PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE (NO. 2) BILL

(Except clause 8; clause 33 and schedule 9; clauses 40 and 41 and schedule 11; new clauses or new schedules relating to the income tax treatment of armed forces' accomodation allowances, the bank levy, stamp duty land tax, the effect of the Bill on equality, or the effect of the Bill on tax avoidance or evasion)

First Sitting

Tuesday 9 January 2018

(Morning)

CONTENTS

Programme motion agreed to.
Written evidence (Reporting to the House) motion agreed to.
Clauses 1 to 7 agreed to.
Clauses 9 to 11 agreed to.
Schedule 1 agreed to.
Clause 12 agreed to.
Schedule 2 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 13 January 2018

The Committee consisted of the following Members:

Chairs: Sir Roger Gale, † Albert Owen

† Blackman, Kirsty *(Aberdeen North)* (SNP)
† Burghart, Alex *(Brentwood and Ongar)* (Con)
† Carden, Dan *(Liverpool, Walton)* (Lab)
† Chalk, Alex *(Cheltenham)* (Con)
† Clarke, Mr Simon *(Middlesbrough South and East Cleveland)* (Con)
† Dodds, Anneliese *(Oxford East)* (Lab/Co-op)
† Dowd, Peter *(Bootle)* (Lab)
† George, Ruth *(High Peak)* (Lab)
† Graham, Luke *(Ochil and South Perthshire)* (Con)
† Kerr, Stephen *(Stirling)* (Con)
† Lee, Ms Karen *(Lincoln)* (Lab)
† Maclean, Rachel *(Redditch)* (Con)
† Philp, Chris *(Croydon South)* (Con)
† Pidcock, Laura *(North West Durham)* (Lab)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Stride, Mel *(Financial Secretary to the Treasury)*
† Stuart, Graham *(Beverley and Holderness)* (Con)
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Whately, Helen *(Faversham and Mid Kent)* (Con)

Colin Lee, Jyoti Chandola, Gail Bartlett, *Committee Clerks*

† attended the Committee

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Tuesday 9 January 2018

(Morning)

[Albert Owen *in the Chair*]

Finance (No. 2) Bill

(Except clause 8; clause 33 and schedule 9; clauses 40 and 41 and schedule 11; new clauses or new schedules relating to the income tax treatment of armed forces' accommodation allowances, the bank levy, stamp duty land tax, the effect of the Bill on equality, or the effect of the Bill on tax avoidance or evasion)

9.25 am

The Chair: Good morning and happy new year to you all. I have a few announcements to make; as there are a number of new Members on the Committee, they will be quite lengthy announcements, but they will set out the procedure for the whole Committee stage.

I remind Members that only water is to be drunk in the Committee Room—no hot drinks. I will pretend that I have not seen the one at the end of the room. That is a strict rule from the Chairman of Ways and Means. Mobile phones and iPads should be switched to silent. There are document boxes behind me, which people may find useful for storing their documents when the Committee is not sitting. I would appreciate it if Members followed those rules, so that I do not have to make many more speeches.

Neither I nor my fellow Chair will call Members to speak to starred amendments—amendments tabled without adequate notice. The notice period is three working days, so 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 the following Tuesday.

Not everyone is familiar with Committee procedures, so let me explain them briefly. The Committee will be asked first to consider the programme motion. The Minister will move that motion, and we will then consider the amendments to it. There is a strict time limit of 30 minutes for that. We will proceed to a motion on written evidence and then begin line-by-line consideration of the Bill.

The selection list for today's sitting is available at the end of the room. Amendments selected for debate have been grouped. Grouped amendments generally relate to the same or similar issues. The Member who tabled the lead amendment in a group will be asked to speak first. Other Members will then be free to catch my eye and speak to the amendments in that group only. A Member may speak more than once, depending on the subjects under discussion. At the end of debate on a group of amendments, I will call the Member who moved the lead amendment to speak again. They will need to indicate before they sit down whether they wish to withdraw that amendment or seek a decision on it. If any Member wishes to press an amendment in that group to a Division, they will need to let me know. I will work on the assumption that the Government wish the Committee to reach a decision on all Government amendments—we will nod at each other, Minister.

Please note that decisions on amendments will be taken not in the order on the selection list—the order in which they are debated—but in the order in which they appear on the amendment paper. Decisions on new clauses will therefore be taken after the conclusion of line-by-line consideration of the Bill. Where a group includes the words "clause stand part", Members may make any remarks they wish to make on the content of the clause during the debate, and there will be no separate debate on the question that the clause stand part of the Bill. Where those words are not included on the selection list, Sir Roger and I will use our discretion in deciding whether to allow a separate stand part debate on individual clauses and schedules. Clause stand part debates begin with the Chair proposing the question that the clause stand part of the Bill; there is no need for a Minister or another Member to move that the clause stand part of the Bill.

As I indicated, I will first call the Minister to move the programme motion, as agreed by the Programming Sub-Committee, formally. I will then call Kirsty Blackman to move amendment (a). There will be a single debate on the selected amendments.

Motion made, and Question proposed,

That—

(1) the Committee shall (in addition to its first meeting at 9.25 am on Tuesday 9 January) meet—

(a) at 2.00 pm on Tuesday 9 January;

(b) at 11.30 am and 2.00 pm on Thursday 11 January;

(c) at 9.25 am and 2.00 pm on Tuesday 16 January;

(d) at 11.30 am and 2.00 pm on Thursday 18 January;

(2) the proceedings shall be taken in the following order: Clauses 1 to 7; Clauses 9 to 11; Schedule 1; Clause 12; Schedule 2; Clause 13; Schedule 3; Clauses 14 to 16; Schedule 4; Clause 17; Schedule 5; Clause 18; Schedule 6; Clauses 19 to 23; Schedule 7; Clause 24; Schedule 8; Clauses 25 to 32; Clauses 34 and 35; Schedule 10; Clauses 36 to 39; Clause 42; Schedule 12; Clauses 43 to 50; 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 18 January.—*(Mel Stride.)*

Kirsty Blackman (Aberdeen North) (SNP): I beg to move amendment (a), leave out line 4.

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

Amendment (b), in line 7, at end insert—

"(1A) The Committee shall hear oral evidence in accordance with the following Table—

Date	*Time*	*Witnesses*
Thursday 11th January	Until no later than 12.15 pm	HM Treasury; HM Revenue and Customs
Thursday 11th January	Until no later than 1.00 pm	The Office for Budget Responsibility
Thursday 11th January	Until no later than 3.30 pm	The Institute for Fiscal Studies
Thursday 11th January	Until no later than 5.00 pm	The Chartered Institute of Taxation"

Amendment (c), in line 15, at end insert—

"(4) The Committee recommends that the programme order of the House [11 December 2017] should be amended in paragraph 7 by substituting '25 January' for '18 January'."

Kirsty Blackman: I appreciate the chance to speak, Mr Owen, and I thank you for being our Chairperson.

Last year, the Chartered Institute of Taxation, the Institute for Government and the Institute for Fiscal Studies produced the "Better Budgets" report about the parliamentary process for dealing with the Budget. They raised a number of concerns, some of which have already been dealt with by the Chancellor, such as the fact that there are two fiscal events a year; he has moved to having one fiscal event a year, which is welcome.

The beginning of the report summary says:

"During conversations with people across the tax system, from officials and experts through to practitioners and representative groups, we have heard that the exceptional processes around tax policy making—in particular, secrecy, more limited scrutiny and challenge, and the power of the Treasury—have led to an ever-lengthening tax code, beset by a series of problems: confusion for taxpayers, poor implementation, political reversals and constrained options."

Some of those are issues with the Budget, but others are issues with the Finance Bill process. One of the report's key suggestions, which I have been pursuing in this House, and will continue to, even if I do not win today, is about the fact that the Finance Bill Committee does not take evidence. We have been told that that is due to lack of time, and that scrutiny of the Finance Bill needs to be curtailed and completed in a very short period. However, measures in the Finance Bill are very technical, and we have a short time in Committee. If we added just one extra day, we could take evidence.

The "Better Budgets" report said:

"The lack of stages in the House of Lords should mean that the Finance Bill is subject to particularly intense scrutiny in the House of Commons. But the reverse tends to be true".

It also said:

"debate on the Finance Bill could be improved by using some of the committee sessions to take oral evidence".

The three programme motion amendments that I have tabled allow us to do that. The Bill has already been in Committee of the whole House. I think it is reasonable, after Committee of the whole House, to take evidence on the generally more technical measures debated in Public Bill Committee.

The three amendments that my hon. Friend the Member for Glasgow Central and I tabled suggest that this Thursday we take evidence from the Treasury, Her Majesty's Revenue and Customs, the Office for Budget Responsibility, the Institute for Fiscal Studies and the Chartered Institute of Taxation. All those organisations will know more about tax, and probably about the impact of the measures, than most of us in this room. Obviously, the Minister will have briefings, and a whole team who can explain the issues to him, but we need to hear from those organisations and to be able to question their representatives. I have been frustrated in the past when asking the Minister questions during debates on the Finance Bill. Perhaps I have had a bit of an answer towards the end of his speech—the Minister is quite good at attempting to give answers—but that is too late. If we had had that conversation with many other people at the beginning, we would all have been in a much better position. That would have meant much better scrutiny.

Alison Thewliss (Glasgow Central) (SNP): My hon. Friend makes a very good point on the need for evidence. Some of the written evidence submitted to the Committee —it was made available very late, I must say; it came yesterday at around 4 pm, which gives us very little time to read a huge amount of evidence—suggested that there are things that need to be changed and that people would like to see tweaked. However, without having oral evidence and being able to interrogate people for it, it is very difficult to weigh up the evidence in the context of the Bill.

Kirsty Blackman: I would go so far as to bet that all Committee members have not read all the written evidence that has been provided. I bet that they have not had time, given that the customs Bill is running at the same time, and the majority of us who are Front-Benching for that Bill are also Front-Benching for today's Bill.

The timescale is not working. If we were to allow evidence sessions this Thursday, and then allowed the Public Bill Committee stage to stretch slightly—I am not sure it would even end up stretching as far as 18 January, because we could have a number of sittings before then—that would be a really positive change for the Committee. We would all be better informed, and it would be a good step for scrutiny and transparency, which the Government and the ministerial code suggest that we should have.

Peter Dowd (Bootle) (Lab): It is a pleasure, as ever, to serve under your chairmanship, Mr Owen. I have sympathy with the Scottish National party on their amendment to the programme motion, which would require the Government to ensure that there was an evidence sitting this week. This is my third Finance Bill since becoming shadow Chief Secretary to the Treasury, and I have made the point on each one that we should have evidence sittings. The argument might be made, "We have had three Bills; what's the point?" However, there is a pretty compelling argument that having had three Finance Bills is all the more reason to not just pause for breath but catch up, and get some people in to give evidence. The point is well made, and it was also part of the context for the debate in the House yesterday.

This is not simply an event; it is part of a process. Most of the traditions or protocols that we follow in the House have a perfectly rational basis, but there are occasions—I think this is one, in the light of the three Finance Bills this year—when we might want at the very least to step back from them. Every other piece of legislation that passes through the House gets its day in court, so to speak, as regards giving evidence, and of course the complex changes made to UK tax laws and systems have far-reaching consequences for everyone and for the economy.

It is important that when matters are incredibly complex—and, let us be frank, many of the matters in question are complex—we should be able to tease out issues with experts. It is not that I do not believe the Financial Secretary to the Treasury and everything that he tells us; I do, implicitly. However, I am sure that he would like us to test his assertions, and we might want to do that with other people—and with other experts.

Several provisions in the Bill, and in previous Finance Bills, rewrite earlier measures and close loopholes. It is important for us to tease out those things, too. Why are we where we are, and what could we have done differently? Possibly we could not have done anything differently,

[Peter Dowd]

but I am sure that if there had been evidence sittings for previous Finance Bills, the experts offering testimony might have pointed out to the Government technical pitfalls in some of the measures they wanted to introduce.

The amendment is in the spirit of attempting to move things on; it is not a wrecking proposal. I acknowledge that we will not win the debate, but it is important to state the need to push for evidence sittings. I do not think that I am alone in that view. Not only does the SNP take it, but so do many outside the House: the Institute for Fiscal Studies, the Institute for Government and the Chartered Institute of Taxation made a similar case in the report "Better Budgets: making tax policy better", published in April 2016. Its authors pointed out that Finance Bills could be improved by oral evidence sittings, with little disturbance to the parliamentary timetable. I am sure that the Opposition would be more than happy to discuss parliamentary timetable issues with the Government.

Dan Carden (Liverpool, Walton) (Lab): Andrew Tyrie, the former Chair of the Treasury Committee, also supports the idea of oral evidence sittings for the Finance Bill. Does my hon. Friend agree that there is widespread support for that across the House of Commons?

Peter Dowd: I think there is. I suspect that there are Members who would like to listen to the views of others besides parliamentarians on occasion. My hon. Friend makes an important point.

The authors of "Better Budgets" comment:

"This could be enhanced by ensuring effective liaison between the experts working to support the three committees that have a role in tax scrutiny—the Treasury Select Committee, which has hearings on the Budget and Autumn Statement"—

as was—

"the House of Lords Economic Affairs Committee and the Finance Bill Committee—to make sure that the results of pre-legislative work inform legislative scrutiny."

That is not an unreasonable position to take.

As my hon. Friend said, the former Chair of the Treasury Committee made the same point, and the Committee's current Chair, the right hon. Member for Loughborough (Nicky Morgan), followed it up in a letter to the Minister on 7 November, in which she wrote that she was not convinced by the point made—namely, that we should not have evidence sessions. She rightly pointed out that the consultation was limited, and that it is important to try to tease some of these issues out separately. She also added that she sees no reason at all why a Finance Bill Committee cannot hear oral evidence, even on clauses that have already been debated in Committee of the whole House. I would appreciate it if the Minister commented on that—I know he will.

There seems to be developing consensus across the House that oral evidence sessions on the Finance Bill would greatly improve the quality of parliamentary scrutiny of it. I think they would do good, but frankly even if they did not, they would certainly do no harm. It is time to move away from outdated and arcane parliamentary measures, especially in this area.

I am not in any way suggesting that the Government have anything to hide. I do not think it is a question of hiding; it is often a case of, "We have always done it this way; let's carry on doing it this way." Maybe it is time for a rethink on this matter. I exhort the Minister to give careful consideration to this. I suspect that we will not get much movement on the issue, because we would be breaking a relatively long-held tradition by having evidence sessions on the Finance Bill, but we have to start pushing the matter at some point, and this is as good a time as any.

The Financial Secretary to the Treasury (Mel Stride): It is a pleasure to serve under your chairmanship, Mr Owen. I look forward to vigorous debate on the Bill, today and in the sittings that will follow, as we take the Bill through the normal process.

The amendments from the hon. Member for Aberdeen South—

Kirsty Blackman: North.

Mel Stride: North; how could I get that wrong? The amendments would introduce a day for oral evidence sessions, and would extend the period over which we debated the Bill in Committee. I understand why the hon. Lady tabled them, but I am afraid that the Government will resist them, for several reasons, not least because there was a Programming Sub-Committee, at which at least Labour party Members were present, in which we discussed the programme motion, and it was agreed unanimously.

Kirsty Blackman: The Government changed the rules because they do not have a majority, so Scottish National party Members no longer have places on Programming Sub-Committees. We were therefore not able to make our case. We opposed that rule change, partly because we want to be on Programming Sub-Committees. If we had had the opportunity to make our case earlier, we would have done so.

Mel Stride: I thank the hon. Lady for her intervention. That is partly why I welcome her having the opportunity to have this debate today, as I said earlier. Let me start with the comment that the hon. Member for Bootle made about the Chair of the Treasury Committee. He urged me to engage with her on this matter, and of course I will do precisely as he asks.

Notwithstanding the fact that we had the opportunity in the Programming Sub-Committee to agree the programme motion or otherwise, several measures already give us a very high level of scrutiny of Finance Bills. We brought in a Government framework in 2010, under which, in a typical cycle, a Budget is followed by policy consultations, and much of the legislation that is to follow is then published in draft. In fact, around 60% of the Bill that we are looking at has been out there for consultation as draft legislation, despite the fact that this has been a rather unique cycle; the hon. Member for Bootle pointed out that this was his third Finance Bill.

These Bills have a very high level of scrutiny. We are moving to the new single fiscal event in the coming year; we will then have even more time to scrutinise Bills,

because there will be more breathing space in that process, and obviously we will not have the interruption that we had last year.

9.45 am

There are other reasons why it would be tricky to deliver what the hon. Member for Aberdeen North seeks. For example, the Bill was in Committee of the whole House for two days, so if we had an evidence session here, perhaps the most contentious parts of the Bill, which are typically taken on the Floor of the House, would be absent from that particular element of scrutiny. The IFS, the Office for Budget Responsibility and the other organisations that the hon. Lady rightly raised have plenty of opportunities to scrutinise the Bill. In fact, the OBR, the IFS and others provide an analysis of the Budget and the measures in it. Typically, they give oral evidence to the Treasury Committee before Committee stage.

Wherever we end up is really a matter for the usual channels, among our parties. This relates to parliamentary process; it is not for the Committee to take the kind of decisions and make the kind of moves that hon. Lady and the hon. Member for Bootle seek. I reiterate that the Finance Bills are among the most scrutinised pieces of legislation that go through our Parliament. I therefore resist the amendments.

Kirsty Blackman: I thank the Minister for his response. He did not give a reason not to take evidence; he gave the reason why he thinks the status quo is okay. I still have not heard anybody say why evidence would be a bad thing. The Government have previously said that timescales would be an issue, but they are not. As we have a single fiscal event, putting an extra week—an extra day, actually—on to the Finance Bill Committee would not be a problem. Having evidence sessions would be better for the Committee and for the rotating Back Benchers on the Committee—we have people here who have not sat on a Finance Bill before. As I said previously, having an evidence session after the Committee of the whole House is not a problem, because generally we discuss the more technical parts of the Bill after that. What the Minister said about 60% means that 40% of the Bill has not been consulted on.

Mel Stride: I need to clarify that point. I said that 60% of the draft legislation was out there and was therefore consulted on. That certainly does not mean that 40% of the Bill was not consulted on, albeit that the legislation was not out there in draft.

Kirsty Blackman: In a number of places in the written evidence, various organisations said, "This was not consulted on in draft; we would have suggested these changes, if it had been." The Committee is losing out because it does not take evidence. It would be better if it did. I do not understand why the Government are scared to take evidence.

Peter Dowd: Does the hon. Lady agree that it is important to understand the position that Parliament is in? The Government do not have an overall majority, notwithstanding the arrangement with the Democratic Unionist party. Their position has changed. Given that, and given that the Government have taken control of the Committees, again notwithstanding the fact that they do not have the majority as a party, the question of scrutiny has changed a little.

Kirsty Blackman: Absolutely. An added dimension is that because the Government do not have a majority, and because all the Brexit legislation is going through, there is an incredibly heavy legislative timetable with an incredible number of incredibly technical pieces of legislation. Therefore, it would be better for Members to have the opportunity to inform themselves. I do not think this is about increasing external organisations' scrutiny, because, as the Minister said, there are a number of opportunities to do that. This is about giving Members the opportunity better to inform themselves and ask questions of those incredibly knowledgeable organisations so that we can make better decisions about tax law, and so that the Treasury does not create tax law that is not good and that it has to go back and fix a couple of years later. It would be better for everybody if members of the Committee were more informed and therefore able to take better decisions and make better laws.

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 1]

AYES

Blackman, Kirsty	Lee, Ms Karen
Carden, Dan	Pidcock, Laura
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Thewliss, Alison
George, Ruth	

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Stride, rh Mel
Graham, Luke	Stuart, Graham
Kerr, Stephen	Whately, Helen

Question accordingly negatived.

Main Question put and agreed to.

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 made available to Committee members.

We now move to the line-by-line consideration of the Bill.

Clause 1

INCOME TAX CHARGE FOR TAX YEAR 2018-19

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

Mel Stride: We come to the first clause of the Bill, which provides for the charge for income tax for 2018-19. That is legislated for annually in the Finance Bill, and it

[Mel Stride]

is essential because it allows for the collection of income tax to fund our vital public services, on which we all rely. The clause ensures that the Government can collect income tax for the tax year 2018-19 to fund key spending commitments, and I therefore commend it to the Committee.

Question put and agreed to.

Clause 1 accordingly ordered to stand part of the Bill.

Clause 2

CORPORATION TAX CHARGE FOR FINANCIAL YEAR 2019

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

Mel Stride: Clause 2 charges corporation tax for the financial year beginning on 1 April 2019. Corporation tax is an annual tax approved by Parliament each year, and this is an essential provision that enables us to collect taxation. I suspect that most Members agree that we ought to charge corporation taxes, so I will not revisit the rationale for the collection of this tax, but I will take the opportunity to set out the Government's corporation tax strategy.

The Government want a fair and competitive tax system, and we want taxes to be paid. Changes to the corporation tax regime since 2010 have enabled us to make progress towards those goals. Corporation tax has been cut from 28% in 2010 to 19% today, delivering the lowest main rate in the G20 and by far the lowest in the G7. The rate is legislated to fall further to 17% in 2020. Low corporation tax rates enable businesses to increase investment, employ new staff, increase wages or reduce prices. The rate cuts make Britain a more competitive place to set up and grow a businesses, and they support the investment that is vital for improving our productivity.

The Government understand that a growing economy means more tax revenues to support our vital public services, and our strategy is working. Since 2010, despite the rate cuts, onshore corporation tax receipts have increased by 50%, rising from £36.2 billion in 2010-11 to £55.1 billion in 2016-17. There are 3 million more people in employment than there were in 2010, and business investment has grown by 25%. However, the Government have always been clear that although taxes should be low, they must be paid where they are due. Those revenues have been supported by the significant measures taken by the Government to clamp down on tax avoidance and aggressive tax planning. The UK has been at the forefront of multilateral action through the G20 and OECD to reform the international tax standards, including through the agreement and implementation of the base erosion and profit shifting project, or BEPS, as it is known.

Building on that, the Government announced a package of measures at the autumn Budget to tackle avoidance, evasion and non-compliance. They included closing loopholes exploited by large businesses—by, for example, tackling avoidance schemes involving transactions of intellectual property—as well as ensuring that large digital multinationals pay their fair share from profits made in connection with UK sales.

The Government are delivering on their objectives for a tax system that is fair and competitive, and in which taxes are paid. I therefore commend the clause to the Committee.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Clause 3

MAIN RATES OF INCOME TAX FOR TAX YEAR 2018-19

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

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

Clause 4 stand part.

New clause 10—*Analysis of effect of income tax rates on incentives into employment—*

'(1) The Office for Budget Responsibility must review the impact of the rates of income tax specified in sections 3 and 4 in accordance with this section within six months of the passing of this Act.

(2) A review under this section must consider the impact of the rates of income tax specified in sections 3 and 4 on the incentives for individuals to seek employment, including—

(a) whether those rates create, or detract from, an incentive for those not employed to enter into employment,

(b) whether those rates create, or detract from, an incentive for those currently in employment entering into new employment at a different level of income, and

(c) to what degree those rates create, or detract from, any such incentive.

(3) A review under this section must also consider those rates in the context of—

(a) National Insurance contributions,

(b) tax credits, and

(c) social security benefits.

(4) A review under this section must give separate analyses in relation to the impact of the rates of income tax specified in sections 3 and 4 in different parts of the United Kingdom.

(5) In this section—

"parts of the United Kingdom" means—

(a) England,

(b) Scotland,

(c) Wales, and

(d) Northern Ireland.

(6) The Chancellor of the Exchequer must lay before the House of Commons the report of the review under this section as soon as practicable after its completion."

Mel Stride: Clauses 3 and 4 set the main, default and savings rates of income tax for 2018-19. The clauses keep the basic, higher and additional rates of income tax at the same level as last year. We are also supporting lower and middle earners by increasing the tax-free personal allowance and the point at which people pay the higher rate of tax in line with inflation next year, locking in previous rises and helping hard-working people with the cost of living.

By keeping rates the same while increasing the personal allowance and higher rate threshold, we are delivering on our manifesto commitment to cut taxes for working

people. We are protecting our fair and progressive tax system, in which those who can contribute the most shoulder the greatest burden. The latest figures show that the top 1% of taxpayers contribute nearly 28% of all income tax. We have already cut taxes for 31 million people since 2015 and taken more than 1 million of the lowest-paid out of income tax altogether. We have promised to go even further to increase the personal allowance to £12,500 and the higher rate threshold to £50,000 by 2020.

New clause 10 would require the OBR to analyse the effect of the income tax rates set out in clauses 3 and 4 on incentives into employment. An important part of the OBR's role is to subject the Government's policy costings to detailed challenge and scrutiny at each fiscal event. As the Committee would expect, the impact of tax policy changes on employment is an important judgment that the OBR makes when certifying a costing. The OBR sets out its judgments clearly in its publication "Economic and fiscal outlook". Detailed distributional analysis of the kind requested is not in line with the OBR's remit to examine and report on the sustainability of the public finances. Extending its remit to include undertaking distributional analysis would risk diverting the OBR from an already challenging task. I therefore urge the Committee to resist new clause 10.

Ruth George (High Peak) (Lab): In speaking to new clause 10, I will address the points that the Minister has just made. Employment incentives and employment rates are a key part of our economic outlook and of securing the prosperity of working people throughout the UK. We accept that the headline rate of income tax in the Bill will stay at 20%, and that the personal tax allowance has risen over the last seven years by more than inflation. However, underlying that, and underlying the tax cuts for 31 million people, there have been huge increases in the marginal tax rates that effectively apply to working people. Under the tax credits system, the clawback rate was 39% of gross income, but it has been raised to 41%. The clawback of 63% of net income under universal credit particularly affects people whose income falls below the personal tax allowance rate.

Those are the groups of people whom it is important to encourage into work, such as single parents and second earners in families with children. The Child Poverty Action Group predicts that as a result of the roll-out of universal credit, a further 1 million children will fall into poverty. That increase will mean that 37% of all children in the UK are in poverty. Surely, the best way out of poverty for those children is to ensure that their parents can move into work. That is the best route out of poverty for all those households, in both the short term and the long term.

10 am

At present, a second earner who works in, say, a supermarket could do extra shifts in the run-up to Christmas on at least the minimum wage of £7.50 an hour, and they could keep all that additional income. Under tax credits, there is an exemption for the first £2,500 of additional income, which does not affect tax credits in the current year. Under universal credit, however, there is no such exemption. An employee who does extra shifts and earns £100 extra in the run-up to Christmas may think that they have been able to afford a decent Christmas for their family, but they will be hit hard in their next universal credit payment, which will fall by £63. They will immediately see the impact of that marginal tax rate.

That is why it is extremely important that the OBR does not just look, as it does now, at the headline tax rates that affect people who are not on tax credits, universal credit or any other form of social security. It must also bear in mind that 10 million people are currently on tax credits, and that around 8 million households—not just individuals—will be moved on to universal credit. That will affect between a quarter and a third of the working population. Such rates of impact on employment incentives are an incredibly important part of the economic and fiscal outlook, for so many people.

It is important that individuals can calculate how they will be better off as a result of moving into work, doing extra shifts and undertaking the many forms of work that our flexible employment market now offers. It is also important that we, as Members of this House, have clear information before us to allow us to make decisions not just on tax rates and national insurance, but on social security clawback rates and the full impact of policies on individuals. It is important that we do not silo tax into the Finance Bill and the Treasury and social security into the Department for Work and Pensions. As Parliament, we must consider the full impact of all our policies on working people—all the more so on those who are in danger of falling into poverty—and make decisions based on full evidence.

Peter Dowd: I welcome the opportunity that my hon. Friend's new clause presents to discuss the rate of income tax set by the Government, and its effect on the wider economy and on families.

At the general election, we clearly outlined our position: as a Government, we would not ask ordinary households to pay more. We would guarantee that there would be no rises in income tax for those earning less than £80,000 a year and no increase in personal national insurance contributions or the rate of VAT. Under our plans, 95% of taxpayers would be guaranteed to face no increase in their income tax contributions and everyone would be protected from any increase in personal national insurance contributions. Only the top 5% of earners would be asked to contribute more in tax to help fund our public services. That is in contrast to the Government, who have spent the last seven years offering tax breaks to the wealthy and large multinational corporations, and who continue to do so. That goes to the heart of the difference between the two parties.

In 2012, the former Chancellor declared—I have to say, with a certain amount of alacrity—that he was cutting the 50p rate by 5p. He claimed at the time that it would not cost the Exchequer a penny. In fact, analysis carried out by Unison shows that between 2013-14 and 2017-18, income tax cuts for those earning more than £1 million have saved the nation's super-wealthy on average £554,000 each. Those tax cuts have cost the British taxpayer £8.6 billion over the last five years, in stark contrast to the concerns raised by my hon. Friend the Member for High Peak. The Government have not tackled that.

The money that has been lost could have paid for an extra 20,000 nurses—topical in the current climate, and crucial given the stresses and strains on the NHS; the

[Peter Dowd]

lack of those 20,000 nurses is a proxy for the state of the NHS—as well as 10,000 extra police community support officers, 10,000 extra police officers and 20,000 newly qualified teachers for each of those five years. That money could have paid for 60,000 bursaries for nurses, midwives, other health professionals and so on. Instead, it was used to give a tax cut to the richest 15,000 taxpayers in the country—those who are least in need. In 2013, the cut to the top rate of income tax was the largest tax cut in the world, and as a result the level of income tax in the UK dropped from the fifth highest in the world to the 13th.

As if that cut was not enough, it was paired with cuts to corporation tax, the bank levy, inheritance tax and capital gains tax. Together, they amount to about £70 billion by 2022. In the meantime, public services are beginning to decay and atrophy. As I alluded to earlier, the NHS is in a bit of a state, and the police are in chaos and crisis. That is the context for our debate. Instead of the swashbuckling we see in the Chamber, we must deal with very precise issues.

It is fair to say that since 2010, the Government have made a political choice to pursue austerity at all costs. The hon. Member for Cheltenham may shake his head, but that is the reality. Let us go back to the phrase, "We're all in it together". It is demonstrably clear, and history will show, that we have not all been in it together. It does not matter how much hon. Members shake their heads or roll their eyes; that is the reality, and it is coming home to roost—not on me, but on our public services. We have a social contract with our people across the country to the effect that we will take care of everybody, not just those who have the most.

I will give the Government credit for the fact that they have pursued their policies persistently and doggedly. These policies and choices are the Government's, not mine. The Government have persisted with them, and I think they have to fess up to that. The national debt has ballooned. The cost of household essentials is spiralling, with inflation at 3.1%; I think it is now 4.6% on food. Services across the country are being slashed and the OBR predicts a 17-year period of wage stagnation. That is the high cost of austerity, which is a political choice made without any economic basis.

My hon. Friend the Member for High Peak seeks to highlight the fact that the Government could have made different political choices, and I agree with her on that one. It is a fact that increases to the lower threshold of income tax are no longer targeted towards the poorest in our society, whose earnings have long since been below that threshold. That is the reality. Had the Government changed tack sooner, there would have been little need for the self-defeating cuts to the work allowances of universal credit—those allowances are by far the best way of improving work incentives for the poorest in our society and driving positive employment outcomes, as the new clause alludes to. That is why Labour set aside £10 billion to improve the Government's failing universal credit system at the last election. We have also repeatedly called for change from all four Secretaries of State who have occupied the office in the past two years—there have been four so far and there might be another one; I think that includes the one yesterday, but it might not, as I do not keep up with the machinations that go on in Downing Street. The right hon. Member for Chingford and Woodford Green (Mr Duncan Smith) resigned over the variation, and he was the architect of the plan.

It is clear that, while the Government talk the talk on tackling inequality, they are not capable of matching those words with action. Time and again, the Chancellor has failed to improve work incentives under the programme by investing in the work allowances, and I have no doubt that our demands will continue to go unheard. All that is an opportunity for the Government to change tack, and they will not.

Dan Carden: My hon. Friend is my constituency neighbour in Bootle. He will know that while the tax threshold may have been raised under this Government, an alternative economy has been created in which people have insecure employment, precarious work—sometimes two, three or four jobs on the lowest pay—and no guarantee of a weekly or monthly income to pay the bills or raise a family. While we talk about figures, facts and economic outcomes in this place, the reality of people's lives in north Liverpool, which I represent, and in Bootle, which he represents, is very different. Those words and numbers mean little to them.

Peter Dowd: My hon. Friend makes an important point. The whole point of a social security system in tandem with a tax system is to ensure that those who can afford to pay do so, and those who cannot afford to pay do not. We are now in a topsy-turvy world, where things are being twisted around and the people who can least afford it pay and the people who can most afford it do not pay. That is the direction of travel, and it is affecting people day in, day out. I agree with my hon. Friend.

Ms Karen Lee (Lincoln) (Lab): We hear a lot about the NHS; my hon. Friend has referred to it. I am a nurse, and I did a shift in my local hospital on Saturday. Last Wednesday, I went out for most of the day with the local ambulance service. The NHS is indeed in crisis, and until people pay a proper rate of tax and it is properly funded, that will remain the same. As a new Member, I am a little taken aback at the number of people who are simply not listening to this debate. They are on their iPads and phones. It would be good if people paid attention—

The Chair: Order. Peter Dowd, please stick to the new clause.

Peter Dowd: My hon. Friend the Member for Lincoln makes an important point. Her passion and concern, which many of us share, sometimes stray beyond the remit of our debates, but the point is well made. The bottom line is that my hon. Friend the Member for High Peak makes an important point in her new clause, and no doubt that is something we will come back to in due course.

Mel Stride: I thank the hon. Member for High Peak for speaking so thoroughly to her new clause. While I recognise many of the challenges she has rightly raised, which families up and down the country are facing—

nobody belittles those—I do not recognise the picture she paints of eternal gloom and night of what this Government have achieved with our economy and for hard-working families. We have done a great deal to help those who are less well off. The hon. Lady herself raised the issue of the increase in the personal allowance, which has rocketed since 2010 to over £11,000 today. Indeed, that has taken 3 million low-paid workers out of tax altogether. They pay no income tax at all. Those are 3 million low-paid workers who paid income tax under the last Labour Government and are no longer paying that tax under this Government.

We have just had a Budget in which we took a number of specific measures to help those who are less well off. We froze fuel duty for the eighth year in a row. We increased the personal allowance for the seventh year, as the hon. Member for High Peak pointed out, taking even more people out of tax. We will increase the national living wage, a measure that this Government have brought in, by over 4% in the coming April.

Alison Thewliss: Does the Minister accept that the national living wage is not a real living wage, as set by the Living Wage Foundation, and it is not available to those under the age of 25? How will they be helped?

Mel Stride: I would say to the hon. Lady that it was not available to anybody under the last Government. That is the point—it is available now. One of the consequences of these measures and others the Government have introduced in our stewardship of the economy is near-record levels of employment. That is a staggering statistic: we have the lowest level of unemployment since around 1975, or for over 40 years. We have more women in the workforce than at any time in our history. While the hon. Member for Bootle would say that we do not believe we are all in it together, we do. There is clear evidence for that, as under this Government, the wealthiest 1% pay almost 28% of all income tax. Under the last Labour Government, that figure was lower and that is a demonstrable fact: it was around 23%. There has been a huge proportional increase in the burden carried by the wealthiest in this country.

10.15 am

Dan Carden: What we see under this Government is the rich getting richer, so the fact that they pay more tax is not a great indication of what this Government are doing.

Mel Stride: The level of income inequality is at its lowest in more than 30 years.

Anneliese Dodds (Oxford East) (Lab/Co-op): Not after a housing adjustment, it isn't.

The Chair: Order. If Members wish to intervene on the Minister, they should do so in the proper manner.

Ms Lee: Will the hon. Gentleman give way?

Mel Stride: I will not, and the reason I will not is that we have a great deal of business to cover, as well as the fact that we might be straying slightly broader than the clause. I have given my reasons why I believe we should reject new clause 10—*[Interruption.]*

The Chair: Will you take an intervention?

Mel Stride: Yes, of course.

Anneliese Dodds: Thank you, Chair. I apologise for intervening at the very end of the Minister's speech. I know he is a thoughtful person, and in response to the specific point made by my hon. Friend the Member for High Peak, he maintained that the OBR could not do an analysis of the marginal tax rate on low-income or low-hours working people because it was not the appropriate body. Can he tell us which body would be the appropriate one? I noticed that he did not contest what my hon. Friend said about the marginal tax rate for very low-income people. Which body would be available to do that analysis?

Mel Stride: There are many bodies out there that could take on that kind of analysis, including the Institute for Fiscal Studies. There are many, even the House of Commons Library—

Anneliese Dodds *rose—*

Mel Stride: If I could just finish: a number of bodies might look at those particular issues.

When we look at the marginal rates, under the last Labour Government, if someone worked beyond 16 hours per week they were in a situation where the marginal rate of tax they were facing when going into employment was far greater than under this Government.

Anneliese Dodds: My hon. Friend the Member for High Peak has explained that under the tax credits system, people were able to take home much more of their income. She has also provided a concrete example whereby people could be working for a short period of time and take home very little of that amount under the universal credit system. I was hoping we could get some commitment for a Government body to look at this issue, which has already caused enormous problems and, potentially, poverty for some low-income people. It would be wonderful if the Minister could give us a commitment that he will look into this issue.

Mel Stride: We will always look at the kind of issues the hon. Lady has highlighted. We will do that as a matter of good Government policy and to produce the policies we look at going forward. However, this is not the forum to begin looking for commitments on new reports, new investigations and new analysis. As the hon. Lady will know, there are many bodies out there that conduct that kind of analysis.

Ruth George: I thank the Minister for his response. I am surprised he does not think it is the role of Government or this Committee to ask for reviews on matters as important as a marginal tax rate. Given the limitations on amendments we can make to the Bill, reviews are practically the only thing we can ask for. I am sure the Minister would prefer that no amendments at all could be made to the Bill, because that would make his life an awful lot easier. As that is one of the few things that, under the constitution, we are allowed to do, I hope that the Minister will agree that looking at marginal tax rates for people on low pay is one of the most important things that the Government should be doing to alleviate poverty.

In spite of the numbers that have been taken out of income tax, we have actually seen rising numbers of working people in poverty. The fact that three million

[Ruth George]

people are no longer paying income tax does not offer a lot of comfort to those who cannot afford to pay for food and heating because eight million working people are now in poverty. That has the knock-on effect on children, on households and on long-term poverty.

All we are asking for is some transparency. The Minister says that this Government have brought in a fair and progressive tax system. We simply want the Government and the OBR to be able to show how fair and progressive the system is by producing the figures on the marginal tax rates which affect almost a third of all working people.

The Chair: For clarification, there will not be any votes on new clauses until we reach the end of Bill.

Question put and agreed to.

Clause 3 accordingly ordered to stand part of the Bill

Clause 4 ordered to stand part of the Bill.

Clause 5

STARTING RATE LIMIT FOR SAVINGS FOR TAX YEAR 2018-19

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

Mel Stride: Clause 5 maintains the starting rate limit for savings income at its current level of £5,000 for 2018-19. As members of the Committee will be aware, the starting rate for savings applies to the taxable savings income of individuals with low earned incomes. The Government made significant changes to the starting rate for savings in 2015, lowering the rate from 10% to 0%, as well as extending the band to which it applies from £2,800 to £5,000. This welcome reform has done much to support savers on low incomes by reducing the tax they pay on the income they receive from their savings. Since then, savers have been further supported by the introduction of the personal savings allowance, which offers up to £1,000 of tax-free savings income.

The changes made by clause 5 will maintain the starting rate limit for savings at its current level of £5,000 for 2018-19 tax year. This change is being made to reflect the significant reforms made to support savers over the last couple of years, in addition to the substantial increases in the personal allowance. Most notably, in April 2016, the Government introduced the personal savings allowance, which will remove 18 million taxpayers from paying tax on their savings income in 2018-19. In April 2017, the annual individual savings account allowance increased by the largest ever amount, to £20,000.

Kirsty Blackman: It is admirable that the Government are making changes to make it easier for people to save. Would the Minster let us know how many people have begun saving as a result, and how much saving has increased for families? If there are now so many people who are employed, and so many who are using the personal allowance, surely they have loads of extra cash that they are now saving?

Mel Stride: The hon. Lady is right: it is certainly the case that the more people there are in work, the better they are supported; and the less tax to which they are subject, the more disposable income they will have with which to save. That is self-evident, which is why it is this Government's mission to keep economic growth going, employment high, and unemployment and taxes low to facilitate exactly the point that the hon. Lady is making.

Taken together, these reforms mean that today, 98% of adults in the UK pay no savings tax. This Government remain committed to supporting savers of all incomes, and at all stages of life. These reforms, coupled with the significant increases to the starting limit in 2015, mean that we do not believe that a further increase in the starting rate for savings is necessary. I therefore commend the clause to the Committee.

Question put and agreed to.

Clause 5 accordingly ordered to stand part of the Bill

Clause 6

TRANSFER OF TAX ALLOWANCE AFTER DEATH OF SPOUSE OR CIVIL PARTNER

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

The Chair: With this it will be convenient to consider new clause 3—*Review of the effects of changes to the transferable tax allowance for married couples and civil partners—*

'(1) Within six months of this Act receiving Royal Assent, the Commissioners for Her Majesty's Revenue and Customs shall complete a review of the effects and cost of changes made by section 6 of this Act to Chapter 3A of Part 3 of ITA 2001 (transferable tax allowance).

(2) The Chancellor of the Exchequer shall lay the report of this review before the House of Commons.'

This new clause would require HMRC to carry out a review of the effects of changes to the transferable tax allowance for married couples and civil partners arising from changes to Chapter 3A of Part 3 of ITA 2007 made by Clause 6 of the Bill.

Mel Stride: Clause 6 makes changes to allow marriage allowance to be claimed and backdated on behalf of deceased spouses and civil partners. Marriage allowance was introduced in 2015. It allows individuals to transfer 10% of their personal allowance to a spouse or civil partner if they are a basic rate taxpayer. Marriage allowance can currently be claimed and backdated by up to four years if taxpayers meet the qualifying condition. Currently, taxpayers cannot claim after a partner is deceased, even if they may have qualified in the current or previous years since its introduction.

I have heard representations from the Low Incomes Tax Reform Group highlighting the fact that it is unfair that this financial support is not available for people going through a period of considerable distress that accompanies the death of a partner. The changes made by clause 6 will put marriage allowance on a footing with other tax reliefs, where claims can be made by a personal representative after death on behalf of the deceased.

As a result, bereaved partners can now claim on behalf of their spouse or civil partner in the current year and any previous years where they were eligible, up to a maximum of four years. That will enable of thousands of extra people to claim the marriage allowance, worth

£230 this year in tax relief, or up to £662 if backdated to its introduction. That will have a negligible cost to the Exchequer.

New clause 3 would include a review in six months' time of the effects of the costs of the extension of the marriage allowance made by clause 6. It is the Government's view that there is no need for a formal review of these changes. First, the new clause asks for a review of costs. As I have said, clause 6 is forecast to have a negligible cost, a judgment with which the independent Office for Budget Responsibility was content. Her Majesty's Revenue and Customs also publishes the Exchequer cost of the main tax reliefs, including the marriage allowance, on an annual basis. The House will be able to examine the overall change in costs at that time.

Secondly, the new clause calls for a review of the effects of these changes. As the Committee would expect, we keep the effectiveness of the marriage allowance under review. Indeed, the clause was developed in response to concerns raised by the Low Income Tax Reform Group, a sign that the Government are willing to listen when concerns are raised. After six months, it will be too soon to tell how effective the policy has been, so a formal review would be a disproportionate response. I therefore urge the Committee to resist the new clause.

A total of 2.6 million couples have successfully applied for the marriage allowance and thousands more apply each week. That is a tax cut worth more than £400 million to couples on lower incomes. The changes being made by clause 6 mean that thousands more will be able to claim, recognising that bereaved partners going through extremely distressing times deserve all the support that they can get. I therefore commend the clause to the Committee.

Kirsty Blackman: The Scottish National party has a long-documented opposition to the married couples allowance, with which we have disagreed for a long time. The change the Minister suggests makes it slightly better and gets rid of one of our concerns, but it remains a tax relief that overwhelmingly benefits men. It remains a tax relief that leaves abused women out in the cold. Because they have to hand over part of the personal allowance, it is difficult for them to go back to work in some circumstances.

It remains a change that benefits only traditional nuclear families, whether people are in a civil partnership or are a heterosexual couple. Only those couples who choose to live together as married benefit. When the measure was first introduced, it was made clear that couples with children were less likely to benefit, because of the working structure that tends to exist with those couples. Apparently, only 15% of those who benefit from the scheme are women; it may even be less.

This issue has been raised by the Women's Budget Group as one that creates further gender disparity in a society where we are trying to reduce the gender pay gap and make matters better by trying to create a situation where women can more easily go back to work and earn a reasonable amount of money.

The married couples allowance is incredibly flawed. Although this change makes it slightly better, it still has a huge number of problems. We will continue to support new clause 3 and press Government to get rid of the married couples allowance.

Anneliese Dodds: It will not surprise anyone to learn that Labour has similar concerns to the SNP about the married couples allowance. We would obviously all want families who have experienced a bereavement to be supported. The problem remains that bereavement has a severe impact, whether or not a family is composed of two people who are married or in a civil partnership. It also has a huge impact on lone-parent families, or on those who live together but do not have a formalised relationship such as a marriage or civil partnership. We are concerned about the allowance because, as was mentioned, it privileges certain family forms over others, and that is a particular concern when many families are under severe pressure.

10.30 am

We have heard from a number of Labour Members about the problems faced by very low-income families, and I understand that the Child Poverty Action Group has done some analysis into the situation for lone parents, overwhelmingly mothers, with school-age children. It found out that due to changes to social security, and other changes, they are on average around £9,000 worse off. Very large diminutions in people's incomes have occurred recently under this Government, and it therefore seems inappropriate to be targeting a measure universally, including at those who are far better off. As the hon. Member for Aberdeen North said, this measure appears overwhelmingly to be focused financially for the benefit of men, and it benefits higher-income couples and those who tend to work full time, which is not the pattern for many families. For that reason, we are concerned about this measure. We understand the motivation for applying it to bereaved families, but we do not support the provision in the first place.

Mel Stride: I am pleased that the hon. Member for Aberdeen North welcomed the clause in so far as it extends these benefits to those whose partner—either civil partner or married partner—is deceased. I understand that she has fundamental reservations about the entire policy of having such tax reliefs for those who are married, but personally I do not think we should be shy about supporting those who are either married or in a civil partnership. As I said earlier, the problems with the hon. Lady's new clause are, first, that the costs are negligible—the Treasury would view them as being below £5 million in total. As a responsible team in the Treasury we will review the policy in future, and on that basis I would like to think that the clause can be accepted, and I commend it to the Committee.

Question put and agreed to.

Clause 6 accordingly ordered to stand part of the Bill.

Clause 7

Deductions from seafarers' earnings

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

Mel Stride: Clause 7 would provide certainty that employees of the Royal Fleet Auxiliary—the RFA—can claim seafarers' earnings deduction. Most UK residents pay UK tax on all their earned income wherever it arises, but seafarers are entitled to a 100% deduction from income tax for their foreign earnings in certain circumstances. The deduction is available provided that

[Mel Stride]

at least half of the qualifying period of 365 days is spent outside the United Kingdom, and that no more than 183 consecutive days are spent in the UK during that period. The tax treatment recognises the importance of the maritime industry to our country, and helps to maintain the competitiveness of the UK in an international market. Around 20,000 seafarers currently claim the deduction each year, and of those around 900 individuals are from the RFA.

The civilian-manned RFA delivers worldwide logistical and operational support for tasks undertaken by the Royal Navy, and it plays a crucial role supporting counter-piracy, humanitarian relief, disaster relief and counter-narcotics operations. Currently those individuals claim the deduction, but it is on a concessionary rather than a legislative basis. The changes in clause 7 provide certainty that the employees of the RFA are eligible for the deduction by placing it on a statutory footing. The RFA plays a crucial role, and it is right that its employees are eligible for the deduction in the same way as other seafarers. This clause provides certainty for RFA employees. I believe the Committee should welcome it and I commend it to the Committee.

Anneliese Dodds: I am grateful to the Minister for his comments concerning this alteration, but I have a couple of questions. As I understand it, this change largely reflects existing practice in law, specifically the fact that RFA seafarers should be entitled to seafarers' earning deduction. I understand that the seafarers falling into that category have asked the Government to make it clear in this Committee that there will be no detriment for them as a result of this change. They are asking for that because some of them fear retrospective penalties from HMRC or from the employer, given that previously the deduction was practically operated in an informal manner. I hope that the Treasury Minister can make it clear that this measure will not operate to the detriment of the seafarers.

I wanted to make the point that unfortunately this change will not alter the material circumstances of our RFA seafarers; it recognises in law a situation that already exists informally in many cases. We have substantial recruitment issues at the moment with RFA seafarers, and those issues could become more acute because we are going to have 12 vessels when the new ones come on-stream. They will need to be serviced by RFA seafarers, yet the level of pay provided for them has been squeezed because they are covered by the arrangements for public sector employees. Their situation is out of kilter with the situation for seafarers working in the private sector doing comparable jobs, and that is a major concern for them. While we may now see a reflection of the reality when it comes to the tax situation, my concern is that we are not reflecting reality when it comes to recruitment challenges and the need to consider whether current pay levels are appropriate. This should not be viewed as a proxy for the kind of pay lift that at least some of those seafarers are saying they think they need to deal with recruitment challenges. This is rather a cosmetic change.

Mel Stride: The hon. Member for Oxford East raised the issue of whether there will be any detriment, and she specifically mentioned retrospective issues in terms of this formalisation of the relief that has hitherto been available on an informal basis. I can assure her that there will not be any detriment, and I thank her for raising that important matter. As for seafarers' pay, that is probably an issue that is out of scope for this Committee, but I am sure she will raise it in other quarters. Part of the reason for introducing this clause, and for formalising and putting into legislation these particular reliefs, is to make sure that we are as effective as we can be on the tax side when recruiting men and women who do such an important job, and that we remain internationally competitive in our tax treatment of their earnings. I hope that the Committee will accept clause 7.

Question put and agreed to.

Clause 7 accordingly ordered to stand part of the Bill.

Clause 9

BENEFITS IN KIND: DIESEL CARS

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

The Chair: With this it will be convenient to discuss new clause 5—*Impact of benefit in kind tax supplement on the use of diesel cars—*

'(1) Chapter 6 of Part 3 of ITEPA 2003 is amended as follows.

(2) After section 141, insert—

"141A Impact of benefit in kind tax supplement on the use of diesel cars

(1) Within six months of the passing of the Finance Act 2018, the Chancellor of the Exchequer must review the effects of the changes to this Chapter made by section 9 of that Act.

(2) The review under this section must consider the effects of those changes on—

(a) the use of diesel cars, and

(b) the Government's emission reduction targets.

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

This new clause requires the Treasury to carry out a review of the effect of the provisions of Clause 9 on the use of diesel cars and on emission reduction targets.

Mel Stride: Clause 9 provides for a 1 percentage point increase in the company car tax diesel supplement. This modest increase will help to fund the UK's national air quality plan, and is designed to encourage manufacturers to bring forward next-generation clean diesels sooner. There have been significant improvements in air quality in recent years, with nitrogen oxide emissions falling 19% between 2010 and 2015. However, air pollution is still at harmful levels in many of our towns and cities, and road transport is responsible for 80% of nitrogen oxide emissions in roadside tests. Even new diesel vehicles are a significant source of emissions. A test on the 50 best-selling diesel cars in 2016 found that, on average, they emitted over six times more nitrogen dioxide in real-world driving than is permissible under current emissions standards.

Diesel company cars are already subject to an additional supplement, currently at 3%, in recognition of diesel engines producing harmful pollutants in addition to carbon dioxide, including nitrogen oxide, or NOx, gases. The measure increases the diesel supplement from 3% to 4% for all cars solely propelled by diesel for the tax

year 2018-19, until a point at which they meet the real driving emissions step 2 standard, known as Euro 6d. RDE2 sets a standard for nitrogen oxide emissions in real-world driving situations, with an emission limit of 80mg of NOx per kilometre. The supplement will not affect diesel hybrids, petrol or ultra low emission vehicles, or drivers of heavy goods vehicles or vans. The measure also removes the diesel supplement altogether for cleaner diesel cars that are certified to the RDE2 standard.

A basic rate taxpayer with a VW Golf will pay an additional £54 in 2018-19 as a result of the change. Company car drivers typically travel more miles, and have therefore benefited greatly from successive fuel duty freezes since 2011; in the autumn Budget, the Chancellor announced the eighth successive fuel duty freeze, saving the average driver £160 a year compared with the pre-2010 escalator plans. The change will encourage manufacturers to bring forward next-generation clean diesel sooner, and will also strengthen the incentive to purchase cars with a lower number of harmful pollutants—for example, ultra low emission vehicles or zero-emissions vehicles.

The measure is designed to work over several years to encourage manufacturers to bring forward the development of cleaner vehicles, so we do not believe that a review after six months, as requested in new clause 5, which was tabled by Opposition Members, would be appropriate. Company car fleets are typically renewed every three years, so we will not see the full impact of any change that takes effect from April 2018 until three years later. We will of course continue to review the uptake of company diesel cars and developments with those vehicles as part of our wider strategy on improving air quality. On that basis, I do not believe that the new clause is necessary, and I ask hon. Members to consider withdrawing it.

Clause 9 makes a small change that will support the UK's transition to less polluting cars, helping to make sure that our towns and cities are clean and healthy places in which to live. I commend it to the Committee.

Anneliese Dodds: I am grateful to the Minister for his comments. However, Labour Members will continue to be concerned about the measure and will continue to ask for a review of its effectiveness. There is obviously a clear rationale for this kind of measure: it follows widespread public and scientific concern about emissions from diesel cars that do not use emission capturing technology to the extent that they might.

There are many examples of this kind of technology-forcing regulation being effective. However, we believe that a review is required—first, because we need to be clear that new technologies will indeed be incentivised through this measure. We do not feel that we have effective evidence to prove that at the moment. The Institute of Chartered Accountants suggests that it is unlikely that any diesel cars will meet the standard required to avoid the supplement until at least 2020, so there is a question about whether distorting decisions could be made that would prioritise petrol vehicles over diesel vehicles in the meantime—especially if appropriate technologies are not introduced as quickly as they should be. I know from discussing this issue with motor manufacturers that they are confident about the roll-out of the new technology, but a review would none the less be appropriate, given the extent of use of diesel technology.

Secondly, it is important that we review the measure's contribution to emissions reductions targets because of the lack of other environmental commitments in the Bill. Sadly, the Bill lacks measures to reduce carbon emissions in order to halt the climate crisis, despite many of us hoping that it would include, for example, more tax breaks for solar technologies, which have sadly been scaled back.

From what I can see, this is also the only measure to promote better air quality, when we know that there are many other sources of pollutants in the air that we breathe. Yes, of course NOx is important, but small particulates and other emissions are important as well. It is absolutely right to mention that NOx pollution from diesel emissions is significant at roadside sites, but petrol emissions are also significant away from direct roadside sites or at particular roadside sites, and industrial sites are also important, in terms of emissions.

10.45 am

Domestic stoves also have an impact. Labour Mayor Sadiq Khan is trying to deal with that in London. It is unfortunate that this is the only flagship measure to try to deal with air quality coming from the Government at the moment. The Minister referred to this as a core element of the Government's air quality strategy. However, the Government have been taken to court repeatedly for not having a strong enough air quality strategy. I was astonished to hear that my city of Oxford was told that even under the latest strategy—which should, in theory, be a tighter one—if it did nothing, its emissions and pollution levels would be the same in future decades. How can I put this kindly? I was surprised by that claim and question the methodology used. We are asking for this review, first, because of concerns about the extent of technological readiness and, secondly, because we feel it needs to be taken in the overall context of the lack of other measures to reduce emissions. The issue needs to be looked at holistically.

Mel Stride: I thank the hon. Lady for her further comments on this matter. I reiterate that we believe that a six-month time horizon is too soon. I have already said that company car fleets, for example, generally turn over every three years, which is well beyond the six-month period that we are considering. She questioned the fact that some of these measures will not fully kick in until as late as 2020. By that time, no fewer than about one million potential drivers of company cars will have taken a decision on what kind of company car they wish to take on—so a million drivers will be directly affected by this measure and will be encouraged to move to less polluting vehicles as a consequence of it. We will keep these measures under review in the light of the progress of the industry in improving the cleanliness of diesel engines and of the new technologies that are developing all the time. I commend the clause to the Committee.

Question put and agreed to.

Clause 9 accordingly ordered to stand part of the Bill.

Clause 10

TERMINATION PAYMENTS: FOREIGN SERVICE

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

Mel Stride: Clause 10 ensures that all employees who are UK-resident in the tax year in which their employment is terminated will be liable to income tax on their termination payment in the same way, regardless of whether they have worked abroad. Foreign service relief allows termination payments for certain qualifying individuals to be completely exempt from income tax. Employees who receive termination payments while working in the UK may be eligible for a 100% reduction in income tax on this payment if they have worked abroad for a qualifying period. An employee has to meet certain qualifying criteria; these include the foreign service covering three quarters or more of the employee's period of employment with an employer. Employees may also be able to receive a smaller relief proportionate to their time worked outside the UK for that employer.

Around 1,000 individuals claim foreign service relief each year. However, this relief has become outdated and it is unfair that some UK residents may receive tax relief simply because they have worked abroad. Today there is a global workforce, and this exceptional treatment is no longer justifiable.

The changes made by clause 10 will ensure that those who are resident in the UK in the year their employment is terminated will be taxed in the same way, whether or not they have worked outside the UK. The statutory residence test will be used to determine which employees are UK-resident in the tax year in which they receive their termination award. These changes will apply to those individuals who have their contract terminated on or after 6 April 2018.

However, the Government will not tax termination payments if an individual receives the award outside the UK and it has already been taxed in another country. Individuals will still benefit from the £30,000 income tax exemption and the unlimited employee national insurance contributions exemption for termination payments. This is a fair and proportionate change. Our tax treatment of termination payments is one of the most generous in the world; that is something of which we can be proud. I commend the clause to the Committee.

Question put and agreed to.

Clause 10 accordingly ordered to stand part of the Bill.

Clause 11

EMPLOYMENT INCOME PROVIDED THROUGH THIRD PARTIES

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

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

Amendment 34, in schedule 1, page 57, line 33, at end insert

"or such higher amount as may be determined in accordance with sub-paragraphs (1A) to (1D).

(1A) This sub-paragraph applies where the loan is between £100,000 and £199,999.

(1B) This sub-paragraph applies where the loan is a multiple of £100,000.

(1C) Where sub-paragraph (1A) applies, the penalty is £600.

(1D) Where sub-paragraph (1B) applies, the penalty is the equivalent multiple of £300."

This amendment provides for higher penalties for failure to comply with paragraph 35C where the amount of the loan is greater.

Amendment 35, in schedule 1, page 57, line 38, after "£60", insert

"or such higher amount as may be determined in accordance with sub-paragraphs (4) to (7)".

This amendment paves the way for Amendment 36.

Amendment 36, in schedule 1, page 57, line 39, at end insert—

'(4) This sub-paragraph applies where the loan is between £100,000 and £199,999.

(5) This sub-paragraph applies where the loan is a multiple of £100,000.

(6) Where sub-paragraph (4) applies, the penalty is £120.

(7) Where sub-paragraph (5) applies, the penalty is the equivalent multiple of £60."

This amendment provides for higher penalties for continued failure to comply with paragraph 35C where the amount of the loan is greater.

Amendment 37, in schedule 1, page 58, line 10, at end insert

"or such higher amount as may be determined in accordance with sub-paragraphs (6A) to (6D).

(6A) This sub-paragraph applies where the loan is between £100,000 and £199,999.

(6B) This sub-paragraph applies where the loan is a multiple of £100,000.

(6C) Where sub-paragraph (6A) applies, the penalty is £6,000.

(6D) Where sub-paragraph (6B) applies, the penalty is the equivalent multiple of £3,000."

This amendment provides for higher penalties for inaccurate information or documents relating to compliance with paragraph 35C where the amount of the loan is greater.

Amendment 38, in schedule 1, page 60, line 20, at end insert—

"17 (1) The amendments made by paragraphs 9 to 12 have effect in accordance with the provisions of this paragraph.

(2) No later than two months after the passing of this Act, the Chancellor of the Exchequer and the Commissioners shall undertake an assessment of the profile of those holding loans to which the amendments made by those paragraphs apply.

(3) A review under this paragraph shall consider what discretionary arrangements it is appropriate for the Commissioners to take in relation those holding such loans who are not higher rate taxpayers.

(4) The amendments made by paragraphs 9 to 12 shall have effect when the Chancellor of the Exchequer has laid before the House of Commons a report of the review under this paragraph."

This amendment provides for commencement of the provisions of Part 4 of the Schedule to take place after the publication of a review of the profile of those affected, and in particular on lower paid taxpayers.

That schedule 1 be the First schedule to the Bill.

That clause 12 stand part of the Bill.

That schedule 2 be the Second schedule to the Bill.

Is that clear?

Mel Stride: I am very clear on my instructions. Thank you, Mr Owen.

Clauses 11 and 12 make changes to ensure that businesses and individuals who have used or continue to use disguised remuneration tax avoidance schemes pay their fair share of income tax and national insurance contributions. Disguised remuneration schemes are used to avoid tax and national insurance contributions by paying individuals and taking profits through third parties in ways that are claimed not to be taxable, such

as loans. Such schemes are highly artificial. In the Government's and HMRC's view, they do not produce the declared tax advantage, but that has not stopped their use entirely. The coalition Government first introduced legislation to stop such schemes in 2011. The legislation was successful, and since 2011 HMRC has collected more than £1.8 billion in settlements from scheme users.

Of course, more always needs to be done. The Government continue to tackle disguised remuneration avoidance schemes. The changes announced at Budget 2016 included the 2019 loan charge, which treats all outstanding disguised remuneration loans as taxable income on 5 April 2019. The 2016 package followed the tax avoidance industry's aggressive response to the 2011 changes: it has created and sold more than 70 new schemes. It is claimed that those schemes achieve the same outcome through the addition of even more contrived steps. The Budget 2016 package will bring in more than £3 billion by 2020-21, and will ensure that scheme users pay their fair share of tax.

The changes made by clause 11 will make clear how the disguised remuneration anti-avoidance rules apply to schemes used by the owners of close companies. The clause also introduces a requirement for scheme users to provide information on disguised remuneration loans outstanding on 5 April 2019 to HMRC, which will help HMRC to enforce the 2019 loan charge. The new information requirement includes an additional penalty regime, which is consistent with existing HMRC information powers.

The clause also includes a clarification to the disguised remuneration rules. It puts beyond doubt the fact that anti-avoidance rules apply even if an earlier income tax charge arises. It will prevent any attempts to avoid paying the tax by claiming that HMRC is out of time to collect payment. The disguised remuneration rules prevent any double tax charge on the same income.

Finally, the clause will make a change to ensure that any employee who has benefited from a disguised remuneration avoidance scheme is liable for the tax arising on the 2019 loan charge where the avoidance scheme used an offshore employer. Clause 12 will also introduce a new requirement for self-employed individuals, and partners who have used disguised remuneration schemes, to provide information about loans that are outstanding on 5 April 2019 to HMRC. That will help to ensure that HMRC is able to enforce the loan charge.

Let me turn to the Opposition's amendments. Amendments 34 to 37 seek to include penalties linked to the loan amount for those who fail to comply with the reporting requirement. Amendment 38 seeks to introduce a review to consider the impact of the measure on taxpayers—particularly basic rate taxpayers. It would be inappropriate to introduce a penalty based on the loan amount, as it would be inconsistent with HMRC's other information powers, and a separate penalty regime already does that where a taxpayer does not correctly report the tax due from outstanding loans.

On the proposed review, the Government do not think it is appropriate that avoiders should get a discount, compared with the vast majority of taxpayers, who pay the right tax at the right time. However, the clause may have a significant impact on the users of disguised remuneration schemes. HMRC aims to contact those who are affected and encourages those who are concerned about their ability to make timely and full tax payments to contact HMRC. The Department has an excellent track record of supporting people with financial difficulties who may be finding it hard to pay immediately. The Government believe that the proposed review would not provide any additional benefit, so I urge the Opposition not to press the amendments.

It is right that everyone should pay their fair share of tax and make their contribution towards public services, and the changes will ensure that users of disguised remuneration schemes pay their fair share. I therefore commend clauses 11 and 12 to the Committee.

Anneliese Dodds: May I pose one brief question about clause 12 before speaking to amendments 34 to 38 to schedule 1? I am grateful to the Minister for his clarifications and comments about clause 12 and schedule 2, but a pertinent question has been asked by one of the different interlocutors—one of the taxation organisations —which suggested it might be easier for self-employed people who have used the schemes to report their use in accordance with the self-assessment deadline. Has that been considered, because there could be a helpful reduction in bureaucracy and in the amount of fees paid to accountants and so on were there an alignment with the self-assessment return deadline? Will the Minister respond to that?

Moving on to our amendments, we would obviously welcome tightening in the area of disguised remuneration schemes following widespread concern about practice. There have been some high-profile cases, not least those revealed recently in the Paradise papers or the Rangers football club case, which have shown the lengths to which some people are prepared to go to avoid paying the tax that others view as a normal part of doing business.

We are concerned that the measures in the Bill do not go far enough. Loans, for example, have been taxable since the disguised remuneration rules came into force in 2011. There should be no excuse for people not to be aware of the situation; there should be widespread understanding of the need for employers and employees to comply in the area and not to enter into such schemes. We therefore need to ensure that future penalties are sufficiently dissuasive of other forms of aggressive tax avoidance as well as this one.

The Minister rightly described some of what has gone on as involving excessively contrived steps to avoid tax. He suggested that our additional penalties might somehow be inconsistent with others delivered by HMRC but, for the reasons I have just mentioned, it is important for us to have a strong line on such issues. The consistent policy has been that there should be no disguised remuneration, in particular through loans or connections with third parties in effect—not third parties, but those presented as third parties—and we need to ensure that we dissuade people with appropriate penalties.

I further note that the projected IT cost to HMRC of delivering the measure is about £3.5 million, so it is important to ensure that such costs are covered and that HMRC does not lose out due to the creation of the new penalties, especially when it is already subject to new demands because of the possible shift to a new customs regime, as we were discussing until very late last night. For those reasons we are keen to press ahead with our amendments, despite the Minister's suggestion that we do not press them.

Mel Stride: The hon. Lady asked a specific question about clause 12 and schedule 2, on the timing of the requirement for payment of the loan charge and how that interacts with the self-assessment deadline. I will come back to her on that inquiry with a specific and detailed answer.

The hon. Lady is absolutely right, however, that since 2011 we have been clamping down on avoidance schemes, as I said in my opening remarks, and we have had considerable success, although we feel that the job is not yet done. We made it clear with the Finance Act 2017 and with further tightening in this Finance Bill that we will push even further in that direction, so that those schemes that are not paid off or sorted out with the Revenue before April 2019 will incur a penalty charge. We believe that is certainly the right direction of travel.

11 am

I want to return to my earlier comments about the hon. Lady's amendment. The consistency issue in how HMRC applies penalties for late provision of information is extremely important. We believe that the amount is proportionate. Let us not forget that when we stand back and look at the overall picture of HMRC's success in clamping down on tax avoidance and evasion, as well as non-compliance, we see that since 2010 we have brought in £160 billion that would otherwise not have been available to the Exchequer. We have one of the lowest tax gaps in the world, at just 6%, which is certainly lower than it was under the Labour Government. We are succeeding, albeit that there is more to do.

Anneliese Dodds: At the risk of producing a horrible sense of déjà vu in the Committee, following consideration by the whole House, I will say that assessments of the tax gap do not include the loss of revenue caused by profit shifting internationally. I wanted to clarify that before we get too optimistic about the success of HMRC in that regard.

Mel Stride: I will make two points in response to the hon. Lady: first, she mentioned profit shifting, and we have been in the vanguard of the OECD base erosion and profit shifting project—right at the forefront, driving it forward and, indeed, implementing it in many areas earlier than other countries decided to. Secondly, I believe that our overall record is exemplary and world-class; but of course there is always more to be done. It is absolutely right and proper that those who owe tax pay it, and where HMRC or the Treasury come across schemes that use various artificial devices to avoid and evade tax we will clamp down on those measures with vigour. We have demonstrated our success in doing so in the past, and will continue to do so in the future. The clause is yet another step in pursuing that endeavour.

Question put and agreed to.

Clause 11 accordingly ordered to stand part of the Bill.

Amendment proposed: 34, in schedule 1, page 57, line 33, at end insert

"or such higher amount as may be determined in accordance with sub-paragraphs (1A) to (1D).

(1A) This sub-paragraph applies where the loan is between £100,000 and £199,999.

(1B) This sub-paragraph applies where the loan is a multiple of £100,000.

(1C) Where sub-paragraph (1A) applies, the penalty is £600.

(1D) Where sub-paragraph (1B) applies, the penalty is the equivalent multiple of £300."—*(Anneliese Dodds.)*

This amendment provides for higher penalties for failure to comply with paragraph 35C where the amount of the loan is greater.

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 2]

AYES

Blackman, Kirsty	Lee, Ms Karen
Carden, Dan	Pidcock, Laura
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Thewliss, Alison
George, Ruth	

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Stride, rh Mel
Graham, Luke	Stuart, Graham
Kerr, Stephen	Whately, Helen

Question accordingly negatived.

Amendment proposed: 38, in schedule 1, page 60, line 20, at end insert—

"17 (1) The amendments made by paragraphs 9 to 12 have effect in accordance with the provisions of this paragraph.

(2) No later than two months after the passing of this Act, the Chancellor of the Exchequer and the Commissioners shall undertake an assessment of the profile of those holding loans to which the amendments made by those paragraphs apply.

(3) A review under this paragraph shall consider what discretionary arrangements it is appropriate for the Commissioners to take in relation those holding such loans who are not higher rate taxpayers.

(4) The amendments made by paragraphs 9 to 12 shall have effect when the Chancellor of the Exchequer has laid before the House of Commons a report of the review under this paragraph."—*(Anneliese Dodds.)*

This amendment provides for commencement of the provisions of Part 4 of the Schedule to take place after the publication of a review of the profile of those affected, and in particular on lower paid taxpayers.

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 3]

AYES

Blackman, Kirsty	Lee, Ms Karen
Carden, Dan	Pidcock, Laura
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Thewliss, Alison
George, Ruth	

NOES

Burghart, Alex	Maclean, Rachel
Chalk, Alex	Philp, Chris
Clarke, Mr Simon	Stride, rh Mel
Graham, Luke	Stuart, Graham
Kerr, Stephen	Whately, Helen

Question accordingly negatived.

Schedule 1 agreed to.

Clause 12 ordered to stand part of the Bill.

Schedule 2 agreed to.

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

11.5 am

Adjourned till this day at Two o'clock.