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GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

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

Third Sitting

Thursday 19 October 2017

(Morning)

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Monday 23 October 2017

The Committee consisted of the following Members:

Chairs: †Mr George Howarth, Mr Charles Walker

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

Colin Lee, Jyoti Chandola, *Committee Clerks*

† attended the Committee

Public Bill Committee

Thursday 19 October 2017

(Morning)

[MR GEORGE HOWARTH *in the Chair*]

Finance Bill

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

Clause 20

CORPORATE INTEREST RESTRICTION

11.30 am

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

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

Amendment 5, in schedule 5, page 364, line 10, at end insert—

"**443A Review of effects in relation to PFI companies**

(1) Within three months of the coming into force of this Chapter, the Commissioners for Her Majesty's Revenue and Customs shall complete a review of the effects of the provisions of this Chapter in relation to PFI companies.

(2) The review shall consider in particular the effects if the provisions of—

(a) the Chapter, and

(b) the exemption in section 439

were not to apply to PFI companies.

(3) The Chancellor of the Exchequer shall lay a report of the review under this section before the House of Commons within three months of its completion."

This amendment requires a review to be undertaken of the impact of the provisions of Chapter 8 of new Part 10 of TIOPA 2010 in relation to PFI companies and if the provisions did not apply to PFI companies.

Amendment 28, in schedule 5, page 367, line 46, at end insert—

"**448A Sectoral reporting on operation of this Chapter**

(1) Within fifteen months of the coming into force of this Chapter, the Commissioners for Her Majesty's Revenue and Customs shall complete a review about the operation of its provisions in relation to different sectors.

(2) The sectors covered by this review shall be—

(a) water and sewerage,

(b) gas and electricity,

(c) telecommunications,

(d) railway facilities,

(e) roads and other transport facilities,

(f) health facilities,

(g) educational facilities,

(h) facilities or housing accommodation provided for use by any of the armed forces,

(i) facilities or housing accommodation provided for use by any police force,

(j) court or prison facilities,

(k) waste processing facilities,

(l) buildings (or parts of buildings) occupied by any relevant public body other than for purposes principally concerned with matters specified in paragraphs (a) to (k).

(3) A review under this section shall separately identify, in respect of each sector, information on operation in respect of qualifying infrastructure companies undertaking activities that were previously undertaken by a nationalised industry.

(4) The Chancellor of the Exchequer shall lay a report of the review under this section before the House of Commons within three months of its completion."

This amendment would require HMRC to report on the operation of the special provisions in Schedule 5 relating to public infrastructure in relation to sectors and, within sectors, in relation to privatised companies as a group.

Amendment 6, in schedule 5, page 368, line 13, at end insert—

"'a PFI company' means a company which has entered into a contract with a public sector body under the Private Finance Initiative or the PF2 initiative."

This amendment defines a PFI company.

That schedule 5 be the Fifth schedule to the Bill.

New clause 1—*Review of relief from corporation tax relief for PFI companies*—

"(1) Within three months of the passing of this Act, the Commissioners for Her Majesty's Revenue and Customs shall complete a review about how corporation tax relief is given for losses, deficits, expenses and other amounts of PFI companies.

(2) For the purposes of this section, 'a PFI company' means a company which has entered into a contract with a public sector body under the Private Finance Initiative or the PF2 initiative.

(3) The Chancellor of the Exchequer shall lay a report of the review under this section before the House of Commons within three months of its completion."

This new clause requires a review to be undertaken of the corporation tax reliefs available to PFI companies.

Stella Creasy (Walthamstow) (Lab/Co-op): It is a pleasure to serve under your chairmanship this morning, Mr Howarth. I am looking forward to this debate because it is something all of us across the House feel concerned about. I recognise that we are debating the Finance Bill. I reassure you that the amendments and the majority of what I will talk about today are about taxation and, in particular, the requirements of the legislation. I just want briefly to set out how that fits into the context of the concerns that are shared across the House about private finance and the cost to the public sector of borrowing to be able to build the infrastructure that we all know we need.

To be clear, Governments of all colours have used private finance and continue to do so. The private finance initiative and private finance 2 schemes are little different from each other. It is recognised that questions about the companies involved and the role of taxation in the decision to use PFI or PF2 to fund public infrastructure are questions for all of us, because we see in our constituencies the problems that are caused.

I note that the constituency of the hon. Member for Brentwood and Ongar now has repayments of £169 million as a result of private finance. The constituency of my hon. Friend the Member for Bootle, the shadow Minister, has £423 million-worth of repayments required under private finance contracts. I would describe private finance as the hire purchase of the public sector—indeed the legal loan sharks of the public sector— because the companies offer credit to the public sector, but at a high cost. In particular, the cost of the credit—the taxation that will come from the companies involved—is part of the decision to go with them. That is specifically part of the Green Book calculations. I am looking forward to the Minister telling us what has happened to those Green Book calculations, which were supposedly withdrawn in 2013 but I understand are still being used by Departments for private finance deals, to understand how tax plays a part in the decision to use private finance companies. The idea is that this form of credit may be more expensive but that the companies will repay us in taxation in the UK. That forms part of the decision to use them. The widespread evidence now is that those companies are not paying UK taxes, and that they are benefiting from changes in our tax regime over the past 20 or 30 years. That should trouble all of us because we are not getting the value for money that the deals were supposed to be.

One of my concerns that I hope the Minister will address is that PF2 also pays little regard to the question of where the companies are situated and how much tax they pay. I have therefore tabled two amendments—in fact, three; one is about defining private finance companies—to understand what kind of deal we are getting from those companies and how we as taxpayers and those who represent taxpayers can get a better deal for the British public.

For the avoidance of doubt, the debate is not about not using private finance. One day, I hope that we will have another debate—I am sure the Minister will look forward to it as much as he is looking forward to this one—about the alternatives to private finance. There is a role for private finance, but the question is, if we are getting a bad deal and if the companies are not honouring the obligations that we as taxpayers assigned to them, what can we do about it?

Clearly, the PFI companies are making huge profit. Research from the Centre for Health and the Public Interest shows that over the next five years almost £1 billion in taxpayer funds will go to PFI companies in the form of pre-tax profits. That is 22% of the extra £4.5 billion given to the Department of Health alone.

In my constituency I see at first hand the impact of this. Whipps Cross University Hospital is technically in the constituency next door, but serves my local community—it is part of Barts, which has the biggest PFI contract in the country: £1 billion-worth of build, £7 billion to be repaid. The hospital is paying back £150 million a year in PFI charges, more than 50% of which is interest alone on the loan. The hospital downgraded the nurses' post to try to save money, and so found that many nurses left. It therefore faced a higher agency bill.

It is clear that PFI and the cost of those loans drives problems. It is also clear that those companies make what I would term excessive profits. That is where new clause 1 begins to try to offer us some answers. If the companies make excessive profits, that is not part of the contract that we signed with them. The National Audit Office has been incredibly critical of how taxation played a role in decisions about private finance companies, but that has not been realised.

Also, not that many companies are involved, yet the tax returns are huge. Just eight companies own or appear to have equity stakes in 92% of all the PFI contracts in the NHS. Innisfree manages Barts, which is my local hospital, and it has just 25 staff but stands to make £18 billion over the coming years. It might be thought, therefore, that companies of that size and stature would pay a substantial amount of tax—I see that the hon. Member for Brentwood and Ongar can predict where I am going with this; sadly, it does not appear to be the case.

Indeed, many of the companies seem to report little or no tax in the UK. One of the simple reasons for that is that many of them are not registered in the UK. That is crucial because the provisions in the Bill to give those companies a relief on paying tax on the interest that they get from shareholder debt are predicated on the idea that they are UK companies. That is the starting point for amendments 5 and 6. The Bill will bring in a cap on the amount of relief that companies can claim against interest. However, there is a public sector exemption, for public sector infrastructure companies, and it will substantially benefit the companies in question.

Having been a Member of this House for seven years, I have always assumed that when such a provision is introduced we will be able to debate its merits. I note that the restrictions in relation to the measure mean that we cannot stop it, or ask whether we are being wise and whether, given that we know the companies do not necessarily pay the tax it was assumed they would in the UK, we are getting their tax situation right. We cannot stop the measure, but we can certainly ask just how much the companies are going to benefit from it.

Amendments 5 and 6 are intended to enable taxpayers to understand how much the companies will benefit from the exemption, and how much extra money they will be able to write off against their tax bill, thus paying little tax in the future. It matters very much to the companies, because most are heavily indebted to their shareholders. They use a model involving 80% to 90% senior debt; the rest is equity loans in terms of the products that they offer. PF2 will change that very little. The amount of debt that they carry, and therefore the amount of interest that they can trade off, which the measure will allow them to do, will be relevant to their ability to give returns to their shareholders.

It is clear that those companies give their shareholders substantial returns, and will be able to fund that through such tax relief. Indeed, the shareholders' returns are 28% on their sales—more than double the 12% to 15% that was predicted in the business cases. Between 2000 and 2016 the total value of sales of shares in PFI companies was £17 billion. It is notable that in 2016 100% of equity transactions involving those companies were to offshore infrastructure funds in Jersey, Guernsey and Luxembourg. That is based on a sample of 334 projects.

Those companies are going to get a substantial tax relief from the exemption. Yet they do not pay tax in the UK—or, certainly, there is a lot of evidence that they do not. It is an exemption that will enable them to continue to justify paying little or no tax; they will be able to write off the interest on their loans and projects against it. Yet taxpayers are not benefiting from the tax that they said they would pay.

New clause 1 goes to the heart of that question. Those companies signed up for public sector contracts, with particular rates of tax at the time they were finalised. Yet, as we know, corporation tax has varied substantially over the past decade. The debate is not about what the right level of corporation tax is; it is about a simple

[Stella Creasy]

principle. If a company has signed up to pay a certain rate of tax, and the tax rate changes, it clearly benefits from that. We signed up to the deals for taxpayers, however, on the basis that they would pay a certain rate of tax. That tax rate will now change. New clause 1, again, asks just how much the companies are benefiting from the changes.

I know that the Minister will tell me that there are various anti-discriminatory clauses in the PFI and indeed the PF2 contracts. I agree with him. Therefore, how we might start to reclaim some of that excessive profit is a tricky question, but there is a strong case that, if a company has signed up in good faith to a particular rate of tax, surely that is the rate of tax that it should pay. That is written into the contract, it is part of the business case in the Green Book that is made on these sorts of deals. We as taxpayers have an expectation. Indeed, I would expect the Minister to have a series of sums reflecting the amount of money that would be paid back that he would write off against the large sums that I talked about. However, given that the corporation tax situation has moved from some of these companies nominally paying 28% to their paying 19% or less, that is clearly a substantial discount on what they were expected to pay. New clause 1 asks us to do what, frankly, at the moment we do not do as a country—understand what the difference is between what we expected to get in from tax from these companies and what we will get in.

It is always troubling to me that the Treasury does not seem to have a central database either of how much we were paying to take on these loans—particularly the rates of return, which we know are substantially higher than the rate of borrowing on the public sector—or of the taxation these companies are paying back versus what they were expected to pay back. New clause 1 would get to the heart of that matter and it sits alongside amendments 5 and 6 in trying to understand where these companies are making excessive profits from the public sector.

I am sure that the Minister will tell me that this is a dreadful attack on the private sector and that we should not be saying that these companies are ripping the British public off and that they are legal loan sharks. However, I ask him: if he will not accept the amendments, will he commit to gathering the data about how much these companies have paid in tax, how much difference these have made to the value-for-money case for these businesses, and therefore how our communities will be able to pay back the sums involved?

I am sure that the hon. Member for Brentwood and Ongar would love to have £169 million to invest in his local community; there are many worthy causes that I am sure he would support. I am sure that the hon. Member for Hitchin and Harpenden would be interested in the £170 million that I believe Stevenage, near his constituency, will have to pay out to PFI companies. That money could be invested in the public infrastructure that we so desperately need.

I am sure that all of us would agree that we expect these companies to pay their tax, as they signed up to in these contracts, yet it is clear that they do not. So if the Minister is not prepared to accept these incredibly reasonable amendments in this environment, I hope that he will set out precisely what he is going to do to get our tax money back. All of us and all of our constituents need and deserve nothing less.

Peter Dowd (Bootle) (Lab): It is again a pleasure to serve under your stewardship, Mr Howarth.

I thank my hon. Friend for tabling the amendment, which seeks a review of the effect that the measures we are discussing will have on PFI companies. The Government blithely assert, including in their notes on the Bill, that companies involved in public benefit infrastructure spending are an inherently low risk for tax avoidance. That is an odd claim, especially in the light of what my hon. Friend has said. We know that some PFI companies have engaged in profit shifting to non-UK jurisdictions. It does not make sense to say that just because the profits of a company are extracted from public investment it cannot seek to be paid in a way that is fiscally undesirable.

No one should bemoan the huge public infrastructure investment that the last Labour Government enabled. It was fixing many of the problems left from years of neglect in the public sector. All Governments have taken part in PFI. When PFI was in effect the only game in town, so to speak, many public authorities took up the chance to make the investment they needed; my hon. Friend identified some in my constituency that benefited from such investment. However, we know that some contracts have produced excessive costs for the public sector, where direct borrowing could have produced much lower ongoing costs and provided for more direct influence over the quality of some ancillary services. Therefore, it is right that a review be used to work out whether we should be privileging PFI companies with exemptions from these measures at the same time as knowing that they often benefit from guaranteed profits at the public expense.

11.45 am

Kirsty Blackman (Aberdeen North) (SNP): I appreciate where the hon. Member for Walthamstow is coming from with the amendments. We support Labour on new clause 1, which calls for a review of how much we are spending and where the money is going. Good points have been well made about how companies are making more of a profit as a result of the changes in corporation tax rates.

On the other amendments, we are concerned about the possible impact that any changes to PFI would have on Scotland. We are still paying off a number of PFI projects in Scotland. I know that people say that all Governments have implemented such projects, but the Scottish Government have moved away from the PFI funding model because the SNP does not support it. We have the Scottish Futures Trust and not-for-profit delivery mechanisms, which mean that profits do not go to private companies.

Stella Creasy: To be clear, the evidence of the problems with the PFI model extends to the not-for-profit model. I encourage the hon. Lady to read the work of Mark Hellowell of the University of Edinburgh. No political party can claim the moral high ground when it comes to private finance in this country.

Kirsty Blackman: I appreciate the hon. Lady's comments. The not-for-profit model that was set up when I was a local councillor, which built schools in Aberdeen, was significantly better than some of the previous rental models. Perhaps that was just because Aberdeen was particularly diligent with the not-for-profit model that it chose specifically for its schools funding project.

As I have said, I am concerned about the effect the amendments might have on the projects in Scotland that were put in place under the previous Scottish Executive. The SNP Scottish Government have been very clear that the old PFI models are not the way to go and that they are incredibly burdensome for the public purse. Although there is a shiny new building, quite often they saddle the public purse with repayments for a very long time, which can amount to much more than the original cost of the building. There is also less flexibility, because the rules of the private sector organisation have to be abided by.

I agree with the concerns raised about PFI models and that we should not use them. The SNP Scottish Government have recognised that and are using initiatives such as the Scottish Futures Trust, which has delivered a significant amount of funding, savings and benefits to the people of Scotland. As I have said, we support new clause 1 because we do not agree with PFI models and think that it is completely reasonable to reconsider them, but we do not support the Labour party's other amendments.

Kelvin Hopkins (Luton North) (Lab): It is a pleasure to serve under your chairmanship, Mr Howarth. Rather than speak specifically to the amendment, I want to make a comment. My hon. Friend the Member for Walthamstow has raised some very important issues about PFI, but from the beginning it has been an outrageous rip-off of the public purse and the citizens of this country. It should be abandoned. Indeed, in his speech at our party conference, the shadow Chancellor suggested that we should take PFI contracts into public ownership, saving billions for the public purse over time. That is what I want. I have spoken against, voted against and written a chapter of a book against PFI, because it is utterly ridiculous and total nonsense. It is driven by ideology to try to drive as much of the public sector as possible into the private sector. That is what PFI is really about: it puts vast sums of public money into rich private pockets. I will pursue that view vigorously over the next few years.

The Financial Secretary to the Treasury (Mel Stride): It is once again a great pleasure to serve under your chairmanship, Mr Howarth. Before I respond specifically to the amendments tabled by Opposition Members, I will set out the aims of the Bill and some details of how it will work.

Clause 20 and schedule 5 introduce new rules to limit the amount of interest expense and similar financing costs that a corporate group can deduct against its taxable profits. Interest is a deductible expense in the calculation of profit subject to corporation tax. Therefore, there is a risk of groups borrowing excessively in the United Kingdom, with the resulting deductions for interest expense eroding the UK tax base.

The new rules are part of the Government's wider changes to align the location of taxable profits with the location of economic activity. The rules follow the internationally agreed recommendations from the OECD's base erosion and profit shifting, or BEPS, project to tackle tax avoidance by multinational companies. The rules aim to prevent businesses from reducing their taxable profits by using a disproportionate amount of interest expense in the UK.

The schedule introduces a new part into the Taxation (International and Other Provisions) Act 2010 and will raise about £1 billion a year from multinational enterprises and other large companies. The rules take effect from 1 April 2017, as announced in the business tax road map published in 2016 and reconfirmed at the spring Budget this year. Maintaining that commencement date ensures that groups that have already made changes in light of the new rules are not unfairly disadvantaged and that there is no delay in protecting the UK tax base. Given the sophisticated nature of corporate finance, the rules are detailed and technical. However, the core effect of the rules, which aim to match deductions with taxable profits, is relatively simple.

All groups will be able to deduct £2 million in net interest expense a year, so only larger businesses—those with financing costs above that level—can suffer a restriction. Above that threshold, the core rules will restrict interest deductions to a proportion of the group's UK earnings or the net external expense of the group, whichever is lower. I will discuss the rules in further detail.

First, the fixed ratio rule will limit interest deductions to 30% of the company's taxable EBITDA—earnings before interest, tax, depreciation and amortisation. Secondly, the modified debt cap will limit interest deductions to the net external interest expense of the worldwide group; this rule is consistent with the recommendation in the OECD BEPS report. There are provisions to ensure that the rules will not adversely affect groups that are highly leveraged with third-party debt for genuine commercial reasons. Thirdly, the group ratio rule will allow groups to increase their deductions if their UK borrowing does not exceed a fair proportion of the external borrowing of the worldwide group. In addition, there are public infrastructure rules that provide an alternative but equally effective approach for companies that are highly leveraged because they own and manage public infrastructure assets.

The Bill provides rules to help address fluctuations in levels of net interest expense and EBITDA. Amounts of restricted interest are carried forward indefinitely and may be deducted in a later period if there is a sufficient allowance. Unused interest allowance can also be carried forward, for up to five years.

The Bill introduces additional provisions to ensure that the rules work for certain types of business, such as banks and insurers, joint ventures, securitisation vehicles and real estate investment trusts. There are also rules to deal with particular issues including related parties; leases; payments to charities; the oil and gas tax regime; incentives such as the patent box and research and development tax credits; and double taxation relief. Given the technical nature of the Bill, we need to deal with a wide range of corporate arrangements. We will, as always, continue to keep their detailed implementation under review.

I welcome the opportunity to debate amendments 5 and 6 and new clause 1, tabled by the hon. Member for Walthamstow. Amendments 5 and 6 propose a review

[Mel Stride]

within three months of Royal Assent on the effect of the provisions contained in the new chapter 8 proposed by the schedule on companies with PFI contracts. Legislating for a review of the rules within three months is unnecessary. The Government have already undertaken extensive work and consultation on the issue over the past 18 months. We will continue to monitor the impact of the legislation, and Government officials continue to meet key stakeholders impacted by the rules in the chapter.

Proposed new chapter 8 includes the public infrastructure rules designed to ensure that companies holding public infrastructure assets are not disproportionately affected by the corporate interest restriction. In particular, proposed new section 439 of chapter 8 contains a grandfathering provision for loans entered into by certain companies on or before 12 May 2016. Such companies are highly leveraged as part of their standard business model, given their fixed assets and fixed income flows. The grandfathering ensures that investors who entered into contracts to provide Government services in good faith are not unfairly impacted. That could be the case where the additional tax expense was not factored into original funding models and there is no scope to pass on any of the cost. Given that PFI projects are long-term in nature and provide many of our vital public services, the rules grandfather the treatment of interest payable to related parties to the extent that the loan was agreed prior to the publication, on 12 May 2016, of detailed proposals for the interest restriction rules.

Stella Creasy: The Minister says that he has met the stakeholders affected and is setting out how those companies might be impacted. Will he clarify which companies his officials have met to discuss these rules?

Mel Stride: With respect to the hon. Lady, I do not think I said that I had met all the stakeholders, but as part of their ongoing work in this area officials naturally meet a large range of officials. If she is keen to know exactly who they are and what types of companies, I would be happy to ask my officials to write to her with that information.

The hon. Lady also proposes a new clause, which would require a review within three months of Royal Assent of how tax relief is given for losses, deficits, expenses and other amounts in relation to PFI companies. PFI companies do not obtain any special treatment under the tax rules in the way that losses, deficits, expenses and other amounts are treated. Legislating for a review of these rules in three months is unnecessary. As we debated on Tuesday, the Government have already undertaken extensive work on the treatment of losses and deficits over the past 18 months and through extensive consultation. The Government will continue to monitor the legislation's impact, and officials continue to meet key stakeholders impacted by the rules in this chapter.

I turn now to some of the more general and specific points that the hon. Lady has raised. In doing so, I should acknowledge the important contribution she has made over a long period in Parliament on the important issues surrounding PFI. She is right to point out that PFI contracts are the creatures of many different Governments. It would be widely accepted that many of the issues that have arisen, and to which she and other Members have alluded, certainly occurred under the watch of the previous Labour Government. She rightly points out that not all of those contracts are perfect. That is evidenced by the fact that this Government have secured a rebate of about £2.5 billion by working with the private sector and raising funds through that approach.

We have had a general discussion about PFI, and proposed chapter 8 gives rise to the question whether PFI infrastructure projects should be treated differently from other projects that would otherwise be subject to the interest restriction. I have two important points to make. First, these are infrastructure projects, so they are, by their very nature, highly leveraged. They are projects where large amounts of interest are often part of the natural, right and proper, way in which they are constructed.

The second point, which in a sense follows from that, is that of proportionality. To what degree does one apply this kind of approach to a business of that particular nature, given that the downstream revenues from PFI arrangements cannot be easily adjusted to accommodate the provisions that would otherwise apply in the Bill?

The hon. Lady raised two specific points. One was related to the Green Book calculations. In 2012 we set up the operational efficiency programme to deliver savings from existing programmes. That brought in £2.5 billion. We also introduced the new PF2 model, to offer better value for money and greater transparency in the operation of these arrangements.

Kelvin Hopkins: Rather than having another elaborate PFI system, would it not be simpler, in the health service and in the education sector, to build by traditional public borrowing, which is extremely cheap and would save billions for the taxpayer?

Mel Stride: With great respect to the hon. Gentleman, I think that is probably a little out of scope of the issues being dealt with in the Bill. I make the point that his party is committed to bringing a lot of these back in, as it has described. That is a fine idea in principle, but it will cost a huge amount of money and there has been no suggestion from his party as to how it would be raised, what taxes will have to be raised as a consequence, or what additional borrowing will have to occur in order to do that.

12 noon

To return to the hon. Lady's point, the Green Book methodology as it applies to the PFI is not directly concerned with the tax treatment under discussion, but I am very happy to write to her about that. Her other point was, in effect, whether chapter 8 applies to an overseas company. She made constant reference to the idea that a lot of these organisations were foreign-based in one form or another. I can give her some reassurance on that, because chapter 8—it applies the particular treatment to which she objects in respect of PFIs—applies to UK companies, which still typically include the company that holds the PFI contract. It does not apply to overseas companies or investors.

I welcome the opportunity to debate amendment 28, tabled by Opposition Members. It proposes a review within 15 months of Royal Assent of the effect of the provisions contained in chapter 8 of the schedule in relation to the sectors listed in the amendment. As I have mentioned, chapter 8 introduces the public infrastructure rules. With those rules, providers of public infrastructure may find that they are disproportionately impacted by the rules as the nature of the businesses require substantial investment, and their commercial characteristics often lead to such finance being provided in the form of debt.

Legislating for a review of the rules in 15 months is unnecessary. As I have described, the Government have already undertaken extensive work and consultation on this area over the past 18 months. We will continue to monitor the impact of the legislation and officials will continue to meet key stakeholders impacted by the rules in the chapter.

As I said at the outset, I welcome this debate. The Government have already looked closely at the impact that the rules will have on companies with PFI contracts, and indeed on all companies within the scope of the rules. The provisions made in the legislation strike the correct balance between being robust, while not disproportionately impacting on PFI investors, and not damaging the reputation of the UK as a place to do business. I therefore invite Opposition Members not to press amendments 5, 6 and 28 and new clause 1 to a Division.

Schedule 5 introduces new rules that will restrict the ability of businesses to reduce their taxable profits through excessive UK interest expense. The rules are consistent with the UK's wider policy to align the location of taxable profits with the location of economic activity and better reflect the global reality of modern business. Introducing the rules ensures that the UK upholds its commitment to timely and effective implementation of the OECD's recommendations to make sure multinational corporations pay tax reflective of the business they carry out in this country. I therefore commend the clause to the Committee.

Peter Dowd: I do not think that the Minister has recognised the paradigm shift in the public's view of PFI. In fact, Mr Howarth, as you know, in the area where we live there is a big debate at the moment about a significant infrastructure project, which is creating all sorts of tensions because of the implications of the way it is constructed. I am not criticising anybody, because all political parties—certainly the two main parties—have dipped their fingers, possibly even up to their shoulders, into PFI, so it is not a question of pointing a finger at anyone.

My hon. Friend the Member for Walthamstow eloquently and forensically identified some of the issues, and I thank her for that. However, things are moving on and we have to keep up with the tone outside in the country. People are becoming increasingly suspicious of PFI contracts. I know that we are not discussing the whole question of PFI. I completely accept that, but there is a question about the generality of the measure, to contextualise it. What we have here in the Bill is one of the most complex measures ever legislated for in Britain. Schedule 5 alone stretches to 157 pages of dense text, which is far longer than the entire length of the majority of Bills that we debate in Parliament, and I daresay is longer than the entire tax code of some jurisdictions. We have to take that into account; that is the context we are working in.

The length, of course, relates to the complexity of what the measure tries to achieve, but sometimes the complexity and length do not improve the operation of law. The excessive length of the existing tax code is well known. In reality we have in PFI, as identified in amendment 28, a range of services in the public sector: water, sewerage, gas and electricity, telecoms, railway facilities, roads, health facilities—referred to earlier—educational facilities, court and prison facilities, and waste processing facilities. We have moved beyond dealing with this as just a technical issue—it is a wider issue—but for today's purposes we must identify how much those projects cost the taxpayer and how much of our tax take they denude us of.

The UK's engagement in the OECD's base erosion and profit shifting project, which the Minister referred to, will be welcome if it really does lead to the end of practices that have denuded Exchequers here and abroad of much needed receipts, but many people are not convinced about that. They genuinely are not convinced that PFI projects, which have been in operation for the best part of a quarter of a century, have given us the best value for money. There are deep concerns about the Exchequer being denuded of tax, especially when many of these projects, if not all of them, have the copper-bottomed guarantee of the British state. They are hardly the riskiest ventures in the world. In fact, they are probably some of the safest. We have to take that into account. There has been a shift in people's attitude to PFI. We must recognise that things have moved on.

We certainly do not oppose the overall aim of reducing companies' ability to shift profits through artificial interest charge arrangements—no one is suggesting that—but as I and others have said, there is a concern that those deeply complex measures and the many loopholes have already found their way into the minds of tax advisers and into the accounting practices of many corporations. I said to the Minister only the other day that we are here to guard the guards, and I know that he recognises that we are perfectly entitled to ask many questions.

The debate about PFI—the concept, the philosophy, the notion—will take place elsewhere. The shadow Chancellor mentioned it in his party conference speech. We will take the issue out to the public, but given the context we want to delve down, and one of the only ways that the Opposition have to delve down is to ask HMRC to report on the implications. Amendment 28 would do that.

The Chair: I am going to call the hon. Member for Walthamstow, who tabled two of the amendments. The hon. Member for Bootle cleverly managed to balance the context and the amendments, but we need speeches that, although they might refer to the context, actually speak to the amendments at hand.

Stella Creasy: Be under no illusions, Mr Howarth; I intend very much to speak to the amendments at hand.

The Minister argued, slightly bizarrely, that we already have information about whether the changes would affect PFI companies, because the Government have been able to assess that, yet they are rejecting our call to put that information in the public domain. The Minister said clearly that his officials have met PFI companies, and I asked him to clarify which companies. I hope that when he meets stakeholders he will meet my local hospital, which is dealing with the difficult consequences

[Stella Creasy]

of PFI deals for its financial position. I would argue that officials who are essentially having to sack nurses to pay back PFI loans are equally stakeholders, so I would be interested to know whether he has met any of them.

Kelvin Hopkins: Does my hon. Friend have a figure for the total cost of PFI repayments every year to the national health service? That would illustrate the enormous burden of PFI schemes on our health service.

Stella Creasy: I can go better than that—

The Chair: Order. We do not want too much context.

Stella Creasy: Well, this is why how much tax these companies pay matters. I hate to tell the Minister how to do his job, but I have looked at the PFI and public sector comparator documents used to assess the value for money of the deals, and they explicitly talk about the levels of tax that the companies pay and, indeed, look at how those would be traded off against the cost of borrowing to the public sector.

My hon. Friend the Member for Luton North asks about the £300 billion for which we are now indebted in repayments on the loans, as against the £55 billion of outlay. One reason why we took on the £300 billion was that we expected to get back in tax from the companies money to trade off against it. That was an explicit part of the value-for-money calculations done by the Departments. That is why the Green Book matters. That is why I am slightly troubled when the Minister says that tax treatment is part of the deal, but does not then want to give us those data. He says that his Department has looked at the matter and therefore the amendment is unnecessary. Will he therefore commit simply to publishing the information used to assess whether the exemption was in the public interest? It can be in the public interest only if it does not affect the amount of tax that we get back from the companies to go towards the £300 billion that we will have to pay out as a consequence of signing the contracts.

I encourage the Minister to read the work from the National Audit Office on this issue, and specifically about the tax adjustments made in the contracts and whether that really did get value for money for us, and indeed its assessment of PF2. Far be it from me to suggest that pride comes before a fall, but I think that he will find it as troubling as I do that we have not cracked how best to borrow, given that, as my hon. Friend the shadow Minister says, we are always a good bet. Frankly, we never let hospitals or schools go bust, so we always repay our debts. I also encourage my colleagues from north of the border in Scotland to do that, given that the problems also apply to the Scottish Futures Trust. This is about the use of private finance companies. Their tax take is absolutely part of the calculation.

I note, too, that the Minister did not address at all new clause 1 and the levels of tax that the companies signed up to pay. Again, that is very troubling. Either the Minister is telling us that he knows and does not want to tell us, or he does not know and does not care. Either way, we as taxpayers should know and should care, because that money should go towards the £300 billion.

The new clause matters because we know that tax relief on interest paid to shareholders and other affiliates where the debt is held at arm's length, which is what many of these companies do, has been widely abused, with shareholders injecting debt for the sole purpose of reducing their pre-tax profits and hence the company's corporation tax. When the Minister gives the tax relief to these particular companies, which he admits are highly leveraged, he is giving them a bonanza. All the amendments do is ask the Government to admit just how much that is, because all of us will have to recognise that that money, which the companies will be able to pay off against their loans, is money that we will have to find to bridge the gap in relation to the £300 billion that we have now committed to paying them. It is entirely in order and within the scope of this legislation, Mr Howarth, that we should ask for that information.

For the avoidance of doubt, let me be very clear that I have absolutely no intention of giving these companies a penny more of taxpayers' money. I do not wish to get into litigious battles with them about their tearing up their contracts and giving their lawyers an opportunity to claim even more money. Frankly, they have had more than enough from the British taxpayer. I am determined that we can table legislation and show these companies that we are serious about recognising where they have generated excessive profits, where we can learn from the windfall tax of the previous Labour Government, to be able to bring them to the table to renegotiate the costs and get the money back for the British taxpayer so that we can properly invest in infrastructure.

There is another debate to be had about the range of credit available to this country, but with this legislation and the tax breaks that this Government are giving to these companies, it is the taxpayer who will lose out, and we deserve to know by just how much.

Anneliese Dodds (Oxford East) (Lab/Co-op): It is a pleasure to serve under your chairmanship, Mr Howarth. I have just two comments. The first is in response to what the Minister said about the extent to which the new measures implement OECD recommendations. The second is a comment about our amendment 28.

As I am sure the Minister is aware, the OECD BEPS recommendations, and specifically recommendation 4, which applies to this area, offer a range of possibilities when it comes to deciding what the write-off can be. The cap is allowed to be between 10% and 30%. Her Majesty's Government have decided to go with 30%, but it is feasible for states to go down to 10%. When the EU looked at implementing this measure through the anti-tax avoidance directive, which of course applies to us for as long we are still a member of the EU, again a range between 10% and 30% was given. I have not yet heard why the Government have chosen 30% rather than 10%.

On amendment 28, our request for a review is specifically about the rationale for having special provisions for public infrastructure-providing companies. That is in the light of some quite worrying developments occurring around large swathes of British public infrastructure now being owned by firms and in effect provided through debt finance.

12.15 pm

One example we touched on in some Finance Bill debates is Thames Water. As the Minister will know, back in 2006 Macquarie bank purchased Thames Water.

It did sell it off—after a number of problems, if we are honest—but during that period our water infrastructure was owned by a firm that was in effect debt-financed, and through the Cayman Islands, which is a separate issue. There are genuine questions about whether that model is appropriate. Does it cause additional potential risks to service quality and continuity? What would happen if that debt financing model could not be serviced by one of these firms?

Stella Creasy: My hon. Friend is making a powerful point about the nature of these companies based overseas. Does she share my frustration that the Minister seems to think that does not matter because these clauses will only affect companies in the UK while not recognising that those companies have only nominal addresses in the United Kingdom, with their parent companies being based overseas? They are able to trade off the tax exemptions that the Bill will bring in. All of these PFI infrastructure companies may well claim to be UK-based for tax purposes to trade off these incomes, but actually they will be in Guernsey and Jersey, the Cayman Islands and the like. It is a con.

Anneliese Dodds: I am grateful to my hon. Friend for making those points. Indeed, that issue came up in Committee of the Whole House. There needs to be much more muscular engagement in questions around profit shifting between jurisdictions and especially between those that have low or no-tax regimes, where there appears to be a lot of evidence of harmful tax practices.

Mel Stride: I thank hon. Members for their contributions to this important and interesting debate. To come back on a few of the points made by the hon. Member for Walthamstow, at the heart of this there is a distinction. She kept raising the issue of how PFI organisations should have taken into account that tax treatments could change. To some degree that is a fair argument, but there is a distinction for a company that is involved in highly leveraged infrastructure projects, which after all is delivering to public services. While she might be right that many PFI contracts have been very lucrative, not all of them have been; some are far more marginal. She has to conjure with the possibility that, if we go down the road she suggests, some may fail. That is an important point for her to consider.

On the hon. Lady's second point, it may be the case that part of the rationale for entering into PFI agreements was an assumption about what future taxes may be paid under the pre-chapter 8 system. However, such a decision would have been taken at that time, on that basis, and that is nothing other than what she would expect them to do. An important point is that after the announcement of these arrangements all PFI arrangements will not be subject to chapter 8; they will be under the arrangements we discussed previously.

The hon. Lady talks about smoke and mirrors in relation to overseas businesses effectively brass-plating over here, with all the profits being diverted elsewhere. There is plenty of anti-avoidance legislation out there, including the diverted profits tax, to address those matters.

The hon. Member for Oxford East raised the BEPS project and recommendation 4. She is right that there is a corridor—a range of percentages that could be applied for the corporate interest restriction—and that is between 10% and 30%. The Government have a balance to strike because of the importance of the UK remaining competitive. Germany, Italy and Spain have all elected to go for 30%. It should not be overlooked that these measures are bringing in £1 billion extra every year in which they operate, which is a considerable increase in the tax take. The Bill will bring in about £16 billion across the scorecard period, about £5 billion of which will be from this one measure. On that basis, I ask the Committee to reject the amendments and to support the clause and the schedule.

Question put and agreed to.

Clause 20 accordingly ordered to stand part of the Bill.

Schedule 5

CORPORATE INTEREST RESTRICTION

Amendment proposed: 5, in schedule 5, page 364, line 10, at end insert—

"443A Review of effects in relation to PFI companies

(1) Within three months of the coming into force of this Chapter, the Commissioners for Her Majesty's Revenue and Customs shall complete a review of the effects of the provisions of this Chapter in relation to PFI companies.

(2) The review shall consider in particular the effects if the provisions of—

(a) the Chapter, and

(b) the exemption in section 439 were not to apply to PFI companies.

(3) The Chancellor of the Exchequer shall lay a report of the review under this section before the House of Commons within three months of its completion."—*(Stella Creasy.)*

This amendment requires a review to be undertaken of the impact of the provisions of Chapter 8 of new Part 10 of TIOPA 2010 in relation to PFI companies and if the provisions did not apply to PFI companies.

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 10.

Division No. 6]

AYES

Creasy, Stella
Dodds, Anneliese
Dowd, Peter
George, Ruth
Hopkins, Kelvin
Lee, Ms Karen
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 negatived.

Amendment proposed: 28, in schedule 5, page 367, line 46, at end insert—

"448A Sectoral reporting on operation of this Chapter

(1) Within fifteen months of the coming into force of this Chapter, the Commissioners for Her Majesty's Revenue and Customs shall complete a review about the operation of its provisions in relation to different sectors.

(2) The sectors covered by this review shall be—

(a) water and sewerage,

(b) gas and electricity,

(c) telecommunications,

(d) railway facilities,

(e) roads and other transport facilities,

(f) health facilities,

(g) educational facilities,

(h) facilities or housing accommodation provided for use by any of the armed forces,

(i) facilities or housing accommodation provided for use by any police force,

(j) court or prison facilities,

(k) waste processing facilities,

(l) buildings (or parts of buildings) occupied by any relevant public body other than for purposes principally concerned with matters specified in paragraphs (a) to (k).

(3) A review under this section shall separately identify, in respect of each sector, information on operation in respect of qualifying infrastructure companies undertaking activities that were previously undertaken by a nationalised industry.

(4) The Chancellor of the Exchequer shall lay a report of the review under this section before the House of Commons within three months of its completion."—*(Peter Dowd.)*

This amendment would require HMRC to report on the operation of the special provisions in Schedule 5 relating to public infrastructure in relation to sectors and, within sectors, in relation to privatised companies as a group.

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 10.

Division No. 7]

AYES

Creasy, Stella
Dodds, Anneliese
Dowd, Peter
George, Ruth
Hopkins, Kelvin
Lee, Ms Karen
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 negatived.

Schedule 5 agreed to.

Clause 21

MUSEUM AND GALLERY EXHIBITIONS

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

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

Amendment 29, in schedule 6, page 479, line 15, at end insert—

"CHAPTER 7

REVIEW AND POLICY STATEMENT

1218ZFB Review of operation of this Part and policy statement

(1) No later than 30 September 2020, the Chancellor of the Exchequer shall lay before the House of Commons a report of a review and a policy statement in accordance with the provisions of this section.

(2) The review shall consider—

(a) the number of touring exhibitions benefiting from the relief,

(b) the number of other exhibitions benefiting from the relief,

(c) an assessment of the operation of the provisions.

(3) The policy statement shall set our proposals for the continuation, discontinuation or modification of the relief from 2022 onwards."

This amendment would make statutory provision for the 2020 review of the operation of the new museums and galleries tax relief, including consideration of its effects and its future beyond 2022.

That schedule 6 be the Sixth schedule to the Bill.

Mel Stride: The Government recognise the cultural value of museums and galleries across the United Kingdom, and understand the role they play in local communities. Clause 21 and schedule 6 provide support to those institutions across the country by introducing a corporation tax relief for the production of new exhibitions. The relief will encourage large and small museums and galleries to develop creative new exhibitions and to display their collections to a wider audience. To provide further incentive for institutions to tour their best exhibitions across the UK and abroad, there will be a higher rate of relief for touring exhibitions.

There are more than 1,700 officially accredited museums and galleries in the United Kingdom, as well as many other galleries without permanent collections. The relief introduced by clause 21 recognises the importance of new, creative exhibitions to those cultural institutions.

The Government originally intended the relief to be available solely on temporary and touring exhibitions. However, a consultation over autumn 2016 made it clear that that would not be accessible to a number of smaller museums and galleries. To ensure a wide range of institutions across the country are able to access the relief, autumn statement 2016 announced that it would be extended to permanent exhibitions. Given that they can at times be much more expensive than temporary exhibitions, the relief will be capped at the equivalent of £500,000 of qualifying expenditure per exhibition, to allow the change without significantly increasing costs to the Exchequer.

Following the responses to a consultation document released shortly after the autumn statement, the Government have also amended the legislation to include exhibitions with an element of live performance where that is not the main focus. Through constructive and positive engagement with the industry, we have been able to design a relief that will work across the sector.

Clause 21 introduces a new corporation tax relief and payable tax credit for the qualifying cost to museums and galleries of producing a new exhibition. It will allow qualifying museums and galleries to claim a payable tax credit worth up to 25% of the cost of developing a touring exhibition and 20% of the cost of a non-touring exhibition. The clause will take effect from 1 April this year, allowing museums and galleries to benefit from the date that was announced and expected.

The relief is aimed at museums and galleries with charitable or educational objectives. Across the country, such institutions play a major role in society by maintaining important objects and educating people about different cultures or local history. For that reason, the relief will only be available to charitable or local authority-owned museums. Exhibitions that are not open to the general public or that are run purely to advertise or sell goods or services will not be eligible.

Peter Dowd: No doubt all hon. Members support these measures, which will see more people, particularly children and young people, having the opportunity to access touring museum and gallery exhibitions and expand their educational horizons.

The United Kingdom leads the way with its diverse range of museums and galleries. It is estimated that there are 2,500 museums and galleries in the UK, which collectively receive more than 100 million visits a year. That is quite substantial. As you will know, Mr Howarth, some of the finest museums and galleries in the country are in our own city region: the Walker Art Gallery, the Atkinson, the Lady Lever, the Merseyside Maritime Museum, the World Museum, the International Slavery Museum, the Beatles Museum—the list goes on.

The huge impact the sector has on the economy cannot be discounted. According to the Department for Digital, Culture, Media and Sport, the culture sector accounts for 10% of GDP. Broadly speaking, £1 in every £1,000 in the UK economy is directly related to the museum and gallery sector, and there is a spend of more than £650 million a year.

The funding of museum and gallery exhibitions varies between national museums and the smaller independent museums. On average, national museums generate almost half of their own income, while the rest comes from the Government. Small independent museums are often fully funded by private donations, ticket sales and sponsorship. Most museums and gallery exhibitions are limited to large city centres, with a sizeable proportion in the capital. Domestically touring exhibitions allow the opportunity for people who would not otherwise have access to museums and galleries to see, visit and be in contact with them. We are fully behind the measures in schedule 6, which seek to support smaller companies that produce touring museum and gallery exhibitions and struggle to break even.

12.30 pm

We welcome the prohibition in the schedule of exhibitions that are designed to advertise goods and services or include competitions, items for sale, live display of animals or plants and so on. After all, those things are not defined as either a museum or a gallery exhibition. However, we are concerned that this relief, like many tax reliefs, will be taken advantage of by predominantly larger and already established companies for the purposes of sponsoring a touring museum exhibition or gallery show to minimise a tax bill. That in turn will undermine the effectiveness of the relief.

Amendment 29 calls for the Government to publish a review of the effectiveness of the measure after its implementation, so that we can ascertain its impact on the sector, and particularly smaller and independent companies.

There are a number of questions. Why does the relief apply only to the cost of developing temporary or touring exhibitions? The Government initially indicated that they would consult on the design over the summer. You referred to consultation. Perhaps you could say a little bit more about that.

The Chair: I think the hon. Gentleman is referring to the Minister. I assure him that I have nothing further to say about it.

Peter Dowd: Which is a shame, I have to say.

The Minister referred to consultation. Consultation about what we want to do in the future, what people would like to see from the relief and how it might operate is in advance of the implementation. We consult, and we think this or that is a good idea, but it is also important to find out whether the relief has had the effect that the consultation wanted to achieve. One of the only ways to establish whether the consultation and the implementation have been effective is a review, and that is what we seek. If we are to have these reliefs, we must review whether they are doing the job they are supposed to do. The amendment is fairly simple in that regard.

Kelvin Hopkins: I support what my hon. Friend said, and I hope Members will support the amendment and that it will be successful. I have a brief comment to make.

In my ideal world, we would fund museums and the rich cultural heritage we have not through tax reliefs but by direct funding. We would collect all the tax and then pay it to museums and galleries directly through local authority and national funding and by specific grants where necessary. There would, of course, be charitable and private donations as well, but the great bulk of it would be in the public sector. I hope we can look towards a world where we have direct public funding, rather than a complex jungle of tax reliefs, and collect all the tax and forget about the tax reliefs.

The Chair: The hon. Gentleman has a tendency in this Committee to lead us down paths beyond the scope of the amendments he addresses. That being a matter of broadening our cultural horizons, I have been very lenient with him, but I hope he will in future stick to the matter at hand.

Mel Stride: I thank Opposition Members for their contributions. The hon. Member for Bootle calls once again for a review. We seem to be having a review-fest. Of course, there are always some arguments for having a review, but the critical thing is whether it is proportionate and sensible, given the measures we are taking on consultation. We will, of course, keep all these issues and the concerns he raised about the possible misuse of the provisions for the purposes of tax avoidance closely under review.

Peter Dowd: I understand where the Minister is coming from in his reference to a review-fest. I referred earlier to the size of the Bill, which is one of the longest Finance Bills in the history of Parliament. Given that the Government have started the festival off with the size of the Bill, we are perfectly entitled to a festival on reviews of that huge Bill. I am sure the Minister agrees with that.

The Chair: I do not think we want to get bogged down in the length of the Bill itself, but should rather confine ourselves to the amendments.

Mel Stride: Quite right, Mr Howarth. I think we should just agree that I will see you at Glastonbury next year. Sorry—I will see the hon. Gentleman there; I might see you there as well, Mr Howarth.

On the specific point the hon. Gentleman raised about ensuring that relief is not abused, anti-avoidance rules are clearly critical to the long-term success and

[Mel Stride]

stability of the museums and galleries exhibition tax relief. The Government will include rules similar to those applied under the film tax relief to prevent artificial inflation claims. In addition, there will be a general anti-avoidance rule, based on the general anti-abuse rule, denying relief where there are any tax avoidance arrangements relating to the production. During the consultation, respondents generally said that the strategy appeared robust and did not identify any additional opportunities for abuse. Of course, as I have said previously, HMRC will continue to monitor these important matters. On that basis, I hope that the hon. Gentleman will not press his amendment.

Question put and agreed to.

Clause 21 accordingly ordered to stand part of the Bill.

Schedule 6 agreed to.

Clause 22

Grassroots sport

Anneliese Dodds: I beg to move amendment 30, in clause 22, page 27, line 25, at end insert—

"217E Review of operation of this Part

(1) Within fifteen months of the coming into force of this Part, the Commissioners for Her Majesty's Revenue and Customs shall complete a review about the operation its provisions (including in relation to different eligible sports).

(2) The review shall, so far as practical, identify the extent to which the provisions have benefitted particular eligible sports.

(3) The Chancellor of the Exchequer shall lay a report of the review under this section before the House of Commons within three months of its completion."

This amendment would make statutory provision for a review of the new relief for grassroots sport, including identification of benefits to particular sports where possible.

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

Anneliese Dodds: I should at the start declare an interest in this topic: my partner is an amateur football referee in the Uhlsport Hellenic League and others.

First, we need to be clear that the measures have been introduced, according to the Government's consultation of last year, at least partly due to a lack of other funding sources for sport. That is obviously rather worrying, particularly following widespread concern that the legacy of the Olympic games has not been capitalised on to build the habitual involvement of the wider population in sport.

We also need to consider this measure in the context of other taxation measures that affect sports facilities, not least the changes to business rates and the fact that there was such a long postponement of the uprating. That has had a significant impact on many clubs, whose headquarters or area of operation is also that of a small business; I am particularly thinking about riding schools, for example, which may have seen a substantial increase in their business rate. There is also an unfortunate interaction between small business rate relief and the relief provided through the community amateur sports clubs relief. I mention that because it is important that we do not look at this issue entirely in isolation, because corporate support for sport can be enormously fickle; it will relate to the nature of the business environment. Many smaller sports clubs—exactly those the measure seeks to support—need reliable funding over the long term, and they particularly need to know that their premises will be supported over the long term.

For those reasons and others, we believe that there needs to be a thorough review of the benefits of this proposed relief for grassroots sports. We think it particularly important that that review examines which sports would be supported through the mechanism. That is especially important when it is clear that there are funding gaps in certain areas of sport in Britain, compared with other countries. For example, the provision of athletics facilities outside the capital is very patchy, particularly for amateur athletics. That is why we request a review of the measure.

Mel Stride: Before I speak to the amendment, I will set out for Committee members the general background and aims of the clause. Clause 22 introduces a new tax relief to support investment in grassroots sports by companies and our sports national governing bodies. It will help governing bodies channel their profits into grassroots sports and will give companies a simple means of making valuable contributions to support grassroots sport activity.

The changes made by the clause will allow qualifying expenditure on grassroots sports as a deduction from the company's total profits in calculating their corporation tax profits. Sport governing bodies and their subsidiaries will be able to make deductions for all their contributions to grassroots sports. Companies will be able to make deductions for all contributions to grassroots sports through sport governing bodies, and deductions of up to £2,500 in total annually for direct contributions to grassroots sports. The relief has been designed to be simple to make it attractive to potential contributors and to allow as many organisations that support grassroots sports to benefit as possible.

Contributions must facilitate participation in eligible amateur sport, and the activities must be open to a sufficiently broad section of the public. The hon. Member for Oxford East asked who would be included and excluded. I am happy to write to her on that matter so that she has all the information she needs. No payments to participators will be allowed, other than to cover the reasonable cost of participation. Such requirements will ensure that payments are made for the intended purposes and will prevent payments from being made for personal benefit.

Following the calling of the general election, clause 22 was removed from the original Bill. The clause will take effect from 1 April 2017 so that taxpayers can still benefit from the changes being made from the original commencement date.

I do not want to dwell too long on amendment 30 because I am conscious that we are eager to make progress on what is a very lengthy Bill. On the issue that the hon. Lady raised about the interplay between business rate relief and sports club reliefs, if she writes to me with her questions I will be happy to provide the information to her. However, I can reassure hon. Members that the

Government ran a full consultation on the policy and the legislation prior to its inclusion in the Bill. During that process, there was extensive engagement with key stakeholders to ensure that the legislation is well designed and targeted at meeting its policy objectives. I was pleased to see a recent article in *World Sports Advocate* welcoming this new relief as

"a welcome incentive to support community sport for everyone".

An important aspect of the legislation is that it has been deliberately designed to be as simple as possible to operate. There is no new reporting requirement and we want the new relief, particularly the relief for small deductions by companies, to benefit a wide range of sports in the UK without added administration burdens and costs. The Department for Digital, Culture, Media and Sport will of course continue to liaise closely with the sports governing bodies on a range of issues through their existing processes. A review, particularly to the timescale proposed, is neither practical nor necessary, and I hope that Opposition Members will not press their amendment to a vote.

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

Amendment, by leave, withdrawn.

Clause 22 ordered to stand part of the Bill.

Clause 23

Profits from the exploitation of patents: cost-sharing arrangements

Anneliese Dodds: I beg to move amendment 31, in clause 23, page 32, line 45, at end insert—

"357GCZG Review of changes to provisions for cost-sharing arrangements

(1) Within fifteen months of the passing of the Finance (No. 2) Act 2017, the Commissioners for Her Majesty's Revenue and Customs shall complete a review about the effects of the changes to cost-sharing arrangements.

(2) In this section, "the changes to cost-sharing arrangements" means the changes to this Part of this Act made by section 23 of the Finance (No. 2) Act 2017.

(3) The Chancellor of the Exchequer shall lay a report of the review under this section before the House of Commons within three months of its completion."

This amendment would make statutory provision for a review of the effects of the changes relating to cost-sharing arrangements on profits from the exploitation of patents or similar intellectual property.

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

Anneliese Dodds: As hon. Members will be aware, the patent box system in the UK was introduced following the Labour Government's 2009 Budget, which committed to,

"consider the evidence for changes to the way the tax system encourages innovative activity and the relative attractiveness to global firms as they make decisions on where to locate their research and development and other innovation activities."

As a result of that commitment, the patent box was created, intended to cover income from patents dating from April 2013. In 2010, before it came into practice, it was altered by the coalition Government.

The patent box rules reduced the corporation tax that accrues to profits from the development and exploitation of patents and some other forms of intellectual property. Our regime was identified during the OECD BEPS process, which we have already referred to this morning, as harmful and open to abuse. It was also identified as potentially harmful by the EU's code of conduct group in 2013. It is therefore positive to see attempts to tighten the regime, following other measures that were discussed last year.

We have already seen a shift to the nexus basis for identifying the fraction of profits that will be allowed in a claim through the patent box as derived from R and D activities. That brings us in line with international best practice. It is good to see other countries adopting that approach as well. In this context, the British tax regime undoubtedly will have some impact on business investment decisions, but comparative evidence suggests that other factors, not least infrastructure and the availability of highly skilled researchers, technologists and other workers, are most significant to our overall competitiveness.

12.45 pm

These provisions would ensure that companies that undertake research and development as part of cost-sharing arrangements are neither penalised nor advantaged, so in effect the provisions are designed to be more neutral as regards group structure. Having said that, the draft legislation is highly complex. Furthermore, the whole basis for the provisions is the approach agreed by the OECD that R and D spending is a proxy for R and D effort. We suggest that those provisions should be reviewed, because we think that more work is needed to ensure that those two concepts are aligned to prevent potential abuses. The provisions have put us under the international spotlight, so it is important that, as we continue to try to preserve and enhance research and development effort in the UK, we also live up to our international obligations. That is why we think that a review would be appropriate.

Mel Stride: The Opposition amendment would require the Government to review the effects of the changes to cost-sharing arrangements made in clause 23. Before I set out why that review would be inappropriate, I will remind Committee members of the background of the clause and what it is designed to achieve.

The clause introduces provisions for companies undertaking R and D collaboratively under a cost-sharing arrangement that will ensure that those companies are neither advantaged nor disadvantaged compared with those undertaking R and D outside such an arrangement. Following the calling of the general election and subsequent wash-up negotiations between the Government and the Opposition, clause 23 was removed from the Bill that became the Finance Act 2017. The Government propose that the provisions in the clause will apply from 1 April 2017 as originally intended and announced.

The UK patent box was introduced by the coalition Government in 2012. It provides a reduced rate of tax to companies exploiting intellectual property, such as patents, to incentivise them to grow their businesses and to create jobs in the UK. The Finance Act 2016 included changes to the patent box rules in line with the new international framework agreed by the OECD for intellectual property regimes, as part of the BEPS action plan. The main change was the introduction of the R and D fraction, which connects the amount of profit from an item of intellectual property that can benefit from the patent box to the proportion of the R and D activity undertaken by the claimant company.

[Mel Stride]

The 2016 Act did not directly address R and D undertaken as part of cost-sharing arrangements, as it required further consultation to ensure that, as the hon. Member for Oxford East pointed out, very complex collaborative arrangements are appropriately addressed. Following completion of the consultation, the clause now adds specific provisions to deal with cost-sharing arrangements.

Under a cost-sharing arrangement, typically companies agree to undertake a proportion of R and D activity as part of a collaborative project, therefore receiving a commensurate proportion of income if the project is successful. That means that the calculation of the R and D fraction must take into account how the company has discharged its proportion of the R and D costs throughout the life of the arrangement.

The arrangements create specific challenges in the application of the OECD framework. Over the life of the arrangement, the claimant's R and D activity may fluctuate year on year and trigger additional top-up contributions—balancing payments—payable to and from the claimant company to other companies in the cost-sharing agreement. Although at the end of the project the claimant may have met its agreed proportion of R and D costs, the interim position can differ greatly. Without providing a specific mechanism to deal with the treatment of the payments, the claimant's R and D fraction would be unduly depressed, putting it at a comparative disadvantage to claimants undertaking R and D outside a cost-sharing arrangement. The changes made by clause 23 are therefore exclusively focused on addressing that issue. Specifically, balancing payments made by the claimant will generally be treated as if subcontracted to the other member of the cost-sharing arrangement, so the impact on the fraction will depend on whether the two parties are connected.

It might be helpful at this stage to remind the Committee that under the revised patent box rules, payments to connected subcontractors reduce the R&D fraction, as does spending on acquired intellectual property, in line with the OECD guidelines. Balancing payments received by the claimant—that is, receipts—will be offset against outgoing payments, again depending on the relationship between the parties.

The hon. Lady raised the question whether that could be used for the purposes of tax avoidance. My comment is that the OECD base erosion and profit shifting project agreed an acceptable framework for intellectual property regimes that would address concerns about profit shifting, and the UK patent box regime was revised in the Finance Act 2016 to align with that framework. The changes ensure that the amount of profit and benefit from the patent box is restricted to the proportion of research and development undertaken by the company when compared with the total research and development. As a result of the changes, the payments and receipts should net out to ensure that, at the end of the project, the claimant's R&D fraction reflects only the costs it has incurred to meet its agreed share of R&D activity.

Amendment 31 would impose a requirement on the Government to undertake a review of the effects of these changes to the patent box regime. However, the Government have carefully considered the regime and consulted extensively with stakeholders to ensure that the changes comply with the relevant international frameworks and provide no opportunities for abuse. The Government regularly publish statistics on the patent box and will continue to monitor the impacts of both the patent box and these legislative changes. On those grounds, I urge the hon. Members to reject the amendment.

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

Amendment, by leave, withdrawn.

Clause 23 ordered to stand part of the Bill.

Clause 24 ordered to stand part of the Bill.

Schedule 7 agreed to.

Clause 26 ordered to stand part of the Bill.

Clause 27

Substantial shareholding exemption

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

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

Government amendments 1 and 2.

Clause 28 stand part.

Mel Stride: Clauses 27 and 28 deal with the exemption from corporation tax on gains and losses arising on certain disposals of shares, known as the substantial shareholding exemption, or SSE. Clause 27 simplifies the substantial shareholding exemption by removing some conditions that impose unnecessary administrative burdens. Amendments 1 and 2 to clause 28 together ensure that the definition of a substantial shareholding in companies owned by institutional investors applies for the whole of the SSE rules, as intended. Clause 28 introduces a new and simpler SSE for companies owned by some tax-exempt institutional investors; it will help to promote the UK as a place where global investors can establish and manage their investments in trading businesses, infrastructure projects and real estate.

The exemption was originally introduced in 2002, with the aim of eliminating the potential double taxation of trading profits when a corporate shareholder disposes of a large shareholding in a trading company or sub-group. That allows a group of companies to restructure its trading operations without facing a further tax charge. The value of the shares being sold generally reflects profits that have already been taxed, so a tax on disposal of the shareholding would amount to another layer of taxation. The Government announced a consultation on the existing rules at Budget 2016, with the aim of simplifying the rules and making the UK more competitive globally.

The changes made by clause 27 will simplify the regime in a number of ways, affording greater certainty to the business community at negligible cost. Those changes include removing the onerous condition that the company making the share disposal must show that it, and any group of which it is a part, does not have substantial non-trading activity. Previously, the company making the disposal would have had to establish the level of trading activity across a group, which could be worldwide. The change ensures that all companies holding large shareholdings in trading companies can benefit from the exemption, with a reduced administrative burden. They also extend the ownership period in which a substantial shareholding must be held in order to qualify. That ensures that companies can continue to benefit from the exemption in instances where shareholdings are disposed of in tranches over many years, or where an initially large stake in a growing company is diluted to below 10% by new share issues.

The changes made by clause 28 provide a simpler exemption for companies owned by a specific class of investor, defined as qualifying institutional investors. Those include pension funds, widely marketed UK investment funds, life assurance funds and other large international investors that would be exempted from UK tax on their chargeable gains if they held shares directly. The clause allows them to organise their investments through UK holding companies by removing tax barriers. At present, most choose to locate their holding companies in a variety of other European jurisdictions that have effective share exemption regimes. Clause 28 provides an exemption without regard to the nature of the business activities of either the company making the disposal or the company in which it has a substantial shareholding.

Government amendments 1 and 2 are essential to ensure that institutional investments in shares costing at least £20 million always qualify for SSE. That is an extension of the general SSE threshold that requires holdings to be at least 10% of the shares. Unless an amendment is made, the £20 million rule would apply to investments in real estate or other non-trade activities but not to other activities that are equally important to the UK, such as investments in major infrastructure projects or other trading companies.

The changes introduced by the clauses will make the UK tax regime more competitive globally and will incentivise these institutional investors to hold and manage their investments from the UK, with negligible cost to the Exchequer. Following the calling of the general election, these clauses were removed from the Finance Act 2017. The changes are almost wholly relieving and so the Bill provides for them to take effect retrospectively, so that taxpayers can still benefit from the changes being made from the original commencement date. The clauses simplify the corporation tax regime and make the UK a more attractive location for investment. I urge the Committee to accept amendments 1 and 2 and commend clauses 27 and 28.

Anneliese Dodds: I have a couple of brief questions. Clause 27 provides the Treasury with new powers to regulate the list of approved investors that qualify for the substantial shareholding exemption. It would therefore be helpful to know what checks will be placed on the Treasury's use of those new powers. In its assessment of the measure, the Treasury said that the financial impact would be negligible, which sounds slightly peculiar. Any further information about that would be gratefully received.

I understand the rationale for the measure in clause 28, which will shift the qualifying conditions for exemption from the activities of the disposing company or the company being disposed of to instead focus on, as described by the Minister, the shareholding for which the disposal is made and to the other shareholders of the company disposed of. I would be interested to learn whether the Minister believes that the new measures will extend beyond trading companies to encompass, for example, commercial real estate. What assessment has he made of the likely impact that might have?

More broadly, I am keen to learn how the Government are trying to balance the need to ensure that tax treatments do not artificially impact on commercial decision making with the need to prevent any potential for abuse.

Mel Stride: The hon. Lady asks a large number of technical questions, which are gratefully received, but I hope she will forgive me if I drop her a note on the more specific points. The measures have been scored by the Office for Budget Responsibility as having a negligible cost. They are independently assessed and scored by that authority. I hope on that basis we can move forward.

Question put and agreed to.

Clause 27 accordingly ordered to stand part of the Bill.

Clause 28

SUBSTANTIAL SHAREHOLDING EXEMPTION: INSTITUTIONAL INVESTORS

Amendments made: 1, in clause 28, page 38, line 5, leave out from "applies" to "in" in line 6.

Amendment 2, in clause 28, page 38, line 10, leave out "paragraph 7" and insert "this Schedule".—*(Mel Stride.)*

Clause 28, as amended, ordered to stand part of the Bill.

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

1 pm

Adjourned till this day at Two o'clock.