

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

(Except clauses 7 to 18, 41 to 44, 65 to 81, 129, 132 to 136 and 144 to 154 and
schedules 2, 3, 11 to 14 and 18 to 22)

First Sitting

Thursday 30 June 2016

(Morning)

CONTENTS

Programme motion agreed to.
Written evidence (Reporting to the House) motion agreed to.
CLAUSES 1 to 5 agreed to.
SCHEDULE 1 agreed to, with amendments.
CLAUSE 6 agreed to.
CLAUSE 19 agreed to.
SCHEDULE 4 agreed to.
CLAUSE 20 agreed to.
Adjourned till this day at Two o'clock.

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor’s Room, House of Commons,

not later than

Monday 4 July 2016

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The Committee consisted of the following Members:

Chairs: † SIR ROGER GALE, MR GEORGE HOWARTH

- | | |
|---|--|
| † Argar, Edward (<i>Charnwood</i>) (Con) | † Long Bailey, Rebecca (<i>Salford and Eccles</i>) (Lab) |
| † Atkins, Victoria (<i>Louth and Horncastle</i>) (Con) | † McGinn, Conor (<i>St Helens North</i>) (Lab) |
| † Blackman, Kirsty (<i>Aberdeen North</i>) (SNP) | † Mak, Mr Alan (<i>Havant</i>) (Con) |
| † Boswell, Philip (<i>Coatbridge, Chryston and Bellshill</i>) (SNP) | † Marris, Rob (<i>Wolverhampton South West</i>) (Lab) |
| † Burns, Conor (<i>Bournemouth West</i>) (Con) | Matheson, Christian (<i>City of Chester</i>) (Lab) |
| † Cadbury, Ruth (<i>Brentford and Isleworth</i>) (Lab) | † Merriman, Huw (<i>Bexhill and Battle</i>) (Con) |
| † Cooper, Julie (<i>Burnley</i>) (Lab) | † Mullin, Roger (<i>Kirkcaldy and Cowdenbeath</i>) (SNP) |
| † Donelan, Michelle (<i>Chippenham</i>) (Con) | † Quin, Jeremy (<i>Horsham</i>) (Con) |
| † Dowd, Peter (<i>Bootle</i>) (Lab) | † Streeting, Wes (<i>Ilford North</i>) (Lab) |
| † Frazer, Lucy (<i>South East Cambridgeshire</i>) (Con) | † Stride, Mel (<i>Lord Commissioner of Her Majesty's Treasury</i>) |
| † Gauke, Mr David (<i>Financial Secretary to the Treasury</i>) | † Tolhurst, Kelly (<i>Rochester and Strood</i>) (Con) |
| † Hall, Luke (<i>Thornbury and Yate</i>) (Con) | Simon Patrick, Marek Kubala, <i>Committee Clerks</i> |
| † Hinds, Damian (<i>Exchequer Secretary to the Treasury</i>) | † attended the Committee |

Public Bill Committee

Thursday 30 June 2016

(Morning)

[SIR ROGER GALE *in the Chair*]

Finance Bill

(Except clauses 7 to 18, 41 to 44, 65 to 81, 129, 132 to 136 and 144 to 154 and schedules 2, 3, 11 to 14 and 18 to 22)

11.30 am

The Chair: Good morning, ladies and gentlemen. I have a few housekeeping announcements before we start the formal business of the day. Members may remove their jackets, if they wish to do so; normally we wait until the Chair has given permission. I remind Members that the only liquid allowed in the Committee Room is water. Please do not try to smuggle in—

Rob Marris (Wolverhampton South West) (Lab): Gin.

The Chair—coffee, because the Treasury will tax it. Please ensure that mobile phones are switched to silent mode or, preferably, off. I also remind all hon. Members that electronic devices are to be used for the purposes of Committee work, not for general communication with the outside world, however tempting that might be.

Mr Howarth and I will not, as a rule, call starred amendments—that means amendments that have been tabled without adequate notice. The notice period for Public Bill Committees is three working days. Any Member, whether a Front Bencher or a Back Bencher, who wishes to table an amendment should do so by the rise of the House on Monday for consideration on Thursday, and by the rise of the House on Thursday for consideration on Tuesday.

Not everyone is familiar with the procedures in Public Bill Committees, and even those who think they are sometimes find that they are not. I hesitate to say this, but that includes the occupants of the Chair, which is why we have the service of excellent Clerks to guide us through this stuff.

Yesterday, the Programming Sub-Committee met and agreed a programme for consideration of the Bill. It must be approved by the whole Committee, so the first thing that we will do is consider the programme motion, as on the amendment paper. The debate on that is limited to half an hour. Do not feel obliged to speak; the programme has been agreed by the usual channels, but if anyone wishes to make any opening remarks, that is fine.

The selection list for today's sittings is available and shows how the amendments have been selected for debate. This is quite an arcane process. Amendments are grouped for discussion by content, and are not considered in sequence. In a group, you will therefore find amendments that relate to a clause much further on in the Bill but that are to be debated much earlier,

because of the subject matter. You will find that the Chair—particularly if it is me—rattles through stuff, and you will want to say, “Hang on, I’ve missed this”, or “I wanted to vote on that.” Do not worry about it; we will ensure that you are told exactly. Some amendments will be debated early in the proceedings, but the votes on them—if there are any—will be taken much later, when we reach that part of the Bill.

We will call the leading name on any amendment, followed by anyone else who wishes to speak. If any Member wishes to catch my eye, or that of Mr Howarth, please try to indicate that; we do not have second sight. Given the timescale we are working to, we have to move quite fast. Once we have moved on, we cannot go back, so if you want to speak, please make sure that we know.

I am working on the assumption that the Government wish the Committee to reach a decision on all Government amendments. Where the selection list states “stand part”—that is, that that clause or whatever should stand part of the Bill—that permits a general debate, as well as debate on the individual amendments in the group. Mr Howarth may have his own views, but my view is that where there are only amendments in a group, we do not necessarily have to have a stand part debate. I much prefer people to get what they have to say off their chest early on, rather than to have a stand part debate, which tends to mean a rerun of what has been debated for the past two hours. We will try to avoid that.

There is one other thing, which is absolutely vital—almost more important than anything else—and that is these boxes behind me. You will find that you accumulate paper over the course of these sittings; that is why there are no rainforests left. These boxes are for you to store your papers in. They are named. They used to be red for the Finance Bill Committee—that was the only opportunity that some of us ever got to get our hands on a red box—but apparently we have run out, so I am afraid that they have to be green. Completely seriously, these boxes are for your use. Any papers left in them will be put in the cupboard and locked, so you do not have to lug them around the building with you. We aim to serve.

Finally, if anyone has any queries, do not be frightened; the Chair is not going to eat you, and neither are the Clerks. None of us has a monopoly on wisdom. If there is something that you do not understand, for goodness' sake please ask, and we will try to take you through it. I, at least, will probably make mistakes.

Without further ado, I call the Minister to move the programme motion in the terms agreed by the Programming Sub-Committee.

Ordered,

That—

(1) the Committee shall (in addition to its first meeting at 11.30am on Thursday 30 June) meet—

- (a) at 2.00 pm on Thursday 30 June;
- (b) at 9.25 am and 2.00 pm on Tuesday 5 July;
- (c) at 11.30 am and 2.00 pm on Thursday 7 July;
- (d) at 9.25 am and 2.00 pm on Tuesday 12 July;
- (e) at 11.30 am and 2.00 pm on Thursday 14 July;

(2) the proceedings shall be taken in the following order: Clauses 1 to 5, Schedule 1, Clause 6, Clause 19, Schedule 4, Clauses 20 to 22, Schedule 5, Clauses 23 to 39, Schedule 6, Clause 40, Clause 45, Schedule 7, Clauses 46 to 50, Schedule 8, Clauses 51 to 60, Schedule 9, Clauses 61 and 62, Schedule 10, Clauses 63 and 64, Clause 82, Schedule 15, Clauses 83 to 122,

Schedule 16, Clauses 123 to 128, Clauses 130 and 131, Clauses 137 to 141, Schedule 17, Clauses 142 and 143, Clause 155, Schedule 23, Clauses 156 to 168, Schedule 24, Clauses 169 to 172, Schedule 25, Clauses 173 to 179, new Clauses, new Schedules, remaining proceedings on the Bill;

(3) the proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00 pm on Thursday 14 July.—(*Mr Gauke.*)

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—(*Mr Gauke.*)

The Chair: Copies of any written evidence that the Committee receives will be made available to Committee members. We now commence line-by-line consideration of the Bill.

Clause 1

INCOME TAX CHARGE AND RATES FOR 2016-17

Rob Marris: I beg to move amendment 6, in clause 1, page 1, line 9, at end insert—

“(3) The Chancellor of the Exchequer shall, within three months of the passing of this Act, publish a report on the impact of setting the additional rate of income tax at 45% and at 50%.

(4) The report must estimate the impact of setting the additional rate for 2016-17 at 45% on the amount of income tax currently paid by someone with a taxable income of—

- (a) £150,000 per year;
- (b) £500,000 per year; and
- (c) £1,000,000 per year.

(5) The report must estimate the impact of setting the additional rate for 2016-17 at 50% on the amount of income tax currently paid by someone with a taxable income of—

- (a) £150,000 per year;
- (b) £500,000 per year; and
- (c) £1,000,000 per year.”

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

Rob Marris: On your opening remarks, Sir Roger, I wish that when I entered the House in 2001—I look around with some shock; I think that I entered the House before any other Committee member—someone had given me that explanation. That is not to say that I know it all, but it would have been helpful to have had that explanation when I started as a Member.

The amendment relates to the Chancellor publishing reports. To Committee members who are not familiar with the procedure—as ever, I stand to be corrected by the Chair on this—I say that the Opposition cannot table amendments that would put up taxes. It is therefore quite a common device for the Opposition to express disquiet about a particular course of action being proposed by a Government by means of an amendment asking the Government—often in the person of the Chancellor of the Exchequer, obviously—to prepare a report on a given subject some months or years down the line, so that there might be some evidence of the efficacy or otherwise of the disputed measure. That is, of course, what we seek to do through amendment 6.

It will not surprise Committee members that we on the Labour Benches—I cannot speak for the Scottish National party, of course—think that the highest rate of income tax should be 50%, as it used to be. We do not accept the overall medium-term accuracy of the figures propounded by the Government that suggest that the drop in the top rate from 50% to 45% was subject to a Laffer curve, whereby a greater sum was brought in even though the rate was lower. We do not accept that because, due to the change in rate, there was tax shifting, such that there was a bulge in receipts in one year, which was offset by lowered receipts in later years.

In our view, the Government have on occasion mistakenly cited the bulge year as evidence that a lower top rate of tax brought in a higher amount than a higher top rate of tax would have. They do that simply by quoting one year rather than a sequence of years, which is unfortunate in terms of getting clarity when discussing taxes. I could produce all kinds of evidence of that, but I do not wish to detain the Committee. However, we think that the top rate should be 50%, and amendment 6 seeks to pursue that point using the mechanism available to us as the official Opposition. [*Interruption.*]

The Chair: That is my phone. I am so sorry. It can happen to all of us.

The Lord Commissioner of Her Majesty's Treasury (Mel Stride): You may take your jacket off, Sir Roger.

The Chair: No, that is one thing the Chair never does. I call the Minister.

The Financial Secretary to the Treasury (Mr David Gauke): It is a great pleasure to serve under your chairmanship, Sir Roger, and I welcome you to the Chair. It is a great relief to see you here today; your guidance will be much appreciated by all the Committee members from right across the House.

Let me take this opportunity to say a bit about clause 1 as well as responding to amendment 6. Income tax is the Government's biggest revenue source, making up 32% of revenues in 2015-16. The annual charge legislated for by Parliament in the Finance Bill is essential for the tax's continued collection.

Clause 1 states that UK taxpayers will pay income tax at the same rates as in 2015-16, meaning that we meet our commitment to ensuring that there will be no increases to the main rates of income tax in this Parliament. When that is taken together with commitments on the personal allowance and the higher rate threshold, which I will come to, it means that we are delivering an income tax system in which working people on low and middle incomes receive tax cuts. The latest statistics show that the top 1% of earners have paid over 27% of income tax receipts—more than in any year under the last Labour Government.

Let me turn to amendment 6, which was tabled by the Opposition. As Finance Bill regulars will know, it is a familiar one. The amendment proposes that the Chancellor publish a report reviewing the impact of setting the additional rate of income tax at 45p and 50p within

[Mr David Gauke]

three months of the passing of the Act, and on the effect on the tax liabilities of typical individuals with annual incomes of over £150,000.

As I have said on a number of occasions, for such analysis to be credible, it needs to look at how such different income tax rates affect individual behaviour, for example through affecting work incentives. Simply looking at theoretical income tax liabilities when changing taxes is not enough. Further, this is something that anyone can do if they have the time and inclination.

The Government already consider the behavioural impact of decisions taken, as did the report by Her Majesty's Revenue and Customs on the additional rate, which was published at the 2012 Budget. That report concluded that the underlying yield from the introduction of the 50p rate was much lower than originally forecast, due to large behavioural effects. It even said that it is quite possible that the 50p rate could have reduced income tax revenue instead of increasing it. Indeed, the evidence so far is that despite the reduction of the additional rate, the top 1% of income tax payers are contributing a greater share of income tax receipts than in any year under the last Labour Government. In addition, the 50p rate was one of the most uncompetitive income tax rates in the G20. It would be illogical to re-introduce a tax rate that is ineffective at raising revenue from high earners.

On a practical level, the Government need to spend their resources effectively. The Treasury and Her Majesty's Revenue and Customs have no plans to introduce rolling annual reports on the impact of changes to tax rates. That notwithstanding, the Government always keep tax rates under review and monitor receipts. On that basis, the amendment is unnecessary.

We accept that income tax receipts can move from one year to another, and that there is a degree of flexibility as a consequence of changes to rates. We have always been clear that there is some income shifting in response to the changes to income tax rates, just as there was under the previous Government, when they introduced the additional rate of tax. We made it clear that we expected that to happen. However, it is clear that the 50p rate was distorting and an economically inefficient way of raising revenue. The latest statistics show that, following the reduction in the top rate of tax to 45p, the amount of tax paid by additional rate taxpayers is expected to grow from £46 billion in 2013-14 to £47.3 billion in 2016-17.

Clause 1 ensures that the Government can collect income tax for the year 2016-17. It means that the main rates of income tax faced by UK taxpayers will remain unchanged, and will help the Government to achieve their aim of a tax system that is fair for everyone, while rewarding those who want to work hard and progress. I therefore propose that the clause stands part of the Bill without the amendment proposed by the Opposition.

11.45 am

Rob Marris: I have nothing more to say on the clause, but I wish to press amendment 6 to a vote.

Question put, That the amendment be made.

The Committee divided: Ayes 10, Noes 13.

Division No. 1]

Blackman, Kirsty
Boswell, Philip
Cadbury, Ruth
Cooper, Julie
Dowd, Peter

AYES

Long Bailey, Rebecca
McGinn, Conor
Marris, Rob
Mullin, Roger
Streeting, Wes

NOES

Argar, Edward
Atkins, Victoria
Burns, Conor
Donelan, Michelle
Frazer, Lucy
Gauke, Mr David
Hall, Luke

Hinds, Damian
Mak, Mr Alan
Merriman, Huw
Quin, Jeremy
Stride, Mel
Tolhurst, Kelly

Question accordingly negated.

Clause 1 ordered to stand part of the Bill.

Clause 2

BASIC RATE LIMIT FOR 2017-18

Roger Mullin (Kirkcaldy and Cowdenbeath) (SNP): I beg to move amendment 3, in clause 2, page 2, line 4, at end add—

“(3) The Chancellor shall assess the effect on taxation revenue of increasing the basic rate limit in line with the Consumer Prices Index for 2017-18 and by no more than increases in that index until 2021-22.”

It is a great pleasure, Sir Roger, to be with you again in this Public Bill Committee. Last year I served on this very same Committee, and it led to one of the great interventions, which was of great assistance to me at the time. I hope that there is not the same occurrence this time. I can see that some hon. Members are rather confused; I will explain it to them later.

Some hon. Members will be aware that I raised a point of order in the House about whether, in the current circumstances—after the referendum—we should be proceeding as we are with the Bill. To my mind, more important things have occurred that need debating. None the less, we are here. I intend to adopt the rather rare, for me, practice of speaking in this Committee only when I have something to say. Our contributions may be slightly fewer than they were in the past, but they will be no less worthy—[*Interruption.*] How helpful I am.

This is a rather simple amendment, which we will not press to a Division, probing the Government on the proposed increase in the basic rate limit. Particularly at a time of austerity, when people are having to make such great sacrifices, the decision to give this boost to those with significantly above-average earnings strikes us as worthy of further explanation from the Government. The amendment is a sensible proposal that the Government report on and model what would happen if the rise in the basic rate limit was restricted to consumer prices index levels year after year. It is so self-explanatory that I need not detain the Committee any longer.

Mr Gauke: It is a great pleasure to respond to the hon. Gentleman. I note that he will speak only when he has something to say—an approach that he contrasted with that of the previous year. I feel that that is a little

harsh on his contributions last year, which were always valuable and welcomed by the Committee. No flies on him; that is the recollection of one or two of us.

Before turning to the amendment, let me say a word about clause 2, which sets the income tax basic rate for 2017-18. The change takes a significant step towards meeting my party's manifesto commitment to increase the threshold at which people pay the higher rate of tax. It will ensure that the Government continue to encourage those who want to progress, while lifting over half a million people out of the higher tax band altogether. This Government have already made significant progress on cutting taxes for working people and ensuring that those on the very lowest incomes pay no income tax at all.

In addition to supporting the low-paid, the Government are committed to supporting those on middle incomes who want to progress. The number of families who have to pay the higher rate of income tax has grown almost without fail over the past three decades. Upon its introduction in 1988, it was paid by around one in 18 taxpayers. Without the action taken at Budget 2016, it was projected to rise to one in six—that is more than 5 million individuals paying income tax at 40%. That is why we committed to increasing the point at which the higher rate of income tax is applied to £50,000 by the end of this Parliament. Summer Budget 2015 took the first steps to meeting that commitment, increasing the higher rate threshold from £42,385 in 2015-16 to £43,000 from April this year.

This Finance Bill goes further. Clause 2 will increase the basic rate limit from £32,000 in 2016-17 to £33,500 in 2017-18. That is the amount of income on which the 20% tax is due. The income tax higher rate threshold, which is the sum of the personal allowance and the basic rate limit, will therefore increase from £43,000 in 2016-17 to £45,000 in 2017-18. Above that level, 40% tax is due. That increase to the higher rate threshold will be the biggest above-inflation cash increase since it was introduced by Lord Lawson in 1988-89. By 2017-18, some 585,000 fewer individuals will be paying the higher rate of tax than did in 2015-16—a reduction of more than 10%. As a result, a higher number of taxpayers on modest incomes will benefit from a lower rate of tax, including our most highly qualified and experienced nurses and teachers.

The amendment requests that the Government report on the impact of increasing the basic rate limit in line with inflation, rather than increasing the basic rate limit as set out in clause 2. I can confirm that the cost to the Exchequer of increasing the basic rate limit to £33,500 was published in the 2016 Budget. As such, the relevant information is already freely available to the hon. Gentleman and to members of the public. I can also confirm, however, that not implementing the clause would mean increasing the income tax paid by some families by £220 in 2017-18, dragging more middle earners into paying the higher rate of tax and breaking an important manifesto commitment that the British people elected the Conservative party to deliver. I urge the Committee to reject the amendment.

The clause will allow the Government to make progress on our commitment to increasing the threshold at which people pay the higher rate of tax, while supporting those on middle incomes who want to progress. It will ensure that there are more than half a million fewer

higher rate taxpayers in 2017-18, compared with 2015-16, and will cut the income tax bill of millions of taxpayers on modest incomes. I commend the clause to the Committee.

The Chair: Mr Mullin, you now have the opportunity to respond. You must also indicate whether you wish to press your amendment to a vote or withdraw it.

Roger Mullin: I beg to ask leave to withdraw the amendment.

Rob Marris: I wanted to speak on stand part, not to the amendment.

The Chair: They are being taken together. We are on a learning curve.

Rob Marris: I did say at the beginning, Sir Roger, that there are always things to learn. I appreciate your understanding.

The Labour party welcomes clause 2 because there has been considerable fiscal drag under this Government. The Minister said that, without the clause correcting things, one in six taxpayers would pay the higher rate. When the previous Government, of which the Minister was a prominent part and in which he played a prominent role, took over, the proportion was around one in 12. Fiscal drag meant that the number of people paying higher rate tax doubled. Clause 2 will correct that, or at least move things in the right direction, so we support it.

The Chair: Now let us go back one pace, which we should not do but will.

Roger Mullin: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 2 ordered to stand part of the Bill.

Clause 3

PERSONAL ALLOWANCE FOR 2017-18

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

Mr Gauke: Clause 3 sets the income tax personal allowances for 2017-18. The change will help working people to keep more of what they earn, and it is a big step towards keeping our manifesto commitment to a £12,500 tax-free personal allowance by the end of the Parliament. The Government's record on personal allowances is already strong. Over the previous Parliament, the personal allowance increased by more than 60%, from £6,475 in 2010-11 to £10,600 in 2015-16. Our reforms have already taken 4 million people out of paying income tax altogether.

The Government want to go further by increasing the personal allowance to £12,500 by the end of the Parliament and by ensuring that no one working 30 hours a week on the national minimum wage pays any income tax at all. Clause 3 marks another significant step towards our meeting those commitments by raising the personal

[Mr Gauke]

allowance from £11,000 in 2016-17 to £11,500 in 2017-18—an increase of £500. The change made by the clause will ensure that 30 million people pay less tax in 2017-18 than at the start of this Parliament, with 1.3 million taken out of paying income tax altogether. Therefore, by April 2017, a typical basic rate taxpayer will pay over £1,000 less income tax than when we took office six years ago.

Clause 3 builds on the Government's determination to support those in work by ensuring that people can keep even more of the money they earn. It takes a significant step towards meeting our commitment to raise the personal allowance to £12,500 and means that more of the lowest-paid are taken out of paying income tax altogether. I commend the clause to the Committee.

Rob Marris: We support the clause, but I caution the Government that, in terms of the benefits it will produce for lower-income families, there is a law of diminishing returns, particularly for those who are in part-time paid employment. They will already be below the income tax threshold of £11,200, which the clause will raise to £11,500. That rise will not benefit such families at all.

I urge the Minister to look at reviewing national insurance contribution thresholds, so that there is greater alignment. I am not suggesting complete alignment, because it is a national insurance scheme and people receive certain benefits or prospective benefits in the comfort of knowing that, having paid national insurance contributions, they have a health service, unemployment benefits and disability benefits, were they to be injured at work and so on. They benefit from that insurance, even if they do not need to draw upon it, as they would hope not to—who wants to be unemployed or in hospital, or whatever?

The Government need to review the thresholds, because there is a growing discrepancy for low-income families between the relatively benign nature of the income tax regime and how national insurance contributions bite at much lower levels of income.

Question put and agreed to.

Clause 3 accordingly ordered to stand part of the Bill.

12 noon

Clause 4

SAVINGS ALLOWANCE, AND SAVINGS NIL RATE ETC

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

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

Clause 39 stand part.

That schedule 6 be the Sixth schedule to the Bill.

Mr Gauke: Clause 4 will introduce a personal savings allowance that means basic rate taxpayers can receive up to £1,000 of interest or other savings income without any tax being due. Higher rate taxpayers can receive up to £500. Because the vast majority of taxpayers will have no tax to pay on any of their savings income,

clause 39 will remove the requirement for banks and building societies to deduct tax from the account interest they pay.

As the Committee will be aware, over recent years low interest rates have helped households and businesses through difficult economic times by keeping mortgage payments down, but at the same time, low rates have made it difficult for people's savings to grow. Economists, including Nobel prize-winning economist James Meade and Sir James Mirrlees, have long pointed out that ordinary savings are over-taxed compared with other types of investment. The Government believe that in such circumstances it is right to reward and support savers by cutting the tax they pay on their savings. In addition, customer research has shown that individuals do not understand how their savings are taxed. As a result, many low-income savers were paying too much tax by not registering bank accounts for gross interest, even though they were eligible to do so. Simplification of the system is therefore long overdue.

The changes will benefit 18 million savers. From this year, 95% of taxpayers will no longer need to pay tax on their savings. With the personal allowance, dividends tax allowance and 0% starting rate for savings, it is now possible for a taxpayer to receive up to £22,000 of income without paying any tax at all, and that is on top of any income from ISAs. As well as providing a tax cut for millions of savers, the change also simplifies the rules. The vast majority of savers will have no tax deducted from their savings income and will have no tax to pay or reclaim. Most will therefore have no need to contact HMRC about their savings. Crucially, the change removes the possibility that lower-income savers will pay too much on their account interest.

For the minority who do still have tax to pay, most will declare their savings income by completing a tax return, as they currently do. In other cases, where a taxpayer does not complete a return, HMRC will collect tax through pay-as-you-earn, where possible. That will involve changing tax codes based on the information that customers or banks and building societies provide about account interest received or paid.

Clause 4 will introduce a new nil rate of tax for savings income within an individual's savings allowance. Each individual will have an annual savings allowance of £1,000, unless they have any higher rate income for the year, in which case their allowance will be £500, or any additional rate income, in which case their allowance will be nil. The allowance can be used for any of the individual's savings income. It also includes income from alternative finance arrangements, income equivalent to interest, purchased life annuity payments and gains from certain contracts for life insurance.

Clause 39 will remove the requirement for banks and building societies to deduct tax from the account interest they pay. The clause will add bonds offered by National Savings and Investments, including its highly successful 65-plus guaranteed growth bonds, to the list of products that pay interest without tax being deducted.

The changes made by those clauses will provide the most significant reform to the taxation of savings for a generation. That will reward and support millions of savers by reducing the tax they pay and provide a long-overdue simplification of tax rules that have been

poorly understood in the past. I therefore hope that the clauses will have the support of both sides of the Committee.

Rob Marris: I thank the Minister for that lucid explanation. I fear that this measure may not be the simplification that he prays in aid. Taken in reverse order, clause 39 is, in a welcome sense, rough and ready, with a £1,000 allowance or nil rate for basic rate taxpayers—call it what one will, but that is important for the accountants and I concede that I do not entirely understand the difference. For a higher rate taxpayer, that figure drops from £1,000 to £500. My understanding from a press release issued in February by the Low Incomes Tax Reform Group, to which I am indebted, is that the drop is a cliff edge, so someone who moves into the higher rate tax band finds their allowance suddenly drops from £1,000 to £500 on the tax at source proposals under clause 39.

If there is a cliff edge, I urge the Government to look at that again, though I appreciate that that is difficult when going for the rough and ready simplification that we broadly support. However, taking these sorts of measures together, it is not clear that there will be the simplification that the Opposition and the Government would wish for. There is often a balancing act when various measures interact, and we will come on to that.

On simplification, the Low Incomes Tax Reform Group fears—I understand this fear—that a number of taxpayers will find it difficult to disaggregate, work out and understand the interconnection between the tax-free savings allowance, the starting rate for savings and the tax-free £5,000 dividend allowance, which is all to do with what we used to call unearned income. That is a problem.

The cliff edge is a problem, though it may be one we have to accept for simplification. However, in terms of the interaction, I start to get quite questioning when the Minister helpfully gives us an example—he will correct me if I have got it wrong—where, in a certain confluence of circumstances, someone could have an income of £22,000 plus ISA income on top and be paying no income tax at all. In particular, later in the Bill—I cannot remember the clause but the Minister will—we will get on to heritable ISAs, which allow surviving spouses to take over ISAs and therefore have the benefit of the tax advantage of the deceased's ISAs.

We would all like those at the lower end of the income scale to get a better deal on income tax. That is what progressive tax is about. We might interpret how progressive it should be, as we did in clause 1, and so on, but as an overall concept, I think there is broad support for the progressive nature of income tax in our society as a measure of those with the broadest shoulders and so on. However, we have that example of someone who could have an income well above £22,000: because ISAs have been around for so long, there are people with £1 million in ISAs and all the income on that is tax free. That is quite legitimate and not immoral at all as any of us would see it; they just built it up year on year, using the ISA allowance for however many years ISAs have existed, which is perhaps 25 years. Because of the interaction of various measures, people can now have quite a substantial income and pay no income tax at all on it. I get a little bit uneasy about that, but overall we support clause 4 and clause 39.

Roger Mullin: This is a very important move by the Government, and we broadly welcome it for two main reasons. First, as the Minister has already rightly indicated from comments by people such as Professor Mirrlees and others, ordinary savings have been overtaxed for many years. Ordinary savings are increasingly important for a lot of people who have lived their working lives on modest incomes. For example, there was a demonstration yesterday by Women Against State Pension Inequality—the so-called WASPI women, many of whom have very modest savings. The measure is of some assistance, albeit small, to many of the people who are in the most vulnerable of circumstances. That must be welcomed.

Secondly, there is always the dilemma of simplification. When moving towards something that is relatively sophisticated, trying to simplify it normally introduces some hazards, so I am particularly interested in the Minister's response to the questions posed by Labour Front Benchers in that regard. On the whole, we think the right thing is being done, so we will support it.

Mr Gauke: I am grateful to both hon. Gentlemen for the points raised on these measures, and I am grateful to the hon. Member for Kirkcaldy and Cowdenbeath for his strong support. He is absolutely right on the concerns of the overtaxing of ordinary savings. The hon. Member for Wolverhampton South West essentially raised two concerns—one about cliff edges and one about circumstances that could involve a substantial amount of income on which no tax is paid. My first point is that both circumstances are likely to be pretty unusual.

First, the allowance has been set at a level at which 95% of savers will not have tax to pay on their savings income, so the question of a cliff edge simply does not apply for the majority of savers. Had we not designed it in such a way, and had there been a differential treatment in terms of the size of allowance for higher rate taxpayers versus basic rate taxpayers, I suspect the Committee would criticise us for the fact that the largest beneficiaries, in terms of the cash benefit, would be higher rate taxpayers and not basic rate taxpayers.

The design of the personal savings allowance means that no one can gain by more than £200 a year, regardless of their circumstances, which is an important means to ensuring that there is no disproportionate benefit to higher rate taxpayers. That is why there is a difference. Our concern is that trying to address the cliff-edge problem would add a degree of complexity to the tax system that would be unfortunate and disproportionate, given the nature of the issue that has been identified.

Secondly, I certainly do not deny that someone could have £22,000 of tax-free income with a combination of all the various policies in this area. That is absolutely true if we take into account the tax-free personal allowance, the starting rate for savings, the personal savings allowance and the dividend allowance. However, in reality that is an uncommon set of circumstances that we believe will be extremely rare. Again, it is not apparent to me how we could try to address that problem without adding considerable further complexity—for example, a system in which, if someone made use of one allowance, they could not use another allowance—and we would be rightly open to criticism for adding that unnecessary complexity to the system.

[Mr Gauke]

We are trying to end the distortive effects that we have had up to now, to come back to the comments of Professor Mirrlees and others on the effect of the existing taxation system on savings. That is why we have taken these decisions. I hope that that helps the Committee and that, notwithstanding the perfectly fair points made by the hon. Member for Wolverhampton South West, it will support these clauses.

Clause 4 ordered to stand part of the Bill.

Clause 5

RATES OF TAX ON DIVIDEND INCOME, AND ABOLITION OF DIVIDEND TAX CREDITS ETC

12.15 pm

Roger Mullin: I beg to move amendment 4, in clause 5, page 8, line 28, at end add—

“(12) The Chancellor of the Exchequer shall commission a review of how the changes to the tax on dividend income implemented by this Act affect directors of micro-business companies, to include—

- (a) the impacts across the distribution of directors’ net income;
- (b) whether company failure rates have been affected; and
- (c) whether the law could be amended to minimise the impact on directors with low income.

(13) The Chancellor shall report to Parliament about his findings within six months of the passing of this Act.”

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

Clause stand part.

Government amendments 127 to 133.

That schedule 1 be the First schedule to the Bill.

Roger Mullin: I have been very co-operative thus far, but we now come to an amendment that we feel very strongly about. Sir Roger, I need some advice on matters of procedure. We have very recently become aware of further information that we want to explore, so we will probably want to return to this amendment on Report, rather than fully deal with it here.

The Chair: In that case, let me advise the hon. Gentleman that, although it is perfectly proper to debate the amendment now, if he wants to return to it on Report he will need to withdraw it. If it is voted on here, the likelihood is that the Chairman of Ways and Means—it is not in my gift—will not select it for further debate. The trick is to talk about it now, withdraw it and see whether you can get a second bite of the cherry.

Roger Mullin: I am indebted to you once again, Sir Roger, for your very helpful explanations of the wonderful procedures of this House.

Let me explain, rather more briefly, precisely what our concerns are. Our concerns are predominantly about the effect that the clause will have on microbusinesses—businesses that employ between one and nine people. I was really surprised to find out that HMRC does not model for different sizes of businesses in this area.

I believe it has confirmed that in discussions. According to research that has been done by accountancy companies such as Crunch, there will be harm, or potential disbenefits, to some people who get very modest incomes indeed from running very small businesses. We want to ensure that, in encouraging proper taxation and an entrepreneurial climate, we do not unwittingly, through unintended consequences, put at hazard very new microbusinesses that are earning very modest sums of money indeed.

As I said, information is coming our way that we would like to explore further and do modelling on, so our intention is to withdraw the amendment and return to it on Report. I will leave my comments there.

The Chair: The withdrawal will come at the appropriate moment. [Interruption.] He really cannot have it all ways. For the moment, the question is that the amendment be made. It is even possible that another Member might wish to move it.

Rob Marris: If we are debating clause stand part, I have some remarks to make. As the hon. Member for Kirkcaldy and Cowdenbeath said, clause 5 will have potential effects on microbusinesses, which are referred to in the soon-to-be-withdrawn amendment. I have had a meeting with Jason Kitcat, who is a microbusiness ambassador for Crunch. I think the Minister is aware of that gentleman. My hon. Friend the Member for Hove (Peter Kyle) has met him, as has the hon. Member for Brighton, Pavilion (Caroline Lucas), because his business is in Brighton. He is a very persuasive individual. He is concerned about the effects of this measure on microbusinesses. People who are running a successful microbusiness and who have an income of that kind of level would see a much greater drop than those who are further up the income scale. I am not an accountant, but Mr Kitcat’s analysis is that the proposals in clause 5 and schedule 1 are regressive. If that is the case, it is worrying.

As I understand it, that is also the position of the Federation of Small Businesses. Its submission to the Economic Affairs Finance Bill Sub-Committee in the other place stated that these measures had

“caused substantial disquiet amongst FSB members. This is especially acute from members on modest incomes who, unlike their employed counterparts, will now see a rise in their tax liabilities. Despite these impacts, FSB is yet to see the distributional analysis work and we understand that unlike with previous Budgets, this information will not be released.”

There is a broader point here, to which the Library research helpfully draws attention, about changes in the way the Government release information about the distributional analysis of impacts of Budgets. For this Chancellor’s first Budget in June 2010, the coalition Government published the distribution analysis of its projected impact. That approach from the Treasury has changed. There is a new analytical framework that uses different metrics, which is troubling because it discloses less information than the old methodology.

I hope that, in response, the Minister will comment on the possible effects on microbusinesses, particularly the apparently regressive nature of this measure, and will allay the concerns of the Federation of Small Businesses.

Mr Gauke: Clause 5 and schedule 1 make changes to the taxation of dividends by abolishing the dividend tax credit and introducing a new £5,000 tax-free dividend allowance. They will also set the tax rates charged on dividend income above the dividend allowance at 7.5% for dividend income within the basic rate band, 32.5% for dividend income within the higher rate band, and 38.1% for dividend income within the additional rate band. The dividend trust rate will also be increased to 38.1% and so will continue to mirror the highest rate of dividend tax. These changes will raise more than £2.5 billion a year by the end of this Parliament. As well as helping to reduce the deficit, these reforms have enabled the Government to reduce corporation tax by addressing the growing incentive for individuals to incorporate in order to lower their tax bill.

The reforms also offer much-needed simplification to an outdated, opaque and complex system. The current system of tax credits on dividends is a legacy from the days of advance corporation tax, which some Members may remember. That system was designed more than 40 years ago, when corporation tax was more than 50% and the total tax bill on dividends for some people was more than 80%. Tax rates have fallen significantly since then and advance corporation tax has been abolished. Since the dividend tax credit was made non-payable, leaving it as a notional tax credit for use only in tax computations, it has been an outdated and complex feature of the tax system. The Government, along with the Office of Tax Simplification, have worked hard to simplify the tax code across a wide range of areas, and we will continue to do so over the remainder of this Parliament. Clause 5 forms part of that agenda.

The reforms enacted by clause 5 also play their part in the Government's long-term economic plan. Since 2010 the Government have presided over significant reductions in corporation tax in order to support investment and growth. That is a central part of the Government's economic strategy. The strategy is working: 2.25 million jobs have been created by the private sector since 2010. Overall, cuts to corporation tax delivered since 2010 will be worth almost £15 billion a year to business by the end of this Parliament.

However, lowering corporation tax does increase the incentive for people to incorporate and remunerate themselves through dividends rather than salary. That behaviour already creates a significant cost to the Exchequer. The Office for Budget Responsibility estimates that new incorporations will cost an additional £2.4 billion a year by the end of the Parliament. Without these changes to dividend tax, the OBR estimates that the cost of the new incorporations will be nearly £800 million higher a year by 2020, making these reforms an important part of this Government's fiscal plan to reduce the deficit.

Clause 5 will spell the end of the dividend tax credit, replacing it with a much simpler tax-free dividend allowance. In practice, that means that, beyond that allowance, the headline rates of dividend tax will be the rates of tax that are actually paid. Clause 5 will also set the dividend tax rates, as outlined in my introduction, and schedule 1 will make consequential amendments required to introduce these changes.

As a result of these changes, around one million individuals will benefit from a tax reduction on their dividend income and 95% of all taxpayers will either gain or be unaffected. The new £5,000 dividend allowance

will protect ordinary investors, meaning that only those with significant amounts invested in shares, or who take a significant part of their income as dividends, will pay more tax.

The Government have tabled seven amendments to schedule 1. The amendments result from technical oversights during the drafting process and will not materially affect the measure. Amendment 127 will stop tax being treated as paid on certain types of income received on shares held in an estate. That will align the taxation of that income with other taxpayers and other types of income received by the estate. Beneficiaries will be given a credit for the tax relief paid on their income. Overall, the change will not increase the tax that is due.

Amendment 128 will ensure that all company distributions received by members of partnerships will continue to be taxed on the tax year basis, rather than by reference to the partnership's accounting period. That will provide consistency of treatment for all partnerships receiving that type of income, and remove the need for more complicated transitional rules.

Amendment 130 will ensure that the beneficiary of a trust receives full credit for all the tax already paid by the trustee. That will prevent income being taxed twice. Amendments 129, 131 and 133 are consequential amendments following those first three changes.

Amendment 4 would require the Chancellor to report to Parliament on the impact of the dividend tax reforms on the incomes of directors of microbusinesses within six months of the passing of the Bill. That would require information from the self-assessment process that would not be available until 2018, so the amendment would be impossible to deliver in practice.

More fundamentally, small company owners have benefited from a range of recent tax changes made by the Government, including, for example, cuts to corporation tax and business rates, and the introduction of the employment allowance. The Government therefore believe that it would paint only a partial picture to examine just the impact of the dividend tax changes. Of course, the Government keep all tax policy under review and assess its impact on an ongoing basis.

It is customary at this point for me to try to urge the hon. Member for Kirkcaldy and Cowdenbeath to withdraw his amendment. Perhaps on this occasion I should not urge him to withdraw the amendment but urge the Committee to reject his amendment. That is very much in his hands.

I will briefly pick up a couple of points made by hon. Members. I was asked why we have not undertaken a full assessment of the impact on owners of microbusinesses. I would just point out HMRC does not have ready access to data on owners of microbusinesses as a specific group of firms to enable a separate assessment for this group in advance of the measure taking effect. However, the Government have considered the general economic impact of the changes. As the tax information impact note sets out, the measure is not expected to have any significant macroeconomic impacts.

Ruth Cadbury (Brentford and Isleworth) (Lab): Will the Minister give way?

Mr Gauke: I will give way, but I hope the Committee will forgive me if I remain standing, to save me any difficulties with sitting down and standing up more often than I need to.

Ruth Cadbury: It is a pleasure to serve under your chairmanship, Sir Roger. I certainly do not want to cause the Minister any further pain; I sympathise with him about the state of his back.

Many people in my constituency run microbusinesses. I am pleased to hear that the Minister and his advisers do not believe that the measure will have any fiscal impact. However, I am concerned, and I look forward to hearing from him about the likely impact on the behaviour and choices of people running microbusinesses. We all want those businesses to succeed and thrive, and to move on to employ more people. I hope that the Treasury is doing research and is taking advice from organisations such as the Federation of Small Businesses.

12.30 pm

Mr Gauke: I am grateful for the hon. Lady's concern about my back, which is appreciated.

I want to reiterate a point I made earlier, which is that one behavioural impact of the current tax system is that it tends to encourage people to incorporate. The tax system tends to favour incorporated microbusinesses over those that are unincorporated. It is not obvious that that should happen.

The other point, of course, is that we continue to be engaged with organisations such as the FSB, and the Government have done a lot to support microbusinesses. However, one behavioural effect in the light of what has happened with corporation tax reductions, which I strongly defend, is that people who otherwise would not incorporate have been doing so. Often they face burdens and form-filling that they probably do not want, but they incorporate for an understandable reason: to take advantage of a more beneficial tax regime. However, I think that we should seek to rebalance that, if I may put it that way.

I, too, have met Jason Kitcat of Crunch Accounting. We have looked at his analysis and there are some complicated issues with regard to the impact of the changes. However, I reiterate that the dividend tax remains progressive overall. Those with higher incomes will pay more tax on their dividends than those on lower incomes. Achieving a perfectly smooth result would require a more complex system, and that is why we have not gone down that route. However, we continue to be engaged. I hope that I have provided the Committee with some reassurance.

Roger Mullin: I thank the Minister for his comments, some of which have been helpful, although they have not fully persuaded me that the Government have fully thought through the impact on microbusinesses. There are many reasons why very small business operators might choose to move from being unincorporated to being incorporated. For example, if such businesses have wide seasonal fluctuations in income, it is one way of adapting their way of taking income out of the business—without having to take out a regular income in the traditional way. That is only one of many reasons why a company might make that decision.

I am grateful to the Minister for his explanation. Although I shall withdraw the amendment, I intend to return to the matter on Report. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 5 ordered to stand part of the Bill.

Schedule 1

ABOLITION OF DIVIDEND TAX CREDITS ETC

Amendments made: 127, in schedule 1, page 259, line 20, at end insert—

In section 651 (meaning of “UK estate” and “foreign estate”)—

- (a) in subsection (4), for “680(3) or (4) (sums” substitute “664(2)(c) or (d) or 680(4) (sums not liable to tax and sums”, and
- (b) in subsection (5), for “680(3) or (4)” substitute “664(2)(c) or (d) or 680(4)”.

In section 657 (tax charged on estate income from foreign estates), for “680(3) or (4)”, in both places, substitute “680(4)”.

In section 663 (applicable rate for purposes of grossing-up under sections 656 and 657), after subsection (4) insert—

- (5) The aggregate income of the estate, so far as it consists of income within section 664(2)(c) or (d), is treated for the purposes of this section as bearing income tax at 0%.”

In section 670 (applicable rate for purposes of Step 2 in section 665(1)), after subsection (4) insert—

- “(4A) The aggregate income of the estate, so far as it consists of income within section 664(2)(c) or (d), is treated for the purposes of this section as bearing income tax at 0%.”

In section 680 (income of an estate that is treated as bearing income tax)—

- (a) in subsection (2) omit “(3) or”, and
- (b) omit subsection (3) (sums treated as bearing tax at the dividend ordinary rate).

In section 680A (estate income treated as dividend income), in each of subsections (1)(a) and (4)(a), after “at the dividend ordinary rate” insert “or as bearing tax at 0% because of section 663(5)”.

Amendment 128, in schedule 1, page 259, line 20, at end insert—

In section 854(6) (carrying on by partner of notional business: meaning of “untaxed income”)—

- (a) omit the “or” at the end of paragraph (b), and
- (b) after paragraph (c) insert—
 - “(d) income chargeable under Chapter 5 of Part 4 (stock dividends from UK resident companies), or
 - (e) income chargeable under Chapter 6 of Part 4 (release of loan to participator in closed company).”

Amendment 129, in schedule 1, page 265, line 31, at end insert—

- () in paragraph (b), for “680(3)(b) or (4)” substitute “680(4)”, and”

Amendment 130, in schedule 1, page 265, line 39, at end insert—

() In section 498 (discretionary payments by trustees: types of tax to be included in trustees' tax pool)—

- (a) in subsection (1)—
 - (i) in Type 1 (tax at special rates for trustees on income not attracting tax credits), omit “2, 3 or”, and
 - (ii) omit Types 2 and 3 (tax at dividend trust rate on income attracting dividend tax credits), and
- (b) omit subsection (2) (interpretation of Types 2 and 3).”

Amendment 131, in schedule 1, page 269, line 8, at end insert—

- () the amendments in section 854(6) of ITTOIA 2005,”

Amendment 132, in schedule 1, page 269, line 9, leave out “sections 425,” and insert “section 425 except the amendment in section 425(5)(b), and the amendments in sections 498.”

Amendment 133, in schedule 1, page 269, line 33, at end insert—

() The amendments in sections 651 to 680A of ITTOIA 2005 (but not the repeal of section 680(3)(a) of that Act) and the amendment in section 425(5)(b) of ITA 2007—

- (a) so far as they relate to income within section 664(2)(c) of ITTOIA 2005 (stock dividends), have effect in relation to stock dividend income treated as arising in the tax year 2016-17 or at any later time, and
- (b) so far as they relate to income within section 664(2)(d) of ITTOIA 2005 (release of loans), have effect in relation to amounts released or written off in the tax year 2016-17 or at any later time.”—(*Mr Gauke.*)

Schedule 1, as amended, agreed to.

Clause 6

STRUCTURE OF INCOME TAX RATES

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

Mr Gauke: Clause 6 separates the rates of income tax that apply to savings income from the main rates of income tax. These changes ensure that the Government meet their commitment to guaranteeing that MPs representing constituencies in England, Wales and Northern Ireland are given the decisive say on any income tax rates that affect only their constituents. As hon. and right hon. Members are aware, earlier this year the Scotland Act 2016 received Royal Assent. It provides the Scottish Parliament with unprecedented powers over income tax, including the ability to determine the rates of income tax on earned income at the points at which those apply to Scottish taxpayers.

The fiscal framework agreed by the UK and Scottish Governments confirms that the powers will take effect in 2017-18. This means that from April 2017 Members of the Scottish Parliament will have the final say on Scottish income tax. As a matter of fairness, it is only right that, once these powers come into force, MPs in England, Wales and Northern Ireland are given the decisive say over rates of income tax that affect only their constituents.

The clause separates out the main rates of income tax into three distinct groups in order to meet this objective. The main rates will continue to apply to non-savings, non-dividends income, such as employment, pensions and property income, for taxpayers in England, Wales and Northern Ireland. The savings rates will apply to savings income of all UK taxpayers. The default rates will apply to a limited category of income tax payers who will not fall into either of these two categories; the category is made up primarily of non-residents and some trustee income. This will mean that, from April 2017, changes to the main rates of income tax will no longer affect Scottish taxpayers. Changes to the savings rates or default rates will continue to remain a reserved matter for the UK Government, in line with the recommendations of the Smith commission.

The clause will meet the Government’s commitment to ensuring that English votes for English laws applies to income tax. As a result, following the Finance Bill

2017, MPs representing constituencies in England, Wales and Northern Ireland will have a decisive say on the main rates of income tax that affect only their constituents.

Rob Marris: I appreciate the recommendation of the Smith commission, but the clause simply introduces a further layer of complication to the overall tax regime in the United Kingdom—we are still the United Kingdom, of course. As I understand it, we are now almost back to how it was in my youth—and, I suspect, yours as well, Sir Roger—with the differential rates on earned and unearned income and all that sort of stuff, because EVEL is now bleeding into the income tax regime, depending on whether a certain source of income is a reserved or a devolved matter.

I tend to agree with my hon. Friend the Member for Rhondda (Chris Bryant), the former shadow Leader of the House, who called the current EVEL procedure an “incomprehensible mess”. I also tend to agree with the Chair of the Procedure Committee, the hon. Member for Broxbourne (Mr Walker), who described the proposals as “over-engineered”. It will get incredibly messy unless there is full fiscal devolution—another debate we may or may not get on to today.

On a technical matter, I am indebted to the Chartered Institute of Taxation, as I suspect many hon. Members are, for its helpful suggestions, and this is an arena in which we get to put forward some of its suggestions. One of its technical suggestions is about the table in clause 6. It wonders whether including a table of rates in the statute, which is introduced as having a general effect, might as a matter of statutory interpretation cause issues if the general effect conflicts with a specific effect of other provisions. I hope the Minister can come up with a short piece on that, as regards statutory interpretation.

Kirsty Blackman (Aberdeen North) (SNP): We argued against English votes for English laws all the way through. It was a dreadful initiative. The Government intend to reassess English votes for English laws at the end of this year and look at how it has worked, so I think we might be jumping the gun on some of the income tax measures. I will not move against them, but this is possibly doing things a bit too soon. Obviously, we will have our own Scottish rate of income tax, which we can set; it is fabulous that the devolved Administration will be able to do that. However, Scottish MPs will be excluded from discussions on income tax—a major, serious part of the Finance Bill—and that further compounds the difference between Scottish MPs and English and Welsh MPs in this House. The impression given to the general public by the change in the law to enable that to happen will be even worse, and that will hasten the break-up of the United Kingdom.

Mr Gauke: First, I will respond to the hon. Lady. I have certainly heard the comment by the likes of the hon. Member for Perth and North Perthshire (Pete Wishart) that the people of Scotland could not care less about English votes for English laws. He changed his position, and then found himself somewhat outraged by EVEL.

It is perfectly reasonable that when measures affect one part of the UK but not another, those MPs who represent the constituencies affected by it are able to

[Mr Gauke]

express their views on it and vote on it, and that any such measure should have the support of people representing that part of the UK.

Kirsty Blackman: I understand that the issue is whether or not a measure affects people in those areas, but will the Minister not concede that changes on income tax rates might have a knock-on effect, albeit indirect, on people in Scotland, particularly those who live around the borders?

Mr Gauke: I suppose that is true, but if one wanted to follow the logic of that argument through, independence for Scotland would certainly have a very significant knock-on effect on people living south of the border, and I suspect that the hon. Lady does not advocate any future referendum on that issue requiring the consent of the whole of the United Kingdom. Sir Roger, we could debate this matter for some time, but I suspect the Committee's appetite to do so is not great.

I do not think that this measure particularly adds to complexity. Non-savings income and non-dividend income, such as employment income, are already taxed differently from other sources of income, such as savings and dividends, so separating out in legislation the rates of income tax on non-savings and non-dividend income from savings will not introduce any real additional complexity. Employees, individuals and pension providers will see no changes to the level of tax paid or the way they pay tax as a result of legislation being introduced in the Finance Bill to separate out the main rates of income tax.

On the specific technical point made by the hon. Member for Wolverhampton South West, if I may, I will write to him on that.

Question put and agreed to.

Clause 6 accordingly ordered to stand part of the Bill.

Clause 19

STANDARD LIFETIME ALLOWANCE FROM 2016-17

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

The Chair: With this it will be convenient to discuss that schedule 4 be the Fourth schedule to the Bill.

Mr Gauke: Clause 19, together with schedule 4, reduces the lifetime allowance from £1.25 million to £1 million from April 2016. This change will restrict the benefits of pensions tax relief for the wealthiest pension savers, ensuring that the pensions tax system is fair, manageable and affordable.

Pensions tax relief is one of the Government's most expensive reliefs. In 2013-14, the Government spent or forwent revenue of more than £34 billion on income tax relief for pensions. That has increased from £17.6 billion in 2001. About two thirds of pensions tax relief currently goes to higher and additional rate taxpayers. In the last Parliament, we took steps to control that cost, in order

to ensure that pensions tax relief is appropriately targeted. This clause takes further significant steps to help us achieve that.

As I have said, the changes made by clause 19 will reduce the lifetime allowance from £1.25 million to £1 million. As I have also said, the lifetime allowance is the maximum amount of tax relief on pension savings that an individual can build up over a lifetime. Only 4% of individuals who are currently approaching retirement have a pension pot worth more than £1 million; reducing the allowance will make sure that the wealthiest pension savers do not receive a disproportionate benefit from the pensions tax system. However, it would be unfair for the lifetime allowance to be eroded by future inflation, so the clause also makes provision for the lifetime allowance to be uprated in line with the CPI from 2018, which will maintain fairness between those retiring this year and those retiring in the future.

12.45 pm

Clause 19 also introduces two transitional protection schemes for those affected by the reduction of the lifetime allowance. These will protect individuals who have saved on the basis that the lifetime allowance would be at least £1.25 million, who have UK tax-relieved pension rights of more than £1 million, or who think that they will have rights of more than £1 million by the time they come to take their pension benefits. Two types of protection are available: fixed protection 2016 and individual protection 2016.

The details of the protection regimes are set out in schedule 4. Individuals applying for fixed protection 2016 will have their lifetime allowance protected at £1.25 million after 5 April 2016, regardless of the value of their pension savings on that date, which means that if their pension pot gains value, they will not be subject to the lifetime allowance charge unless the value is greater than £1.25 million. Individual protection 2016 is intended to help those who would not be able to receive their employer contribution as additional income if they stopped saving into their pension scheme. Individuals applying for individual protection 2016 will have a protected lifetime allowance equal to the amount of any pension savings they had on 5 April 2016, subject to an overall maximum of £1.25 million. Individuals will be able to apply for both individual and fixed protection 2016; when they hold both, fixed protection 2016 will take precedence. These protections are intended to ensure that the reduction of the lifetime allowance does not inadvertently advantage or disadvantage certain individuals.

In conclusion, the Government believe that this approach is a fair and balanced way to reduce the cost of pensions, tax-free; indeed, it is estimated that the measure will save almost £2 billion by the end of this Parliament. In addition, it limits the benefit that the wealthiest pension savers can receive, while maintaining fairness between people retiring now and people retiring in the future.

Rob Marris: Oh, I do wish I could declare an interest in this clause.

We welcome the transitional protections—the fixed protection and the individual protection—and, indeed, the clause's overall architecture. Schedule 4, though—not many of us are that technical about this stuff, but schedule 4 runs to 17 pages. Talk about complexity in the tax regime!

On the overall approach, I am delighted that the Government are moving in a direction that I urged on the Labour Government back in 2002, when the forgone revenue was £18 billion a year, from memory—it was £17.6 billion in 2001, as the Minister said—first because the pension tax regime is very regressive, and secondly because there was no evidence then that that tax relief encouraged people to save for pensions. Earlier this year I checked with the Library for an update on the situation, and it could find hardly any evidence that the forgone tax revenue, which is now £34 billion per year, encourages the very behaviour it is intended to encourage. It is probably the biggest single tax relief in the whole tax regime; it is regressive; and it does not do what it is intended to do. This pottiness continues, though clause 19 and schedule 4 make some welcome steps in the right direction.

I have a more minor point, connected to HMRC's cuts in staff numbers—although those have increased a bit—and its unfortunate proposal to close a whole load of offices. The tax information and impact note published on 9 December 2015 estimated that the additional cost to HMRC of administering and monitoring the protection regimes would be £2.4 million for IT and—get this—£500,000 for staff resources over a five-year period. On average, that is £100,000 a year in extra staffing costs due to the protection regime.

Perhaps the Minister can assure me that I am misinterpreting the situation. If not, HMRC is living in a different world. As he pointed out, 4% of individuals might be caught by having a pension pot approaching or exceeding £1 million, and therefore might face the protection regime, whether fixed or individual. That 4% of pensioners is not just a whole lot of people, but people with around £1 million in their pension pot. They are likely to be some of the most educated and articulate pensioners, or prospective pensioners, and are certainly some of the most prosperous. I may be misinterpreting this, but does HMRC really think that an average of £100,000 a year in additional staffing costs will deal with the protection regime, the queries arising from it and so on? How will that 4% of pensioners or prospective pensioners who are likely to raise queries, quite properly, with HMRC be dealt with on £100,000 a year?

Mr Gauke: This is an area where HMRC has some experience, from making changes to the lifetime allowance. It is therefore in a position to assess how many customer contacts it will receive and is well placed to assess the various demands likely to result from the transitional arrangements. It is also worth pointing out that HMRC is moving to digital processes, allowing the organisation to reduce numbers and making processes simpler and easier to use, so that individuals can self-serve. I argue that the assessment was made in good faith, based on previous experience.

Rob Marris: I will enable the Minister to gather his thoughts. The figure that I have devolved upon—I appreciate that it is an average; £500,000 over five years is £100,000 a year—is, very roughly, three members of staff, depending on their seniority and so on. That is three members of staff dealing with, potentially, thousands of prospective pensioners of the sort who will, quite properly, get in contact. It does not seem enough. Am I missing something in the equation? Technology alone will not solve it.

Mr Gauke: On the ability to cope with additional phone calls and so on, let us remember that in some cases these people will be well advised. The hon. Gentleman makes the point that, often, they will be the people best placed to understand the changes, and many will also be well placed to make use of new technology. On the demands likely to be placed on HMRC over the next few years, it is difficult to argue that they are likely to be particularly significant. To make a point that applies more widely than the transitional regime, this is similar to what we have done in the past and there is some experience of how it will operate, so I think that it is reasonable.

HMRC will keep the matter under review. If there is evidence that further resources are needed to deal with it, then of course resources will be redeployed in that area. With that reassurance, I hope that this measure will have the support of the Committee.

Question put and agreed to.

*Clause 19 accordingly ordered to stand part of the Bill.
Schedule 4 agreed to.*

Clause 20

PENSIONS BRIDGING BETWEEN RETIREMENT AND STATE PENSION

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

Mr Gauke: Clause 20 makes changes to help align the tax rules on the payment of bridging pensions for the introduction of the single-tier state pension. As the Committee will know, bridging pensions are paid by some occupational pension schemes for members who start to receive their scheme pensions but are yet to reach state pension age. The purpose is to level the amount of regular income that some members receive from the date they retire. When the individual reaches state pension age, their scheme pension is reduced by approximately the level of the state pension, thereby providing the individual with a level income throughout retirement.

Currently, the maximum amount by which the bridging pension can decrease is calculated by reference to the old state pension applied prior to April 2016. If no change were made to the legislation, any reductions made for members entitled to the new single-tier pension could result in unintended tax consequences for the individual concerned. The changes made by the clause, together with forthcoming regulations, will therefore enable schemes to reduce bridging pensions in an appropriate way when the members concerned become entitled to the single-tier state pension. The clause will allow pension schemes to continue to provide their members with a bridging pension from retirement to state pension age, which will provide individuals with a level income throughout retirement and prevent any unintended tax charges.

Question put and agreed to.

Clause 20 accordingly ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned.—(Mel Stride.)

12.56 pm

Adjourned till this day at Two o'clock.

