

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

(Except clauses 5, 15 and 25 and certain new clauses and new schedules)

First Sitting

Tuesday 17 October 2017

(Morning)

CONTENTS

Programme motion agreed to.
Written evidence (Reporting to the House) motion agreed to.
CLAUSES 1 TO 4 and 6 TO 9 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

Saturday 21 October 2017

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The Committee consisted of the following Members:

Chairs: † MR GEORGE HOWARTH, MR CHARLES WALKER

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| † Afolami, Bim (<i>Hitchin and Harpenden</i>) (Con) | † Hughes, Eddie (<i>Walsall North</i>) (Con) |
| † Blackman, Kirsty (<i>Aberdeen North</i>) (SNP) | † Lee, Ms Karen (<i>Lincoln</i>) (Lab) |
| † Burghart, Alex (<i>Brentwood and Ongar</i>) (Con) | † Linden, David (<i>Glasgow East</i>) (SNP) |
| † Cleverly, James (<i>Braintree</i>) (Con) | † Maclean, Rachel (<i>Redditch</i>) (Con) |
| † Creasy, Stella (<i>Walthamstow</i>) (Lab/Co-op) | † O'Brien, Neil (<i>Harborough</i>) (Con) |
| † Dodds, Anneliese (<i>Oxford East</i>) (Lab/Co-op) | † Smith, Jeff (<i>Manchester, Withington</i>) (Lab) |
| † Dowd, Peter (<i>Bootle</i>) (Lab) | † Stride, Mel (<i>Financial Secretary to the Treasury</i>) |
| † Fernandes, Suella (<i>Fareham</i>) (Con) | † Stuart, Graham (<i>Beverley and Holderness</i>) (Con) |
| † George, Ruth (<i>High Peak</i>) (Lab) | |
| † Ghani, Ms Nusrat (<i>Wealden</i>) (Con) | Colin Lee, Jyoti Chandola, <i>Committee Clerks</i> |
| † Hopkins, Kelvin (<i>Luton North</i>) (Lab) | † attended the Committee |

Public Bill Committee

Tuesday 17 October 2017

(Morning)

[MR GEORGE HOWARTH *in the Chair*]

Finance Bill

(Except clauses 5, 15 and 25 and certain new clauses and new schedules)

9.25 am

The Chair: Before we begin, perhaps I should make a few preliminary announcements, which may be helpful to the Committee. Members may, if they wish, remove their jackets during Committee sittings. I remind them that no refreshments other than the water provided should be consumed in the Room. Please would all Members ensure that mobile phones, pagers and so on are turned off or switched to silent mode during sittings. Document boxes are provided, for Members to keep their Bill papers in between sittings if they wish. It would be much appreciated if they could return the boxes to the cupboard at the end of the sitting.

As a general rule, my fellow Chair and I do not intend to call starred amendments that have not been tabled with adequate notice. The required notice period in a Public Bill Committee is three working days; therefore amendments should be tabled 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 procedure in Public Bill Committees, so it may be helpful if I briefly explain how we will proceed. The Committee will first be asked to consider the programme motion on the amendment paper, for which debate, if it is required, is limited to half an hour. We will then proceed to a motion to report any written evidence. Then we will begin line-by-line consideration of the Bill.

The selection list for today's sitting, which is available in the Room, shows how the amendments selected for debate have been grouped together for debate. Amendments grouped together are generally on the same or a similar and related issue. The Member who has put their name to the leading amendment in the group is called first. Other Members are then free to catch my eye in order to speak to the amendments in that group. A Member may speak more than once, depending on the subjects under discussion. At the end of the debate on the group of amendments, I will call the Member who moved the lead amendment again. Before they sit down, they will need to indicate whether they want to withdraw the amendment or seek a decision. If any Member wants to press any other amendment in the group to a Division, they will need to let me know in advance.

The assumption is that the Government wish the Committee to reach a decision on all Government amendments. Please note that decisions on amendments take place not in the order they are debated, but in the

order in which they appear on the amendment paper. Decisions on new clauses will therefore be taken at the conclusion of line-by-line consideration of the Bill.

Where a group includes the words "clause stand part", that means that Members should make any remarks they want to about the content of the clause during the course of the debate. There will then be no separate debate on the question that the clause should stand part of the Bill. Where it is already indicated on the selection list, Mr Walker and I will use our discretion to decide whether to allow a separate stand part debate on individual clauses or individual schedules. Clause stand part debates begin with the Chair proposing the question that the clause shall stand part of the Bill. There is no need for the Minister or any other Member to move that the clause stand part of the Bill.

Ordered,

That—

(1) the Committee shall (in addition to its first meeting at 9.25 am on Tuesday 17 October) meet—

- (a) at 2.00 pm on Tuesday 17 October;
- (b) at 11.30 am and 2.00 pm on Thursday 19 October;
- (c) at 9.25 am and 2.00 pm on Tuesday 24 October;
- (d) at 11.30 am and 2.00 pm on Thursday 26 October;

(2) the proceedings shall be taken in the following order: Clauses 1 to 4; Clauses 6 to 14; Schedule 1; Clause 16; Schedule 2; Clause 17; Schedule 3; Clause 18; Schedule 4; Clauses 19 and 20; Schedule 5; Clause 21; Schedule 6; Clauses 22 to 24; Schedule 7; Clauses 26 to 29; Schedule 8; Clauses 30 and 31; Schedule 9; Clauses 32 and 33; Schedule 10; Clause 34; Schedule 11; Clause 35; Schedule 12; Clauses 36 to 55; Schedule 13; Clauses 56 to 61; Schedule 14; Clauses 62 and 63; Schedule 15; Clauses 64 and 65; Schedule 16; Clause 66; Schedule 17; Clause 67; Schedule 18; Clauses 68 to 72; 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 26 October.—*(Mel Stride.)*

Resolved,

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

The Chair: Copies of any written evidence that the Committee receives will be available to Committee members.

Clause 1

TAXABLE BENEFITS: TIME LIMIT FOR MAKING GOOD

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

The Financial Secretary to the Treasury (Mel Stride): May I say at the outset what a pleasure it is to serve under your chairmanship, Mr Howarth? I look forward to serving under the chairmanship of Mr Walker in due course, and to having a constructive and positive engagement with all Committee members over the next couple of weeks.

Clause 1 makes changes to ensure that there is a clear and consistent date for making good on non-payrolled benefits in kind. Those changes will provide greater clarity and help employers and employees to understand their obligations.

As the Committee will be aware, a benefit in kind is a form of non-cash employee remuneration. The cash equivalent of a benefit in kind is subject to tax and employer national insurance contributions. Making good is where an employee makes a payment in return for a benefit in kind that they receive. A making good payment has the effect of reducing the taxable value of a benefit. For example, a television manufacturer might provide an employee with a television with a taxable value of £1,000; if the employee makes good by repaying the employer £1,000, the taxable value is reduced to nil.

There is currently a range of dates by which employees need to make good on benefits in kind, and for some no fixed date is prescribed in legislation. Employers, large accountancy firms and representative bodies have told us that that often causes confusion and have asked for greater clarity about the deadline for making good. Clause 1 will set the date for making good for non-payrolled benefits in kind as 6 July following the end of the tax year in which the benefit in kind is provided. That is the date by which employers have to notify Her Majesty's Revenue and Customs of any taxable benefits in kind on their P11D form. For that reason, it is also the date by which many employees already make good in practice. This approach has been greatly welcomed by employers.

The change will take effect for benefits in kind that give rise to a tax liability for the 2017-18 tax year and all subsequent tax years. This small but sensible change will bring greater clarity for businesses.

Question put and agreed to.

Clause 1 accordingly ordered to stand part of the Bill.

Clause 2

TAXABLE BENEFITS: ULTRA-LOW EMISSION VEHICLES

Anneliese Dodds (Oxford East) (Lab/Co-op): I beg to move amendment 13, in clause 2, page 5, line 7, at end insert—

“(5A) After section 170 (Orders etc relating to this Chapter), insert—

“170A Review of changes to appropriate percentages etc for cars

(1) Prior to 31 March 2018, the Commissioners for Her Majesty's Revenue and Customs shall complete a review of the forecast effects of the amendments made by subsections (1) to (4) of section 2 of the Finance (No. 2) Act 2017.

(2) The review shall consider in particular the effects on—

- (a) the use of zero and ultra-low emission cars as company cars, and
- (b) air quality in towns and cities

in each year from 2020-21 to 2030-31.

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

This amendment would require HMRC to undertake a review of the changes to be made by Clause 2 in advance of their implementation.

The Chair: With this it will be convenient to discuss clause 2 stand part.

Anneliese Dodds: First, I apologise to colleagues—I am full of the cold, and I had a nose bleed this morning given the excitement of the topics that we would be discussing, but I hope that I will be able to struggle through.

We tabled amendment 13 because we believe that it would be sensible for HMRC to undertake a review of the changes to be made by clause 2 in advance of their implementation.

Mel Stride: I welcome the hon. Lady to her position. I am sorry about her cold, and about the excitement that caused her nose bleed. I assure her that there will be no further nose bleeds, because there will probably not be much excitement as the Committee continues, but that is where we are.

Before I respond to what the hon. Lady said about amendment 13, let me remind the Committee about what the clause seeks to achieve. Clause 2 changes the taxation of company cars to support the uptake of the cleanest zero and ultra-low emission cars. As the Committee will be aware, the taxation of company cars is linked to carbon dioxide emissions to promote the purchase of environmentally friendly vehicles. The appropriate percentages for company car tax increase each year in order to ensure that there is always an incentive for company car drivers to choose the most environmentally friendly vehicles.

By 2020-21 the current ultra-low emission vehicle bands in the company car tax regime will no longer support the uptake of the cleanest cars using the latest technology. The changes being made by clause 2 will address that by updating the current two ultra-low emission vehicle bands. From April 2020, the graduated table of company car tax bands will include a differential for cars with emissions of 1 to 50 grams per kilometre based on the zero-emission range of the car. A separate zero-emission band will also be introduced. In addition, the clause will increase the appropriate percentage for conventionally fuelled cars by 1 percentage point in 2020-21, to sharpen the incentive for people to choose ultra-low emission vehicles instead of more heavily polluting ones.

The changes in the clause mean that in 2020-21 a basic rate taxpayer driving a popular battery-powered company car, such as a Nissan Leaf, will be £720 better off compared with 2019-20. That is a saving of £750 per year compared with a basic rate taxpayer choosing an average petrol-powered car such as a Vauxhall Corsa. Legislating in advance will provide certainty and stability for industry and give companies and employees the chance to make informed choices about the future tax implications of their company car.

Amendment 13 proposes that the Chancellor should publish a report reviewing the impact of these changes, focusing on the effects on the use of zero and ultra-low emission vehicles as company cars, as well as air quality in towns and cities in each year from 2020 to 2030-31. I appreciate that the hon Members are trying to ensure that policies are being assessed to ensure they are supporting the uptake of greener vehicles, but a report on our forecasts is not the way to achieve that.

Company car tax rates are set three years in advance, so that companies and employees are able to make informed choices about the future tax implications of their company car. Of course, we have had to take a view of how the market will develop, including for ultra-low emission vehicles, when we set the rates. However, the amendment is asking us to provide a review of the effect of the measure before it has been implemented. It is also not appropriate for the Government to provide

[Mel Stride]

commentary on their forecasts, as that could lead to uncertainty that we could make last-minute changes to our proposals. That would go against our policy to announce CCT rates three years in advance for taxpayer certainty.

Hon. Members should also bear in mind that the 2020-21 rates have come out of an extensive consultation with our stakeholders that we carried out in the summer of 2016 into how CCT should be structured. That consultation looked specifically at how to encourage company car drivers to choose the cleanest vehicles. That is what clause 2 seeks to achieve by updating the current two ultra-low emission vehicle bands. Increasing the incentive for people to purchase cleaner cars will help to ensure we meet our legally binding carbon emissions and air quality targets, helping to improve the air quality of our towns and cities and protect the environment for the next generation. Of course, we continue to review the uptake of ultra-low emission vehicles as part of our wider strategy on improving air quality. On that basis I believe that the amendment is unnecessary, and I ask the hon. Lady to withdraw it.

To conclude, the clause strikes the right balance between supporting the purchase and manufacture of ultra-low emission cars, and ensuring that all company car drivers and their employers pay a fair level of tax. I therefore commend the clause to the Committee.

Anneliese Dodds: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 2 ordered to stand part of the Bill.

Clause 3

PENSIONS ADVICE

Peter Dowd (Bootle) (Lab): I beg to move amendment 14, in clause 3, page 5, line 22, leave out “£500” and insert “£1,000”.

This amendment would increase the income tax exemption in relation to pensions advice from £500 to £1,000.

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

Amendment 11, in clause 3, page 6, line 16, at end insert—

“308D Review of use of provisions of section 308C

(1) Within one year of the passing of the Finance (No. 2) Act 2017, the Commissioners for Her Majesty’s Revenue and Customs shall complete a review of the use of the provisions of section 308C in tax years 2017-18 and 2018-19.

(2) The review shall consider in particular—

(a) the use of the relief by persons over 55, and

(b) the use of the relief by women born on or after 6 April 1950.

(3) The Commissioners shall consult the Financial Conduct Authority in carrying out the review under this section.

(4) The Chancellor of the Exchequer shall lay a report of the review under this section before the House of Commons as soon as practicable after its completion.”

This amendment would require HMRC to undertake a review of the use of the new income tax exemption for pensions advice in the first two years of its operation.

Amendment 15, in clause 3, page 6, line 16, at end insert—

“308D Review of effectiveness of provisions of section 308C

(1) Prior to 30 June 2019, the Commissioners for Her Majesty’s Revenue and Customs shall complete a review of the effectiveness of the operation of the provisions of section 308C in tax years 2017-18 and 2018-19.

(2) The review shall consider in particular—

(a) the estimated value of the exemption in each tax year,
(b) the effects of the Conditions in subsections (6) and (7), and

(c) the effects of the provisions on the availability and accessibility of relevant pensions advice.

(3) The Commissioners shall consult the Financial Conduct Authority in carrying out the review under this section.

(4) The Chancellor of the Exchequer shall lay a report of the review under this section before the House of Commons as soon as practicable after its completion.”

This amendment would require HMRC to undertake a review of the effectiveness of the new income tax exemption for pensions advice in the first two years of its operation.

Clause 3 stand part.

Peter Dowd: It is a pleasure to serve under your chairmanship, Mr Howarth. The extent, nature and quality of advice received by a person wanting a pension is of great importance and significance. That is particularly the case considering that, in 2017, 30% of the working age population is at state pension age or older. The Department for Work and Pensions recently summarised perfectly the importance of pensions advice on its website: “For most people in the UK, their pension savings will be their largest financial asset, which they will save towards over the course of their working lives”.

That gets to the nub of the matter. Hopefully, most of us will be saving towards a pension for the majority of our lives and we are ultimately relying on that to secure a good-quality standard of living when we retire. Therefore, the advice received matters a great deal.

For many, the securing of pension advice is, given the nature of their employment, for example, not as problematic. People who work in certain sectors, such as the finance sector, on the whole will find that their companies automatically cover pension advice. For others, the cost of such advice is minimal in the grand scheme of things. However, it has to be said that, for those who do not have much disposable cash and whose retirement is dependent on making wise investments with their pensions and ensuring that they save the right amount, good-quality advice is the key to a more secure retirement. I am sure that that will be greeted with unanimous nodding from Government members, if nothing else.

As Committee members know, the financial advice market review was launched in August 2015

“to explore ways in which government, industry and regulators could take individual and collective steps to stimulate the development of a market that delivers affordable and accessible financial advice and guidance to everyone.”

That is a laudable endeavour if ever there was one. It set out a strong and compelling case that there is a retirement “advice gap” for those without significant wealth. Research by Unbiased, an organisation of Financial Conduct Authority-regulated advisers who are independent of product providers, found that those who sought retirement advice increased their retirement savings by an average

of £98 a month. However, less than one third of people have accessed financial advice on their pension. The financial advice market review found that many people perceived financial advice to be unaffordable or “not for people” like them.

The advice gap is not getting any smaller. Although the introduction of the exemption for the first £500-worth of pensions advice to employees is welcome, particularly as it replaces the provisions that limited the advice that people could receive—the cap was set at £150—we think that that does not go far enough. Most people in the pension advice sector would reasonably point out that £500-worth of tax-free advice is a relatively small figure given the importance of the decisions that people face. There are genuine questions to be asked about the impact that such a figure will have on the current pensions advice gap and, importantly, on the quality of that advice.

Kelvin Hopkins (Luton North) (Lab): My hon. Friend is absolutely right about the affordability of pensions advice, but the trustworthiness of pensions advice is also an issue. Even I—I am fairly numerate—do not trust the advice I am given, although fortunately the Independent Parliamentary Standards Authority gives better advice than most. Many ordinary people not only think that it is not for the likes of them and are rather nervous, but fear that they are not given correct and disinterested advice.

9.45 am

Peter Dowd: That is a very valid point that people should listen to. As I said before, that goes to the nub of the situation.

In the light of that, I have a number of very reasonable amendments that the Committee members certainly will agree are pertinent, which need to be asked for and which need answers. Perhaps the Minister, who I know is the epitome of helpfulness, could explain to the Committee how the figure of £500 was reached, who was consulted on the figure, and the basis of the figure, in terms of the pensions advice market—or is the figure arbitrary? Dare I say, is there a smokescreen?

I am sure that the Government do not want to be seen to be acting without providing adequate funds to address the root problem. The cost of financial advice will inevitably inform the value of the advice. That is why we have put forward the amendment, which would raise the threshold for tax-free pension advice from £500 to £1,000. Pensions advice is, after all, the greatest protection against the threat of fraudsters keen to prey on some of those in vulnerable positions. Because we are talking about large sums of money that people rarely engage with until the end of their lives, pension savings are often an active target for scams.

We must recognise that as technology makes it easier for us to access our pension pots, it also increases the risk of fraud. This is also true of the reforms brought in by the Government under the previous Chancellor, giving pensioners greater freedom to withdraw a portion of their pensions earlier. That has been a benefit to some pensioners, although it has brought with it substantial risks and the problems that we continue to see today. The Money Advice Service website outlines the common signs of pension fraud. They include unsolicited approaches

by way of a phone call, text messaging or emails. Other practices include a firm not allowing a person to call it back, and people being pressurised and forced into making a quick decision, or being encouraged to transfer pensions quickly and to send documents by courier. Contact details provided are mobile phone numbers only, or a post office box address.

Other tactics include claiming to be a person who can help to unlock a pension before the age of 55, which is sometimes known as pension liberation or referred to as a personal loan. This is possible only in very rare cases, such as very poor health. People say they know of tax loopholes, or they promise extra savings. They offer a suggested high rate of return on investments, but claim that the risk is low.

The Money Advice Service recommends that people looking for pensions advice check against the FCA register of approved pension advisers. The Opposition welcome the loosening of the advice that an individual can claim under the tax-free allowance, as I indicated earlier. Over the past few years, it has become apparent that people not only are concerned about the level of savings in their pensions, but have taken a greater interest in where their pension savings are being invested. Of course this is a good thing, and ultimately pension funds should be accountable to the person whose savings they invest.

All these issues that I have raised so far summarise the Opposition’s concerns about this clause and why we have put forward an amendment that would require a review of the effectiveness of the tax-free relief in the years 2017, 2018 and 2019. It is important that the Government accept the review, rather than rushing ahead with further reforms that may be considered tinkering around the edges. We are suggesting an increase from £500 to £1,000, and a review of the allowance system in due course.

Kirsty Blackman (Aberdeen North) (SNP): It is a pleasure to take part in another Finance Bill Committee, and I am looking forward to another one coming later this year. It feels like we have been discussing this one for quite some time, so I am glad to finally be at the Committee stage in a Committee Room. Thank you for your chairmanship, Mr Howarth.

I wanted to highlight our amendment on this. There have been a huge number of changes in the pensions landscape in relatively recent years. In my working lifetime, we have seen a move away from a final salary pension scheme to career average for the majority of people, even in the public sector. We have seen changes to things such as the lifetime individual savings account and the ability to withdraw pensions. Those are pretty significant changes in the landscape; pensions for people my age look very different from how they looked not that many years ago.

We have also seen changes to the Women Against State Pension Inequality issue, and the equalisation problem. A number of people have come through the door of my surgery and talked to me about how they have been caught by the WASPI issue. If they had had different pensions advice, they would not have retired in the way they did. More than one person who took early retirement now finds that they are caught by the WASPI issue when they should have retired under ill health,

[*Kirsty Blackman*]

which would have given them a completely different outlook on their pensions. If they had had more appropriate advice when they were deciding when to retire, they would have been much better off.

I welcome the Minister's proposal to make the first £500 of pension advice tax-free; that is an important change and one that we all generally agree with. I agree with the shadow Minister, however, who asked whether £500 is the most appropriate amount. Should it be £1,000? Should it be less? The amendment we have put forward specifically asks about the issues for women born on or after 6 April 1950, because they are the ones who have been caught by this WASPI issue. I am keen to see an increased uptake of pensions advice by those women, because for some of them changing the way in which they retire would make a difference.

Those women have been failed by the system. They have been failed by the Government, who have moved the goalposts and changed the date on which they expected to retire. Some of them retired not long ago and were completely unaware of the change. Those are people who would have read every bit of paper that came through their door. A medical secretary came to my surgery the other day. A medical secretary is someone very diligent about reading bits of information that come through the door, particularly about financial matters that are important for her future, and I believe that she would have chosen a different route to retirement if she had had appropriate advice, and if she had known what would happen on state pension equalisation and what would happen to her.

David Linden (Glasgow East) (SNP): Does my hon. Friend agree that this Government have a pretty dire record on protecting pensioners, not least on the WASPI issue, but even on the winter fuel payment?

Kirsty Blackman: That is absolutely correct; I have seen people come through my surgery door to complain about that as well. I did not quite realise the difference in temperature between London and where I live until I became an MP. In London, I could quite easily not have the heating on at all through the entire year, whereas in Aberdeen my heating is on in September, or even earlier. Heating costs significantly more, so the winter fuel payment is hugely important for a number of my constituents and makes a significant difference to their lives. Those people are in fuel poverty; they have been failed by the system, and it is important to note that.

I will not stretch this out too much, but I must be clear that a number of people have been failed by changes to the goalposts. Those changes might be in how their pension is structured and what kind of pension they will get in the end because of movements away from final salary pensions, or because their state pension age has been moved, or because of things like the Government's wonderful lifetime ISA, which means that if someone becomes sick, their lifetime ISA is considered a savings pot for benefits and held against them when they try to claim benefits. Therefore, a lifetime ISA cannot be seen as something that can be used instead of a pension, because it does not provide the level of safeguards that a real, proper pension pot does.

Ruth George (High Peak) (Lab): The hon. Lady makes some valid points, as did my hon. Friend the Member for Bootle. My question is: given that Which? uncovered back in 2015, the fact that the average cost of independent retirement advice on a £100,000 pension pot was £1,863, does she feel that £500 is an appropriate limit for tax relief?

Kirsty Blackman: I thank the hon. Lady for her intervention, which highlights the issue. It would be useful to hear from the Minister about why £500 has been chosen, given that a £100,000 pension pot is not the biggest of pension pots and some people will have more in their pension pot than that. We need to hear from the Minister the reasons behind choosing that figure. It would also be useful to hear about how this might affect those women caught up in and disadvantaged by the Government's changes to the state pension age, particularly those who have not been told about these changes.

Mel Stride: I welcome the hon. Member for Bootle and the hon. Member for Aberdeen North to the Committee and the part that they will play in the debates that lie ahead.

Before I respond to some of the detailed points raised, including the amendments, I will set out the purpose of clause 3. As we have heard, the clause introduces a new income tax exemption to cover the first £500-worth of pensions advice provided to an employee in a tax year. That will increase the affordability and accessibility of financial advice for those saving for retirement through a workplace pension.

The success of the Government's auto-enrolment policy means that more people than ever are saving into a workplace pension scheme, as the hon. Lady recognised. There has been quite a change to the general territory of pensions. On top of this, the Government's historic pension flexibility reforms have given people better access to their retirement savings and control over their money, but with more money and more options, individuals may have a greater need for professional financial advice.

The recent financial advice market review conducted by HM Treasury and the Financial Conduct Authority concluded that there is a particular advice gap in relation to pensions. The Government are keen to ensure that financial advice is accessible and affordable to consumers, especially those nearing retirement. We want to encourage employers to provide advice to their employees to help them to make informed choices about what to do with their pension savings.

As I said, the changes made by the clause will introduce a new tax exemption to cover the first £500-worth of advice in a tax year. It will apply to advice provided to an employee on pensions savings, and on the general financial and tax issues relating to pensions. The exemption applies whether the employer pays or reimburses the employee for the cost of that advice.

Amendment 14 would double the tax exemption to cover the first £1,000-worth of pensions advice provided to an employee in a tax year. We believe that £500 is an appropriate amount. As the hon. Member for Bootle pointed out, that more than triples the current exemption. It also balances the cost to the Exchequer with the objective of encouraging more employers to provide access for their employees to affordable advice. Increasing the tax exemption to cover the first £1,000 also risks

inflating the market and making advice too expensive for employers and employees. I can report that we are already seeing the emergence of new forms of tailored advice at a more accessible price of about £500.

The hon. Gentleman spoke about consultation. We have not formally consulted on the changes. As he pointed out, the matter was covered by the financial advice market review consultation, which received 268 responses. Respondents supported the introduction of tax measures to help consumers to afford financial advice. A wide range of stakeholders responded, including employers, individuals and financial services firms. The FAMR also conducted regional roundtables and sought the views of an advisory panel of industry and consumer experts. Consultation on the measure has been deep and meaningful.

On the question whether £500 is the correct amount, as I have explained, this is a tripling of the amount hitherto available. In addition, each employer can utilise the £500 exemption, so an employee who works for two companies may be provided advice by each and benefit from two allocations of the exemption. Although advice can be more expensive, the Government expect more affordable advice propositions to be launched as a direct result of the FAMR. For example, in May 2016 the Financial Conduct Authority launched its advice unit, which will provide regulatory support to firms developing cheaper, automated advice propositions.

The hon. Gentleman also raised the important issue of protections against pension fraud. The important point to bear in mind is that this measure covers all formats of pensions advice, as long as the advice is regulated financial advice delivered by an FCA-authorised adviser. I urge the hon. Gentleman to withdraw the amendment.

10 am

Amendments 11 and 15 both call for reviews of the effectiveness of new section 308C, so I will deal with them together. Amendment 11 asks for a review to consider issues including

“the use of the relief by persons over 55”

and

“women born on or after 6 April 1950.”

Amendment 15 asks for a review to consider issues, including

“the estimated value of the exemption”

in each year and

“the effects of the provisions on the availability”

of relevant pensions advice.

As the Committee would expect, we will keep the effectiveness of the provisions under review. The conditions have been carefully designed to ensure that employees are treated fairly. An employer offering the payments must do so to all employees generally. However, the rules also ensure payments can be targeted at employees at a particular location, who are within five years of their pension age, or who are suffering from ill health such that they are incapable of carrying on with their occupation. That ensures employers can target payments to those approaching retirement. Like other members of the Committee, I want to ensure these rules are effective. The financial advice market review body intends to undertake a review of the recommendations in 2019,

so a formal review of the rules does not need to be included in primary legislation.

Kirsty Blackman: The Minister said the effectiveness of the provisions will be kept under review. Will he commit to ensuring that the review is published at some point?

Mel Stride: As I said, the FAMR body will be conducting a review, which is expected to be published in 2019, and the Government will keep those matters under review on an ongoing basis, as we do all measures of taxation, whether impositions or reliefs.

Peter Dowd: It is crucial that we send the message that the Government are serious about helping people with their pension advice. Although the figure has gone up from £150—a fairly small amount in itself—to £500, we believe that still does not send the proper message about seeking sound advice. Given that, and notwithstanding the Minister’s assurances, we will press the amendment increasing the figure to £1,000 to a vote.

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 1]

AYES

Blackman, Kirsty
Creasy, Stella
Dodds, Anneliese
Dowd, Peter
George, Ruth

Hopkins, Kelvin
Lee, Ms Karen
Linden, David
Smith, Jeff

NOES

Afolami, Bim
Burghart, Alex
Cleverly, James
Fernandes, Suella
Ghani, Ms Nusrat

Hughes, Eddie
Maclean, Rachel
O’Brien, Neil
Stride, rh Mel
Stuart, Graham

Question accordingly negated.

The Chair: Does the hon. Gentleman wish to press amendment 15?

Peter Dowd: Given the assurances from the Minister, no, Mr Howarth.

Clause 3 ordered to stand part of the Bill.

Clause 4

LEGAL EXPENSES ETC

Peter Dowd: I beg to move amendment 16, in clause 4, page 9, line 23, at end insert—

“(7A) After section 716B (Employment intermediaries, etc), insert—

“716C Review of effectiveness of changes to reliefs for legal expenses

(1) Prior to 30 June 2019, the Commissioners for Her Majesty’s Revenue and Customs shall complete a review of the effectiveness of the changes made to this Act by section 3 of the Finance (No. 2) Act 2017.

[Peter Dowd]

(2) The review shall consider in particular the estimated value of the additional relief provided as a result of the changes in each tax year.

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

This amendment would require HMRC to undertake a review of the effectiveness of the changes relating to relief in connection with legal expenses in Clause 4.

The Chair: With this, it will be convenient to discuss clause 4 stand part.

Peter Dowd: We all agree that the current model of legal expenses or indemnity insurance for employees is wholly inadequate to the modern workplace. It is worth getting a plug in here in relation to the household insurance that people have for when they wish to defend their position in court, whether criminal or civil. I have experience of some of these policies not being fit for purpose. That goes to the heart of some of these issues, although it is not directly related. I am sure that other Members have had people come to them with insurance policies that they bought thinking they would cover them for this, that or the other, only to find that they are not fit for purpose. It is worth this Committee sending the message out that some of those policies are not up to scratch.

Getting back to the point, under the current system, only an employee who has had an allegation made against them can claim for legal expenses, which will be deducted from their earnings. Potentially, if a person is called as a witness at a public hearing, he or she will immediately be put out of pocket for any legal expenses. Similarly, if an employee is to give evidence at a public hearing, perhaps in one of our Committee Rooms in this building, under the current system they will be out of pocket if they need legal counsel. That is a deterrent to both employee and employer. The measure would tidy up and expand the current, rather vague, provision to cover employees giving evidence at public hearings, which we welcome; however, I have a number of questions.

How many employers will the new measure cover? Will it cover all employers? How extensive is it? Are any particular sectors affected by the measure? What is the estimated cost of such a measure to the Exchequer? Does the measure include cover for employment tribunals? That has been a bone of contention in the past few months, in the light of the Government's introduction of quite significant fees for people making employment tribunal claims.

Kelvin Hopkins: There is evidence that thousands of people have been deterred from bringing a case to employment tribunals simply because of the fees.

Peter Dowd: My hon. Friend makes an important point. That is why it is important to tease out the issues. People get confused and deeply worried about these matters, so we need clarity.

Our concern is that the measure will, in essence, be used as a tax break for employers, to the detriment of employees. I am not saying that that is the intention, but it is important to get clarity. Given the lack of detail,

we believe that a review of the impact of the changes on the coverage of legal expenses is in order. It would focus specifically on the effectiveness of the measure, the value of the relief and, of course, how many employers and employees it brings within its purview. I reaffirm the point: it is important that this area is clarified and that people know the direction of travel, which is why we moved the amendment, to keep tabs on the proposal.

Mel Stride: Before I address Labour's amendment 16, I will set out the purpose of clause 4.

The clause makes changes to ensure fair and consistent tax treatment for employees who receive legal support from their employer. Currently, employers may provide legal support or a legal indemnity insurance to their employees tax and NICs-free but, as the hon. Member for Bootle rightly points out, that only applies when employees have had allegations made against them in connection with their employment. Construction workers, nurses or surveyors, for example, may have legal indemnity insurance to provide legal advice in case they are accused of negligence. No equivalent tax treatment for relief is available in relation to proceedings in which no allegation has been made against the employee, such as when an employee is asked to give evidence before a public inquiry.

The changes made by the clause will extend the existing provisions to correct that unfairness. The relief will be made available for expenses incurred in employment-related proceedings where no allegation has been made against the employee. In addition, the clause extends a relief for individuals on termination of their employment or for individuals now deceased, so that a deduction is allowable if the relevant costs are met by the employer on behalf of the individual.

The hon. Gentleman asked some specific questions, in particular about the cost to the Exchequer of the measures, which will in fact be negligible. We expect fewer than 1,500 employees in total to require the benefits of the measure.

As we have heard, amendment 16 would require HMRC commissioners to complete a review before 30 June 2019 of the effectiveness of the changes. Such a review would be disproportionate. As I have explained, this is an important but small change to correct an unfairness. As there is no tax to pay, employers do not need to report information about the legal support or legal indemnity insurance provided to their employees. Indeed, it would be burdensome for employers to have to provide such information simply for the purposes of the review sought by the hon. Gentleman. I urge the Committee to resist the amendment.

The Government acknowledge that legal inquiries can be a challenging and unfamiliar time for employees. The clause will make the system fairer by extending the existing relief for all employees who may require legal advice, helping to ensure that they get the support they need. I therefore commend the clause to the Committee.

Peter Dowd: Again, I appreciate the Minister's explanations and assurances to some extent, but this is one of those areas that is of importance to people. It is very technical, but teasing the issues out is important. A review might be of specific areas, but reviews often bring up other issues and signpost for us where regulations

or the law may need to be changed or tightened. For that reason, it is important for us to send the message that this is something that we will review. Notwithstanding the assurances given, I will press the amendment to a vote.

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 2]

AYES

Blackman, Kirsty	Hopkins, Kelvin
Creasy, Stella	Lee, Ms Karen
Dodds, Anneliese	Linden, David
Dowd, Peter	Smith, Jeff
George, Ruth	

NOES

Afolami, Bim	Hughes, Eddie
Burghart, Alex	Macleane, Rachel
Cleverly, James	O'Brien, Neil
Fernandes, Suella	Stride, rh Mel
Ghani, Ms Nusrat	Stuart, Graham

Question accordingly negated.

Clause 4 ordered to stand part of the Bill.

Clause 6

PAYE SETTLEMENT AGREEMENTS

10.15 am

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

Mel Stride: Clause 6 makes changes to simplify the PAYE settlement agreements process, by allowing employers to propose PAYE settlement agreements without the need to agree that with an officer of Revenue and Customs beforehand. PAYE settlement agreements, or PSAs, were introduced in the 1990s as an administrative easement for employers and HMRC. They allow employers to settle, in a single payment, the income tax liability on behalf of their employees for certain benefits-in-kind and expenses.

In their 2014 review of employee benefits and expenses, the Office of Tax Simplification highlighted a number of issues with the PSA process. In response, the Government launched a consultation in the summer of 2016 on proposals to simplify the process for arranging, and clarifying the use of, PAYE settlement agreements. In line with the Office of Tax Simplification's recommendations, the changes being made by clause 6 will simplify the PSA process. Employers will no longer be required to submit a request in advance of their year-end reporting obligations. Instead, they will be able to submit their PSA request at the year end and make ad hoc requests throughout the year. It also removes the need for PAYE settlement agreements to be agreed with an officer of HMRC. In addition, HMRC will develop a digital tool to replace the submission of paper returns. HMRC's guidance will be strengthened and updated, in order to reduce errors and provide certainty for employers.

The Government are committed to reducing the administrative burden for employers. In line with recommendations made by the OTS, clause 6 will help to simplify the PSA process and provide certainty and stability for employers. I therefore move that this clause stands part of the Bill.

Peter Dowd: Although the Opposition have not tabled an amendment on this clause, Members will be aware that we have wider concerns about the overall intention of the measure and, for example, its relationship to the Government's wider digital tax strategy. We have been clear that, although we support the gradual digitisation of taxation and the capacity it has to remove the administrative burden from HMRC, the self-employed, small and medium-sized businesses and larger companies that have to submit tax returns, we are concerned about the Government's rush to introduce this timetable, which in our view is ill thought-out—as we have said many times.

In principle, we agree with the aims of the measure, which appears to allow employers the ability to settle income tax liabilities for certain benefits and expenses in a more efficient and timely manner. I do not think any of us would want to argue with that. However, we are concerned about the removal, without assurances, of the agreement of the officers of HMRC in this process. I am sure that that is mere coincidence, given that the measure is being introduced at a time when the Government have reduced HMRC staffing levels by 17% since 2010. I would like to take it on good faith from the Minister that the removal of the need for agreement with an officer of HMRC has little to do with the falling numbers of staff.

The clause explicitly states that this measure aligns with the principles of HMRC's wider digital transformation strategy and therefore it seems impossible to discuss the clause without also referring to clauses 60 to 62, which introduce the digital reporting of VAT and income tax. Given that link, I would like to take the opportunity to ask the Minister about the overall digital transformation strategy at HMRC.

First, how far along is HMRC with this new digital solution that the Government plan to develop? How many pilots have been run of the new software needed at HMRC? How many of those pilots were successful? What is the cost to HMRC of the new software? What is the cost to an employer of using that software? How will HMRC be able to intervene manually to mitigate compliance risk?

The Government have made much of the huge administrative burden that employers face, and of how this measure, along with others, will ensure that employers can submit their PAYE settlement agreement requests at the end of the year and make ad hoc requests during the year, but that is surely completely inconsistent with the Government's plans to mandate quarterly digital reporting for income tax and VAT. It will remove some administrative burdens for employers with regard to income tax on the one hand, but add further burdens on the other. I would be grateful if the Minister helped us out with that.

Mel Stride: As we have set out, clause 6 makes changes to simplify the PSA process. I am grateful that the hon. Member for Bootle appears to welcome those changes. The Government believe that it is extremely

[Mel Stride]

important to lower the burdens on our businesses, which create the wealth and pay the taxes that pay for the public services that, as a civilised society, we all want.

The hon. Gentleman raised making tax digital and the digital changes to the way that tax will be reported. He will know that I laid a written ministerial statement a little while ago that set out a changed timescale for the roll-out of that element. Consequently, no businesses will be involved in making tax digital until 2019 at the earliest, and even then only those at or above the VAT threshold will be involved, and only in respect of VAT reporting. No further roll-out will occur in any other areas until 2020 at the earliest. The Government are in listening mode, and we have listened extremely carefully and reacted extremely positively to feedback from businesses.

The hon. Gentleman raised several pertinent and legitimate questions about the piloting of the making tax digital process. They were very specific, and I do not think for a moment that he expects me to have all the answers in my head, talented though I am.

Jeff Smith (Manchester, Withington) (Lab): And modest.

Mel Stride: And modest—quite. I will ensure that we write to the hon. Member for Bootle to answer the specific questions that he asked in that context.

Peter Dowd: I take the Minister's assurances. I am sure that he has all the answers in his head, but he does not want to share them at this point. I will be able to read the letter that he sends over a nice cup of tea.

Question put and agreed to.

Clause 6 accordingly ordered to stand part of the Bill.

Clause 7

MONEY PURCHASE ANNUAL ALLOWANCE

Peter Dowd: I beg to move amendment 17, in clause 7, page 15, line 11, at end insert—

“(4A) After section 227G (when pension rights are first flexibly accessed), insert—

“**227H Review of effects of changes to money purchase annual allowance**

(1) Prior to 30 June 2019, the Commissioners for Her Majesty's Revenue and Customs shall complete a review of the effects of the changes made to this Act by section 7 of the Finance (No. 2) Act 2017.

(2) The review shall consider in particular—

- (a) the change to the tax charge applied in each tax year, and
- (b) the behavioural effects of the changes.

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

This amendment would require HMRC to undertake a review of the effects of the change to the money purchase annual allowance in Clause 7.

The Chair: With this it will be convenient to discuss clause 7 stand part.

Peter Dowd: The money purchase allowance has its roots in the latter days of the previous Chancellor's tenure at the Treasury. The pension flexibility measures that were introduced in 2015 gave pensioners those flexibilities if they wished to pay anything further into a defined-contribution pension, but restricted the contributions on which they could receive tax relief. The Government set the money purchase allowance at £10,000, limiting the tax relief that pensioners could receive. The clause will cut that drastically, to £4,000.

The Minister says that the clause is, in effect, an attempt to stop individuals who have already accessed pension savings recycling that cash back into pensions, thereby benefiting from tax relief a second time. I completely acknowledge the concern about that, but a number of pensioners will no doubt be caught by the change. In fact, the submissions that we all received by email and were circulated today allude to that, and I will come to that in a bit more detail.

How much notice have pensioners been given of this planned change? What marketing and targeted awareness campaigns have the Government conducted to ensure pensioners are aware of the change? How much has the Treasury or other Departments spent to ensure that pensioners are aware of the change? I come back to the point I made earlier that this is about the security of people's retirement. People have planned and are planning for retirement and, what with Brexit and lots of other things going on in the world, we want to keep the uncertainty in life to an absolute minimum. I am sure that everybody agrees with that.

How much does the Financial Secretary believe that the measure will raise? The Opposition feel that there is a clear need for the level of the money purchase annual allowance to be reviewed, and many of the stakeholders who have written to us agree. It is important that the Government take the necessary steps to ensure that pensioners who are caught out by the change are not at an unfair disadvantage.

One submission to Members in the bundle that has been circulated indicates:

“The reduction of the Money Purchase Annual Allowance to £4,000:

- a. will create an anomalous position
- b. may encourage manipulation of pension arrangements to use the small pots rules to circumvent the MPAA rules
- c. will create a differential position between members of occupational arrangements and personal schemes”.

The submission gives a perfectly reasonable example of that, which I will not go into now.

Another organisation, the Low Incomes Tax Reform Group, also has concerns. It was set up by the Chartered Institute of Taxation to give “a voice to the unrepresented”. I will quote from its submission, because it is pertinent:

“The money purchase annual allowance of £10,000 is very unlikely to catch out too many people who might do this. But reducing it to £4,000 from April 2017—equating to savings of £333 a month—is much more likely to cause problems for these people; especially if thinking about it in terms of someone choosing to save money they might have previously been paying on a mortgage. This is even easier to see as being a problem if we consider that the net of basic rate tax contribution—the amount the individual pays—would be £3,200, ie £266 per month. Such a monthly sum could well be half the person's previous mortgage repayments and therefore an easy sum to find for topping up their pensions”.

The review laid out in our amendment seeks to review the effectiveness of the measure, how many people it affects and the impact of cutting the money purchase allowance on the overall level of pension contributions.

To conclude, I cannot reiterate this point too much. I do not think it is necessarily a question of our wanting to replace the £10,000 with £4,000, £6,000 or £8,000 or any other figure, for that matter. If the Government have made that decision—and it is reasonable to adjust the figure up or down, whatever it might be—given that this is about people's pensions and their future in retirement, it is important that we are clear what the impact is going to be. That is why we ask for the review. We all need to satisfy ourselves that when we are dealing with this area, for which people have planned, they are not going to be detrimentally affected at a time in their lives when they may be vulnerable.

Mel Stride: Amendment 17 would require the Government to undertake a review of the effect of the change to the money purchase annual allowance under clause 7. Before I set out why that review would be unnecessary, I want first to remind Committee members of the background to clause 7, and what it seeks to achieve. The historic pension freedoms introduced in April 2015 have given people with savings in money purchase arrangements greater flexibility to get access to their pension savings. Once a person has accessed their pension savings flexibly, further tax-relieved contributions are restricted to the money purchase annual allowance.

10.30 am

In the autumn statement of 2016, the Government announced that they would consult on reducing the allowance from £10,000 to £4,000, to limit the extent to which people can recycle their pension savings to get extra tax relief—something that the hon. Member for Bootle recognised in his remarks. Following that consultation, the Government concluded that an allowance of £4,000 would be fair and reasonable, restricting the extent to which some individuals can gain from an unfair tax advantage, while still allowing those who have accessed their pension flexibly to rebuild some of their savings.

The changes under clause 7 reduce the money purchase annual allowance from £10,000 to £4,000 with effect from April 2017, to help to ensure that the cost of pension tax relief is fair, affordable and sustainable. That reduction will limit the extent to which pension savings can be recycled to take advantage of tax relief, which is not in the spirit of the pension tax system. The allowance applies to individuals who flexibly access their pension savings or who have already done so.

Amendment 17 would impose a requirement on the Government to undertake a review of the effects of the change, before 30 June 2019, and to lay it before the House. I am afraid that that would be unnecessary; as I have outlined, the decision to reduce the allowance follows extensive consultation with industry and individuals. During that consultation, we received no evidence that particular groups, as a whole, would be disproportionately affected by the change. Indeed, the Government estimate that about 3% of individuals aged 55 and over make annual contributions—from themselves and their employers—of more than £4,000. Of that 3%, significantly fewer

people have already accessed their pension savings flexibly, which means that the number affected will be significantly lower.

Across the population more broadly, median defined contribution pension saving is between £2,000 and £3,000 per year—so it is below the £4,000 figure that we have been discussing. Moreover, in our response to the consultation, the Government have already committed to review the level of the allowance in order to ensure that there is no conflict with automatic enrolment policy in the future.

The hon. Member for Bootle asked some specific questions about the kinds of consultation and information that we have made available to those who might potentially be affected, and I can reassure him that the measure has been well publicised. It was, as I have said, announced in the autumn statement 2016, when Her Majesty's Treasury carried out a 12-week consultation; and the change was confirmed in the 2017 Budget.

Following the announcement of the general election and the shortened Finance Bill, the Government confirmed that the policy had not changed, and that it would be legislated for at the earliest opportunity in the new Parliament. In addition, registered pension schemes must provide a flexible access statement to individuals within 31 days of their first triggering the money purchase annual allowance. The content of the statement is explained on the gov.uk website. The hon. Gentleman also asked about the cost to the Exchequer. The answer is £70 million per annum.

Providing guidance through information has been a core element of the Government's pension freedom policies. Indeed, anyone aged over 50 can access Pension Wise for free, and get impartial Government guidance about defined pension contribution options. The Pension Wise website explains the MPAA in connection with flexibly accessing savings, in a number of sections.

The Government are committed to supporting hard-working individuals who want to save through the tax system. This year we have increased the amount of money that an individual can save or invest tax-free through the ISA by the largest ever amount to £20,000, nearly doubling the limit since 2010. As I have outlined, the pension allowances are generous, and the new MPAA remains considerably higher than median contributions.

Reducing the MPAA limits the extent to which pension savings can be recycled, while allowing those who want flexible access to pension savings the opportunity to rebuild some of their savings, should they choose to do so. The Government have consulted on the change and are confident that it is the right decision. I therefore urge hon. Members to withdraw the amendment and I commend the clause to the Committee.

Peter Dowd: In the spirit of co-operation and the assurances the Minister gave, I am prepared to withdraw the amendment in relation to a review. None the less, serious concerns have been identified by organisations. The Minister alluded to the fact that there did not appear to be much concern, but that is not what I am hearing, hence the need for a review. However, in the light of the Minister's assurances, I am happy to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 7 ordered to stand part of the Bill.

Clause 8

DIVIDEND NIL RATE FOR TAX YEAR 2018-19 ETC

Anneliese Dodds: I beg to move amendment 18, in clause 8, page 15, line 17, at end insert—

“(1A) After section 13A (income charged at the dividend nil rate), insert—

“13B Review of effects of changes to dividend nil rate

(1) Prior to 30 June 2019, the Commissioners for Her Majesty’s Revenue and Customs shall complete a review of the effects of the changes made to this Act by section 8 of the Finance (No. 2) Act 2017.

(2) The review shall consider in particular the effects on the self-employed.

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

This amendment would require HMRC to undertake a review of the effects of the change to the dividend nil rate in Clause 8.

The Chair: With this it will be convenient to discuss clause 8 stand part.

Anneliese Dodds: As colleagues know, the clause changes, from 2018-19 onwards, the amount to which the dividend nil rate applies down to £2,000 under section 13A of the Income Tax Act 2007. The Opposition are particularly keen to hear the Government’s position on what the impact of the change is likely to be for the self-employed, who could be significantly affected. I would be grateful if the Minister clarified that today.

That change is occurring in a context where existing changes to tax arrangements for self-employed people have not always been adequately dealt with. For example, HMRC’s electronic portal is frequently raised with us as an issue by tax practitioners. I do not mean to sound like a stuck record in relation to my hon. Friend the Member for Bootle, but that is occurring in the context of considerable structural change in HMRC, and we know that many people are already struggling to get through to it to receive advice on making tax returns. This measure will clearly have interaction with other allowances, so greater clarification would be welcome.

That is why we are calling for a review. There needs to be more consideration of these issues and the tax system’s readiness to deal with the change. The amendment would therefore require HMRC to undertake a review of the effects of the change to the dividend nil rate in the clause.

Kirsty Blackman: I hear the hon. Lady’s words, but I would probably go even further. We do not agree that the change should be made to the dividend nil rate for a number of reasons. To begin with, those people who are self-employed may have been planning their self-employment for some time and may have been relying on the fact that the dividend nil rate is currently £5,000 in their financial planning. I do not think that there is enough notice for those people who have been making plans to become self-employed. It is not good enough from the Government. There is not enough notice, and the change they are making is pretty rubbish. People on pretty low incomes are going to be hit by some of the change. It is really important that, for example,

people who are becoming self-employed for the first time have the nil rate allowance that they thought they were going to have. Those people have not been given enough time to make considerations.

The point raised by the hon. Lady in relation to getting through to HMRC is relevant, particularly given the closures of tax offices and the difficulty that my constituents are having when trying to contact HMRC. The guidance and forms on its website tend to be black and white, but the answer might be somewhere grey in the middle, so people have to phone to get the advice they need to fill in the form online appropriately. As I said, one of our concerns about the general movement towards making tax digital is how people can get advice on filling in online forms, never mind anything else. It is difficult for people to get through to HMRC, and that is a relevant consideration. We are inclined to vote against clause stand part when that comes. However, we would support the amendment, were it to be pressed to a vote.

Mel Stride: Before I respond to the amendment as well as the other points raised in the debate, let me first remind the Committee of what the clause seeks to achieve. As we have heard, it reduces the tax-free dividend allowance from £5,000 to £2,000 from April 2018. The change will ensure that support for investors is more effectively targeted and helps to deliver a fairer and more sustainable tax system. It will also help to reduce the tax differential between individuals working through their own company and those working as employees and self-employed. Crucially, it raises revenue to invest in our public services, raising approximately £2.6 billion out to 2021-22.

Since the tax-free dividend allowance was first announced, the landscape for small business owners, savers and investors has changed. The hon. Member for Oxford East specifically asked about support for businesses in the context of these changes. I can assure her that, as the party of business, we are wholeheartedly behind businesses. First, we have supported businesses by reducing the main corporation tax rate to 19%, which is now the lowest rate in the G20. Secondly, for savers, we have increased the amount of money that an individual can save or invest tax-free through an ISA, by the largest amount ever, to £20,000, nearly doubling the limit since 2010. Thirdly, we have continued to increase the personal allowance to £11,500 this April. We have committed to increasing it further, to £12,500, helping individuals keep more of the money that they earn.

The hon. Member for Aberdeen North raised a specific point about response rates from HMRC to telephone contact. That is one of the measures that we are constantly looking at—how good are customer services—and I reassure her that it is one measure where HMRC performance has been relatively strong recently.

The clause should be considered in the context of that wider support for business and the need to deliver a tax system that works for everyone. We also need to take account of the ongoing trends in the different ways in which people are working. The design of the current tax system means that individuals who work through a company can pay significantly less tax than individuals who are self-employed or who work as employees. That can be true even when those individuals are doing very similar work.

At the autumn statement last year, the Office for Budget Responsibility estimated that the faster growth of new incorporations, compared with the growth of employment, would reduce tax receipts by an additional £3.5 billion in 2021-22. By that year, HMRC estimated that the cost to the public finances of the existing company population will be more than £6 billion.

The Government are committed to helping all businesses to succeed, large and small, and in all parts of the United Kingdom, but to deliver and maintain low taxes for everyone, we need a tax base that is sustainable. The cost to the public finances of the growth in incorporation is clearly not sustainable. It is, therefore, right to make the small but sensible change to reduce some of the distortions to which I have referred.

As we have heard from the hon. Member for Oxford East, amendment 18 would commit HMRC to undertake a formal review of the effect of this change to the dividend nil rate by the end of June 2019. It has been specifically proposed that such a review should consider in particular the effect of the change on the self-employed. Such a formal review is not necessary.

As I have mentioned, the change needs to be considered in the context of the wider support that the Government have provided to business owners all across the United Kingdom, from reducing the rate of corporation tax to giving the self-employed the same access to the state pension as employees, worth almost £1,900 more per year, to introducing successive increases to the personal allowance, which is available in addition to the dividend allowance.

Indeed, the Government have given careful consideration to the impact of reducing the dividend allowance. A £2,000 allowance ensures that support is more effectively targeted following this change. Around 65% of all recipients of dividend income will continue to pay no tax on such income. That includes around 80% of all general investors. Typically, a general investor will still be able to invest around £50,000 without paying any tax on the resulting dividend income. Those investors who are affected will have, on average, investments worth around £100,000, which will put them in the top 10% of wealthiest households in the country. I therefore invite the hon. Lady to withdraw the amendment.

The Government are delivering a tax system that works for everyone, including businesses, savers and investors. As the OBR has highlighted, there is a rising and unsustainable cost to the public finances of the growth in incorporation. The clause would help to address that by reducing the tax differential between those who work for a company structure and pay themselves in dividends and those who work as employees or self-employed, while ensuring that support for investors is more effectively targeted. I, therefore, urge the hon. Lady to withdraw amendment 18, while I commend clause 8 to the Committee.

Anneliese Dodds: I am grateful to the Minister for his comments. However, we still feel that this is a substantial change. Despite his helpful comments, it does not appear that there has been sufficient consideration, specifically of the impact of this new measure on the income of the very entrepreneurs we should support, especially when they are beginning the life cycle of their new firm. We are concerned that, in effect, many of those live off the income from dividends at the beginning of their business

and we do not feel that we have had the assurances that we require that there will not be a negative impact on their income. Therefore, we would like to push this amendment to a vote.

10.45 am

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 3]

AYES

Blackman, Kirsty	Hopkins, Kelvin
Creasy, Stella	Lee, Ms Karen
Dodds, Anneliese	Linden, David
Dowd, Peter	Smith, Jeff
George, Ruth	

NOES

Afolami, Bim	Hughes, Eddie
Burghart, Alex	Maclean, Rachel
Cleverly, James	O'Brien, Neil
Fernandes, Suella	Stride, rh Mel
Ghani, Ms Nusrat	Stuart, Graham

Question accordingly negated.

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

The Committee divided: Ayes 10, Noes 3.

Division No. 4]

AYES

Afolami, Bim	Hughes, Eddie
Burghart, Alex	Maclean, Rachel
Cleverly, James	O'Brien, Neil
Fernandes, Suella	Stride, rh Mel
Ghani, Ms Nusrat	Stuart, Graham

NOES

Blackman, Kirsty	Linden, David
Hopkins, Kelvin	

Question accordingly agreed to.

Clause 8 ordered to stand part of the Bill.

Clause 9

LIFE INSURANCE POLICIES: RECALCULATING GAINS ON PART SURRENDERS ETC

Anneliese Dodds: I beg to move amendment 19, in clause 9, page 17, line 45, at end insert—

“512B Review of operation of sections 507A and 512A

(1) Prior to 30 June 2020, the Commissioners for Her Majesty’s Revenue and Customs shall complete a review of the operation of sections 507A and 512A.

(2) The review shall consider in particular—

- the number of applications made under each section,
- the number of occasions a gain was recalculated on a just and reasonable basis under each section.

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

This amendment would require HMRC to undertake a review of the operation of the new provisions for requests for new calculations in relating to wholly disproportionate gains by policyholders.

The Chair: With this it will be convenient to discuss clause 9 stand part.

Anneliese Dodds: Clause 9 removes tax liability where wholly disproportionate gains inadvertently are made from surrendering life insurance. We can understand the motivation behind the measure. We know that the clause aims to introduce an application by which policyholders who part surrendered or part assigned their life insurance policies, including capital redemption policies and contracts for life annuities, and generated a wholly disproportionate taxable gain, can apply to HMRC to have their gain recalculated on a just and reasonable basis. None the less, we are concerned about the lack of key safeguards and the exercise of what is essentially a discretionary remedy by HMRC. The measure is not backed by the fundamental safeguard of a statutory right of appeal to a first-tier tribunal of the officer's decision on what constitutes a just and reasonable basis for the calculation. It would be helpful if the Minister explained the reasoning for not making express legislative provision for a right of appeal, which we feel is a fundamental safeguard in the exercise of a discretionary remedy. Therefore, our amendment asks for greater consideration of that and other issues through a review, and I hope the Government will accept that request.

Mel Stride: Clause 9 makes changes to ensure that policyholders who take value from their ongoing life insurance policies in such a way that a wholly disproportionate gain is generated, as the hon. Member for Oxford East pointed out, can apply to HMRC to have the gain recalculated on a just and reasonable basis. Recent litigation has exposed circumstances in which cash withdrawals from life insurance policies, known as part surrenders, can give rise to a wholly disproportionate taxable gain. That could also occur following an early sale of part of a policy, also known as a part assignment. In particular, large early withdrawals of cash from a policy that shows little or no underlying economic growth can generate taxable gains that are wholly disproportionate in size and effect. Usually, if cash had been taken by a different method, little or no gain would have arisen.

At Budget 2016, the Government announced their intention to change the tax rules on part surrenders and part assignments of life insurance policies. The changes made by clause 9 will introduce an application process through which policyholders who trigger wholly disproportionate gains can apply to HMRC to have their gain recalculated on a just and reasonable basis.

The hon. Lady raised the issue of appeals. Although taxpayers do not have a right of appeal, they have strong safeguards through the complaints procedure, which provides a simple and straightforward way for policyholders to express dissatisfaction with a decision and have it scrutinised independently. Recalculation applications will be dealt with by a small team in HMRC, ensuring consistency and quality of approach. If taxpayers are unhappy with the decision made, they can complain, and any complaint will be dealt with fairly and impartially by someone independent of the original decision maker. If taxpayers are still not satisfied, the complaint can be referred to the adjudicator or the Parliamentary and Health Service Ombudsman.

The changes will provide a fair outcome for policyholders who inadvertently generate disproportionate gains. An important point is that the measure is expected to affect fewer than 10 policyholders per year and to have a negligible cost to the Exchequer. The impact on life insurance companies, which broadly support the measure, is also expected to be negligible.

The Opposition amendment would require HMRC to complete a review of the operation of these changes by June 2020. The proposed changes in the clause provide a fair outcome for the very small number of policyholders—around 10—who inadvertently generate these gains. As mentioned earlier, we expect fewer than 10 policyholders to be affected. A formal mandated review, followed by a report to the House of Commons, would be an excessive requirement for changes so narrow in scope and for such a small number of individuals affected. I therefore ask the Committee to resist the amendment.

To conclude, clause 9 will provide a fairer outcome for a small number of policyholders who generate wholly disproportionate gains. I invite the hon. Lady not to press her amendment, and I commend the clause to the Committee.

Anneliese Dodds: We are willing to withdraw the amendment, but we want to ensure above all that the information and advice about the provisions are definitely made available to the albeit small number of policyholders. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 9 ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned.
—(*Graham Stuart.*)

10.54 am

Adjourned till this day at Two o'clock.