of new cars sold which are Electric Vehicles."

This new clause requires the Chancellor to review the impact of the £40,000 expensive car supplement threshold.

James Murray: Clause 66 makes changes to the uprating of standard vehicle excise duty rates for cars, vans and motorcycles, excluding first-year rates for cars, in line with the retail prices index, from 1 April. The clause will also change the VED first-year rates for new cars registered on or after 1 April, to strengthen incentives to purchase zero emission and electric cars.

As announced at the autumn Budget, the clause will freeze the zero emission rate at £10 until 2029-30, while increasing the rates for higher-emitting hybrid, petrol and diesel cars from 2025-26.

Vehicle excise duty—VED—is a tax on vehicle ownership, with rates depending on the vehicle type and the date of first registration. Vehicle excise duty first-year rates were introduced as part of the wider changes to the VED system implemented in 2017, and they vary according to emissions. Vehicle excise duty first-year rates are paid in the first year of a car's life cycle, at the point of registration. From the second year, cars move to the standard rate of VED. From 1 April, new zero emission vehicles registered on or after that date will also be liable for the VED first-year rates.

Vehicle excise duty first-year rates have been routinely uprated by the RPI since their introduction in 2017, and as announced by the previous Government at the autumn statement in 2022, from April 2025, electric cars, vans and motorcycles will begin to pay VED in a similar way to petrol and diesel vehicles.

The clause will set the VED rates for 2025-26, increasing the standard rates for cars, vans and motorcycles in line with the RPI. As part of this uprating, the standard rate of VED for cars registered since 1 April 2017 will increase by only £5. The expensive car supplement will also be increased by £15, from £410 to £425. The rates for vans will increase by no more than £15, and motorcyclists will see an increase in rates of no more than £4.

From 1 April 2025, the VED first-year rate for zero emission cars will be frozen at £10 until 2029-30. For 2025-26, first-year rates for cars emitting 1 to 50 grams per km of carbon dioxide will go from £10 to £110, and cars emitting 51 to 75 grams per km of CO_2 will go from £30 to £130. Rates for cars emitting 76 grams per km or more of CO_2 will double.

New clause 6 would require the Chancellor to review the impact of the £40,000 expensive car supplement threshold and consider its effects on the proportion of new cars sold that are electric vehicles. As set out at the autumn Budget, the Government have already committed to considering increasing the £40,000 threshold for EVs at a future fiscal event. The Government recognise that new electric vehicles can still often be more expensive to purchase than their petrol or diesel counterparts, and we acknowledge the need to ensure that EVs are affordable as part of our transition to net zero. In the light of that commitment, a separate review is unnecessary so I urge the Committee to reject new clause 6.

The changes to the VED first-year rates outlined in clause 66 will increase the incentives to buy new zero emission cars at the point of purchase and support the uptake of new electric vehicles. Revenue from that change will also help to support public services and infrastructure in the UK. An increase in VED standard rates for cars, vans and motorcycles by the RPI in 2025-26 will ensure that VED receipts are maintained in real terms. I commend clause 66 to the Committee.

James Wild: As we heard from the Minister, clause 66 provides for increasing certain rates of VED for light passenger and light goods vehicles in line with the RPI. There will also be changes to the first-year rates for zero emission vehicles and low emission vehicles. We broadly support the measures, but as well as discussing clause 66, I will consider new clause 6, which is in my name and that of my hon. Friend the Member for Grantham and Bourne.

According to the OBR, VED receipts are expected to raise £8.2 billion in 2024-25, up by £0.5 billion compared with 2023-24. It expects an increase through the forecast period to £11.2 billion, driven by an increasing number of cars, more cars paying the expensive car supplement and the extension of VED to electric vehicles from 2025. It was the last Government who decided that EVs would no longer be exempt from VED and moved to make the system fairer. I will raise some points about the implications of that, and particularly the expensive car supplement for electric vehicles. New zero emission cars, registered after 1 April, will be liable for that charge, which currently applies to cars with a list price exceeding £40,000. That threshold has not changed since 2017, despite inflation and changing technologies. The Society of Motor Manufacturers and Traders has called on the Government to look at that.

The current ECS threshold will add more than £2,000 to the cost of a zero emission vehicle in the first six years of ownership, and more than £3,000 including the standard rate VED that must also be paid. That will deter potential buyers from purchasing zero emission vehicles and will have an impact on residual values. According to figures quoted by the SMMT, the ECS is likely to capture more than half of the zero emission vehicle market from 2025.

The Minister referred to the Government saying that they may look at the threshold in future, and I will come on to that when I discuss new clause 6. Can he confirm how much the ECS currently raises and how much it is forecast to raise as a result of the changes? Given that the Government are committed to a 2030 ban on new petrol and diesel vehicle sales, what impact will the ECS have on the Government's progress towards that goal?

[James Wild]

For those reasons, we have tabled new clause 6, which would require the Chancellor, within six months of the Bill being passed, to publish an assessment of the impact of the £40,000 expensive car supplement threshold in clause 66. The assessment must consider the effects of the threshold on the proportion of new car sales that are electric vehicles.

As we have heard, the threshold has remained unchanged since 2017 and the Government are pushing ahead with the 2030 date. My right hon. Friend the Member for Richmond and Northallerton (Rishi Sunak) introduced some welcome common sense to the debate by moving the date for the ban on new petrol and diesel car sales back to 2035. That is the date that the major car manufacturing countries in Europe and the rest of the world have adopted, and one that we should have stuck to.

The Government's policy is odd because it makes people less likely to move to EVs—because it makes it more expensive to do so. Perhaps the Treasury is not quite as signed up to the Energy Secretary's dogmatic approach as he is; perhaps it secretly agrees with Opposition Members who certainly think that he is the most expensive Cabinet member in many ways. Although I recognise that the Minister said that the Government have committed to look at the threshold, the new clause would make that binding and make sure that it happened within a specific timeframe. We therefore want the new clause to be taken forward. As I have set out, we will not oppose the clause, but I will press new clause 6 to a Division.

Hybrid vehicles will start paying road tax at the standard rate, as well as paying the ECS where applicable. Those changes will hasten the departure from hybrids, as my hon. Friend the Member for Grantham and Bourne said earlier. I would be grateful if the Minister provided an assessment of the decision to disincentivise hybrids and if he could say how many jobs in the UK are based on producing hybrid vehicles.

James Murray: I thank the shadow Minister for indicating the Opposition's support for the clause. I understand what the Opposition are doing by proposing new clause 6, and the points that they want to raise, and the Government have considered it. We consider our commitment, which was made at the autumn Budget in the public domain, to be a strong commitment from the Government: we will consider increasing the £40,000 threshold for EVs only at a future fiscal event.

We recognise that when electric vehicles are new, they can still often be more expensive to purchase than their petrol or diesel counterparts. There is a need to ensure that EVs are affordable as part of the transition. We also recognise that, as transport is currently the largest-emitting sector, decarbonising it is central to the wider delivery of the UK's cross-economy climate targets.

As I said, it was announced at Budget '24 that the Government will consider raising the threshold for zero emission cars only at a future fiscal event. The Government have no current plans to review the threshold for petrol, diesel and hybrid vehicles, but we keep all taxes under review as part of the Budget process.

Question put and agreed to.

Clause 66 accordingly ordered to stand part of the Bill.

Clause 67

Rates of vehicle excise duty for rigid goods vehicles without trailers etc

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

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

Clauses 68 and 69 stand part.

Clause 71 stand part.

Government new clause 1—*Rate of vehicle excise duty for haulage vehicles other than showman's vehicles.*

New clause 7—*Statements on HGV Vehicle Excise Duty (VED) and HGV Road User Levy—*

"(1) The Chancellor of the Exchequer must, within six months of this Act being passed, make a statement to Parliament about the increase to HGV VED introduced by sections 67 to 69 and increase to the HGV Road User Levy under section 71 of this Act.

(2) The statement under subsection (1) must include details of the impact on—

(a) the haulage sector,

(b) the decarbonisation of the logistics industry, and

(c) the UK economy."

This new clause requires the Chancellor to make a statement about the impact of increasing Vehicle Excise Duty on HGVs.

James Murray: Clauses 67, 68 and 69 make changes to upgrade VED rates for heavy goods vehicles in line with the retail prices index from 1 April. They also make changes to the VED rates for rigid goods vehicles without trailers, rigid goods vehicles with trailers and vehicles with exceptional loads. Clause 71 uprates the heavy goods vehicle levy in line with the RPI from 1 April.

The registered keeper of a vehicle is responsible for paying VED. The rates depend on the vehicle's revenue weight, axle configuration and Euro emission status. Furthermore, the HGV levy, which was introduced in August 2023 and frozen at the autumn statement in 2023, is payable for both UK and foreign HGVs using UK roads. Similarly to VED, the levy rates depend on the vehicle's weight and Euro emissions status. Clauses 67, 68 and 69 will set the VED rates for heavy goods vehicles for '25-26, increasing them in line with the RPI. For example, the annual VED liability of the most popular HGV—tax class TC01, VED band E1—will increase by £18, from £560 to £578. Hauliers will not see a real-terms increase in VED costs, as rates have increased to keep pace with inflation only.

The changes made by clause 71 will increase the annual rates for domestic and foreign HGVs using UK roads and the associated daily, weekly, monthly and six-monthly rates in line with the RPI. For example, the annual rate for the most common type of UK HGV will increase by £21, from £576 to £597. As part of that uprating, the £9 and £10 caps on the daily rates paid by foreign HGVs, which are a consequence of retained EU law and are now obsolete, will be removed.

Government new clause 1 corrects an omission in the Bill of an uplift to the general haulage rate announced at the autumn Budget. We are inserting a new clause to ensure that the legislation operates as intended by updating the currently recorded rate for the general haulage tax class—tax class 55—from £350 to £365 in line with the RPI.

New clause 7 seeks to require the Chancellor to make a statement about the impact of increasing VED on HGVs. The new clause is not necessary, as the Government have already published the tax information and impact note that sets out all the expected impacts of the measure. It makes clear that hauliers will not see a real-terms increase in their VED or HGV levy liabilities, as rates are being increased in line with the RPI to keep pace with inflation only. The measure is not expected to have any significant macroeconomic impacts.

Increasing both VED rates for HGVs and the HGV levy by the RPI for '25-26 will ensure that VED receipts are maintained in real terms and that hauliers continue to make a fair contribution to the public finances in the wider context of a Budget in which hauliers have benefited from a further freeze in fuel duty, worth nearly £1,100 a year to the average HGV. I therefore commend clauses 67, 68, 69 and 71 as well as Government new clause 1 to the Committee, and I urge the Committee to reject new clause 7.

James Wild: As the Minister says, clauses 67, 68 and 69 provide for changes to certain rates of VED, and clause 71 increases the rates for the HGV road user levy. We will not oppose the provisions, but we have some concerns and points to make about the timing of the changes and the lack of support for impacted industries, such as the logistics sector. As well as discussing those clauses, I will consider new clause 7, which is in my name and that of my hon. Friend the Member for Grantham and Bourne.

Heavy goods vehicle VED is a complex picture, with more than 80 different rates. The characteristics of HGVs determine their rates, and the increases to HGV VED represent the first rise since 2014. Heavy goods vehicles may also be liable for the additional HGV road user levy, which was introduced in 2014 and is a charge for using the road network, ranging from £150 to £749 a year. The levy was suspended in August 2020, demonstrating the previous Government's support for the haulage sector during the pandemic. A reformed levy was introduced in 2023 and was frozen at the autumn statement in 2023. The new levy divides qualifying HGVs into six levy bands rather than the previous 22, which is a welcome simplification.

12.45 pm

The Government's decision to uprate HGV VED and the road user levy comes at a challenging time for businesses. I make no apology for referring once again to the increases in national insurance and the impact that that is having on the sector. Logistics UK estimates that that will cost its sector £1.2 billion alone, and has warned that it could lead to a reduction of 29,000 jobs. Does the Minister recognise figures from Logistics UK that the increases in VED and road user levy will cost the sector £172 million and £178 million respectively? When taken in the context of other tax rises in the Budget, what impact does the Minister think the increases will have on logistics businesses' ability to invest in their growth and decarbonisation?

It is because of the issues raised with us by the logistics sector that we have tabled new clause 7, which would require the Chancellor, within six months of the Bill being passed, to make a statement about the impact of the changes. That statement must also consider the effect of the increases on the haulage sector, decarbonisation of the logistics sector and the UK economy. Industry has warned that these increases could impact its ability to invest, but will mainly lead to job losses. The Road Haulage Association has called for a delay, as now is not the time, in its words, to "clobber" UK hauliers with extra costs. We would welcome the Chancellor's commissioning such a review. The Minister says that the tax information and impact note provides a forecast for what might happen. Indeed it does, but the point of this is that it is an after-the-event review, which should be an important part of any policymaking, particularly in the Treasury, to see what the real-world impact was and how accurate those forecasts were.

Logistics UK has also pointed to lack of progress in the Budget on transport and energy infrastructure investment. What assurances can the Minister give the sector to provide it with the confidence to invest? Although I know industry has welcomed the plug-in van grant being maintained, can the Minister provide an update on the plug-in truck grant? As I have set out, we will not oppose these measures, but we do think the new clause would add to the Bill.

James Murray: I thank the hon. Gentleman for confirming that the Opposition will support these clauses. He asked about the wider challenges faced by the road haulage industry. Road haulage is key to the UK's economy, and the Government acknowledge the pressures the industry has faced in recent years. As a result of the changes in these clauses, hauliers will not see a real-terms increase in their VED or HGV levy liabilities, as rates will be increased in line with the RPI to keep pace with inflation only.

Of course, revenue from HGV VED and the HGV levy helps to ensure that we can continue to fund the vital public services and infrastructure that people across the UK expect, so it is right that the taxes are regularly reviewed. In the wider context, hauliers will also benefit from the further freeze in fuel duty for 2025-26 that the Chancellor announced in the Budget, which is worth nearly £1,100 a year for the average heavy goods vehicle.

Question put and agreed to.

Clause 67 accordingly ordered to stand part of the Bill.

Clauses 68 and 69 ordered to stand part of the Bill.

Clause 70

Vehicle excise duty: zero-emission vehicles

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

James Murray: The clause makes minor amendments to ensure the legislation for the application of vehicle excise duty to zero emission vehicles operates as intended. In the 2022 autumn statement, the former Government announced that from April 2025, zero emission cars, vans and motorcycles would begin to pay VED in line with their petrol and diesel counterparts. The clause will ensure that the legislation governing the application of VED to zero emission vehicles operates as intended by making minor technical amendments to the legislation.

[James Murray]

The changes will clarify the current VED exemption for electric vehicles, clarify the interpretation of data entries on the certificate of conformity and ensure that all zero emission vans registered between 1 January 2007 and 31 December 2008 pay VED, in line with their petrol or diesel counterparts, from 1 April 2025. The clause will ensure that the legislation for the application of VED to zero emission vehicles operates as intended.

James Wild: I will be very brief on this one. It is a perfectly sensible measure, and we will not be opposing it.

Question put and agreed to.

Clause 70 accordingly ordered to stand part of the Bill.

Clause 71 ordered to stand part of the Bill.

Clause 72

RATES OF AIR PASSENGER DUTY UNTIL 1 APRIL 2026

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

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

Clause 73 stand part.

New clause 8—*Review of bands and rates of air passenger duty*—

"(1) The Chancellor of the Exchequer must, within eighteen months of this Act being passed, publish an assessment of the impact of the changes to air passenger duty introduced by section 73 of this Act on—

(a) the public finances;

(b) carbon emissions; and

(c) household finances.

(2) The assessment under subsection (1)(c) must consider how households at a range of different income levels are affected by these changes."

This new clause requires the Chancellor to publish an assessment of this Act's changes to air passenger duty on the public finances, carbon emissions, and on the finances of households at a range of different income levels.

James Murray: Clause 72 sets the rates of air passenger duty for 2025-26, as announced in the 2024 spring Budget, and they will take effect on 1 April 2025. Clause 73 sets the rates of APD for 2026-27, as announced in the 2024 autumn Budget, and they will take effect a year later, on 1 April 2026.

APD rates have fallen in real terms, because they are set more than a year in advance using forecast RPI, and inflation has subsequently been much higher than originally forecast. The former Government announced that in 2025-26, rates would be uprated by forecast RPI and non-economy rates would be adjusted to account partially for previous high inflation. For 2026-27, the current Government are making a broad-based adjustment to all rates to compensate in part for previous high inflation and are raising the higher rate on larger private jets by an additional 50%. These changes aim to ensure that the aviation industry continues to make a fair contribution to the public finances. As is standard practice, the Government have given the industry more than 12 months' notice.

Let me go into some detail. The changes made by clause 72 will raise all APD rates by forecast RPI, rounded to the nearest pound, for 2025-26. Non-economy rates will be further adjusted to correct partially for previous high inflation. For domestic and short-haul international economy passengers, these changes mean that rates will stay at their current level in 2025-26. Rates for other economy-class passengers will rise by £2. For non-economy international passengers, rates will rise by between £2, for short-haul commercial passengers, and £66, for those travelling ultra-long haul in larger private jets that incur the higher rate.

The changes made by clause 73 will raise all APD rates in 2026-27 to account partially for previous high inflation, and increase the higher rate on larger private jets by an extra 50% above the increases to other rates. For economy-class passengers, this means that those flying domestically will face an increase of £1. Rates for short-haul economy passengers will increase by £2, and those for long-haul economy passengers will increase by £12. The increases for non-economy passengers and those travelling in private jets will be greater. Whereas the short-haul international rate for economy passengers is increasing by £2, that for non-economy passengers is rising by £4 and that for private jet passengers by £58.

Taken together, the corrections to non-economy rates announced at the spring and autumn Budgets do not raise rates by more than RPI over the period since 2021-22, based on the latest figures. From 2027-28, rates will be rounded to the nearest penny, to ensure that they track forecast inflation more closely.

New clause 8 would require the Chancellor to publish an assessment of the impact of the APD changes on the public finances, carbon emissions and the finances of households at a range of income levels. At the autumn Budget, the Government published a TIIN that outlined the expected impacts of the APD changes, including the Exchequer, household and environmental impacts. New clause 8 is therefore unnecessary, and I urge the Committee to reject it.

These changes will help to maintain APD rates in real terms, following high inflation. I therefore commend clauses 72 and 73 to the Committee and urge it to reject new clause 8.

James Wild: As we heard from the Minister, clause 72 sets the rates of air passenger duty for the year 2025-26—those rates were announced in the 2024 spring Budget, precisely to give the sector time to plan—and clause 73 sets the rates for 2026-27. The higher rates that apply to larger private jets will increase by an additional 50%, as the Minister said. We will not oppose these measures, but we want to raise some points and seek more detail about their impact.

APD was first introduced on 1 November 1994. Initially, it was charged at a rate of £5 on flights within the UK and to other countries in the European Economic Area, and £10 on flights elsewhere. Since then, it has been reformed by successive Governments. Currently, it is chargeable per passenger flying from UK airports to domestic and international destinations, and rates vary by destination and class of travel. According to the OBR, APD receipts are expected to be £4.2 billion in 2024-25, and then they are forecast to increase by 9% a year, on average, to £6.5 billion in 2029-30, driven by increasing passenger numbers and the higher duty rates. The changes mean that a family of four flying economy to Florida, for example, will be taxed £408—a 16% increase on the current rates.

I turn first to the changes in clause 73 that relate to the higher rate, which will increase by an additional 50% on business and private jets. There is some concern from the industry about the impact of the measure on economic growth—the Government's driving, No. 1 mission, in which we support their efforts. In reality, most private jets are corporate aircraft that are used as capital assets. One industry commentator said:

"They allow businesses to increase productivity and the amount of time they have in the day, which means they can make more money, employ more people and pay more in taxes. "

That is something I think we all support. Has the Minister calculated what impact the 50% increase will have on economic growth and developing our trade relationships? The Prime Minister rightly travels a lot around the world to make connections and promote trade in our economy. Can the Minister confirm whether the Royal Squadron is subject to the higher rates, or is it exempt?

There has also been some concern about the impact on our constituents—people going on holiday or to see family and friends. The changes may limit flight options. Airlines UK has said that the rise will make it harder for British carriers to put on new routes. Does the Minister think the increase will impact the ability to consider new routes? It will certainly increase ticket prices; I woke up this morning to hear the boss of Ryanair on the radio saying that the increases in APD will mean that a third of an average £45 fare will now be tax.

It is because of the impacts that the rate rises might have on consumers, industry and economic growth that we tabled new clause 8, which would require the Chancellor to publish an assessment of the impact of the changes introduced by clause 73 within 18 months of the Bill being passed. The assessment would have to consider the impact of the changes on the public finances, carbon emissions and household incomes. The industry has been clear in its warnings in this regard, and we need to take them seriously. The Minister said that the new clause is unnecessary and that a review has been covered anyway, but reviews should be an important part of the Treasury's toolkit in understanding impact.

We will not oppose these measures, but we will continue to raise industry's concerns, particularly on behalf of our constituents and people who want to go on holiday.

James Murray: It might be worth my saying at the outset that our support for the aviation industry more broadly is very clear. I am sure the hon. Gentleman was listening to the Chancellor's growth speech yesterday, in which she announced that we will no longer shy away from decisions about airport expansion, which can be delivered to support economic growth while meeting our climate obligations. People in the aviation industry can have no doubt about this Government's desire and willingness, and concrete actions, to work with them to drive economic growth in this country.

In relation specifically to APD, which is the subject of these clauses, I say to the hon. Gentleman that the adjustment to the APD rates for '26-27 is proportionate, because the rates have fallen significantly behind inflation in recent years. These changes will help to compensate for that fact. The short-haul international rate on economy passengers will increase by £2 on 1 April 2026. That rate has not increased since 2012. Even after 1 April 2026, for a family of four—two adults, two children—flying economy class to Spain, the total APD increase will be only £4, since under-16s travelling in economy class are exempt from APD.

By contrast, the increases for non-economy passengers and those travelling in private jets will be higher, to ensure that they make a fair contribution to the public finances. One other bit of context is that, unlike other sectors, no VAT applies to plane tickets and there is no tax on jet fuel. It is only fair that aviation pays its fair share through APD.

Question put and agreed to.

Clause 72 accordingly ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned. —*(Christian Wakeford.)*

1.1 pm

Adjourned till this day at Two o'clock.