

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT  
GENERAL COMMITTEES

## Public Bill Committee

### FINANCE (NO. 3) BILL

**(Except clauses 5, 6, 8, 9 and 10; clause 15 and schedule 3; clause 16 and schedule 4; clause 19; clause 20; clause 22 and schedule 7; clause 23 and schedule 8; clause 38 and schedule 15; clauses 39 and 40; clauses 41 and 42; clauses 46 and 47; clauses 61 and 62 and schedule 18; clauses 68 to 78; clause 83; clause 89; clause 90; any new clauses or new schedules relating to tax thresholds or reliefs, the subject matter of any of clauses 68 to 78, 89 and 90, gaming duty or remote gaming duty, or tax avoidance or evasion)**

*First Sitting*

*Tuesday 27 November 2018*

*(Morning)*

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#### CONTENTS

Programme motion agreed to.  
Written evidence (Reporting to the House) motion agreed to.  
CLAUSES 1 AND 2 agreed to.  
Adjourned till this day at Two o'clock.

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**not later than**

**Saturday 1 December 2018**

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**The Committee consisted of the following Members:**

*Chairs:* † Ms NADINE DORRIES, MR GEORGE HOWARTH

- |  |   |
|--|---|
| † Afolami, Bim ( <i>Hitchin and Harpenden</i> ) (Con)              | † Lewis, Clive ( <i>Norwich South</i> ) (Lab)                             |
| † Badenoch, Mrs Kemi ( <i>Saffron Walden</i> ) (Con)               | † Reynolds, Jonathan ( <i>Stalybridge and Hyde</i> ) (Lab/Co-op)          |
| Black, Mhairi ( <i>Paisley and Renfrewshire South</i> ) (SNP)      | † Smith, Jeff ( <i>Manchester, Withington</i> ) (Lab)                     |
| † Blackman, Kirsty ( <i>Aberdeen North</i> ) (SNP)                 | † Sobel, Alex ( <i>Leeds North West</i> ) (Lab/Co-op)                     |
| † Charalambous, Bambos ( <i>Enfield, Southgate</i> ) (Lab)         | † Stride, Mel ( <i>Financial Secretary to the Treasury</i> )              |
| † Dodds, Anneliese ( <i>Oxford East</i> ) (Lab/Co-op)              | † Syms, Sir Robert ( <i>Poole</i> ) (Con)                                 |
| † Dowd, Peter ( <i>Bootle</i> ) (Lab)                              | † Whately, Helen ( <i>Faversham and Mid Kent</i> ) (Con)                  |
| † Ford, Vicky ( <i>Chelmsford</i> ) (Con)                          | † Whittaker, Craig ( <i>Lord Commissioner of Her Majesty's Treasury</i> ) |
| † Jenrick, Robert ( <i>Exchequer Secretary to the Treasury</i> )   | Colin Lee, Gail Poulton, Joanna Dodd, <i>Committee Clerks</i>             |
| † Keegan, Gillian ( <i>Chichester</i> ) (Con)                      | † <b>attended the Committee</b>   |
| † Lamont, John ( <i>Berwickshire, Roxburgh and Selkirk</i> ) (Con) |   |

## Public Bill Committee

Tuesday 27 November 2018

(Morning)

[NADINE DORRIES *in the Chair*]

### Finance (No. 3) Bill

**(Except clauses 5, 6, 8, 9 and 10; clause 15 and schedule 3; clause 16 and schedule 4; clause 19; clause 20; clause 22 and schedule 7; clause 23 and schedule 8; clause 38 and schedule 15; clauses 39 and 40; clauses 41 and 42; clauses 46 and 47; clauses 61 and 62 and schedule 18; clauses 68 to 78; clause 83; clause 89; clause 90; any new clauses or new schedules relating to tax thresholds or reliefs, the subject matter of any of clauses 68 to 78, 89 and 90, gaming duty or remote gaming duty, or tax avoidance or evasion)**

9.25 am

**The Chair:** I have the usual preliminary announcements. You may remove your jackets. I remind you that only water may be consumed during Committee sittings. Will you please ensure that you switch your mobile phones to silent mode as I have just done? Document boxes with your names on are provided at the back of the Committee Room. This will be our room for the duration of this Committee, and it will be locked between sittings, so if you wish to leave your papers here rather than carrying them around, please do.

The Committee will consider the programme motion on the amendment paper, for which debate is limited to half an hour, and then proceed to a motion to report any written evidence. We will then begin line-by-line consideration of the Bill. I will first call the Minister to move the programme motion in the terms agreed by the Programming Sub-Committee and then call Kirsty Blackman to speak to amendment (a). There will be a single debate on the motion and selected amendments.

*Motion made, and Question proposed,*

That—

- (1) the Committee shall (in addition to its first meeting at 9.25 am on Tuesday 27 November) meet—
  - (a) at 2.00 pm on Tuesday 27 November;
  - (b) at 11.30 am and 2.00 pm on Thursday 29 November;
  - (c) at 9.25 am and 2.00 pm on Tuesday 4 December;
  - (d) at 11.30 am and 2.00 pm on Thursday 6 December;
  - (e) at 9.25 am and 2.00 pm on Tuesday 11 November;
- (2) the proceedings shall be taken in the following order: Clauses 1 to 4; Clause 7; Clauses 11 to 13; Schedule 1; Clause 14; Schedule 2; Clause 17; Schedule 5; Clause 18; Schedule 6; Clause 21; Clauses 24 to 26; Schedule 9; Clause 27; Schedule 10; Clause 28; Schedule 11; Clauses 29 to 31; Schedule 12; Clauses 32 to 35; Schedule 13; Clause 36; Schedule 14; Clause 37; Clauses 43 to 45; Clauses 48 to 51; Schedule 16; Clause 52; Schedule 17; Clauses 53 to 60; Clauses 63 to 67; Clauses 79 to 82; Clauses 84 to 88; Schedule 19; Clauses 91 and 92; 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 Tuesday 11 December.—(*Mel Stride.*)

**Kirsty Blackman** (Aberdeen North) (SNP): I beg to move amendment (a), leave out—

“(b) at 11.30 am and 2.00 pm on Thursday 29 November”.

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

Amendment (b), after “Tuesday 11 November;” insert—

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

Date	Time	Witness
Thursday 29 November	Until no later than 12.15 pm	HM Treasury; HM Revenue and Customs
Thursday 29 November	Until no later than 1.00 pm	Office for Budget Responsibility
Thursday 29 November	Until no later than 3.30 pm	The Institute for Fiscal Studies
Thursday 29 November	Until no later than 5.00 pm	The Chartered Institute of Taxation”

Amendment (c), at end insert—

“(4) The Committee recommends that the programme order of the House [12 November] should be amended in paragraph 7 by substituting ‘18 December’ for ‘11 December’.”

**Kirsty Blackman:** It is a pleasure to make the first substantial speech in this Finance Bill Committee—the first of many, I am sure.

Once again, the Scottish National party has tabled an amendment to the programme motion. It has concerned me for a long time that Finance Bill Committees do not take evidence and I think it would be better for the quality of debate if they did. This year, there are specific issues relating to the lack of consultation on the draft clauses and to the tight timescale for considering the Bill. I raised in Committee of the whole House my concerns about the fact that paper copies of the Bill were published on a Wednesday and we had to debate them on the Monday, which did not give us enough time given that the House was in recess. External organisations have also raised concerns about the lack of time for scrutiny, particularly for the unusually high number of clauses that were not consulted on in draft form. Glyn Fullelove of the Chartered Institute of Taxation, whom I quoted in Committee of the whole House, has been a particular critic of the process.

The SNP asks that, on Thursday, instead of having two normal sittings as planned, 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. They all know more about the legislation than we do, so it would be incredibly useful to hear from them.

I must also point out that the Government have included several clauses to make changes to previous legislation that was deficient. If Government legislation is deficient, I contend that more consultation must be a good thing.

**Anneliese Dodds** (Oxford East) (Lab/Co-op): Given that, as I understand it, the Committee in the other House is taking evidence on elements of the Bill, surely the hon. Lady agrees that we should be afforded that opportunity in this House.

**Kirsty Blackman:** Absolutely. It is odd that the House of Lords is more democratic than this place in relation to the Bill.

The Finance Bill Committee should take evidence. I know that it is a long-standing convention that it does not, but having served on the Public Bill Committee on the Taxation (Cross-border Trade) Act 2018 and heard the evidence taken, I know how useful it was for Committee members and how many of them referred to it in subsequent debate. It was an incredibly useful exercise and the legislation that came forward was better as a result.

As I flagged up in last year's Finance Bill debates, it is very good that external organisations have submitted written evidence, but I guarantee that the majority of hon. Members in this Committee have not read it all because of how little time we have had. Allowing us to question witnesses on the evidence that they provide on the Finance Bill Committee would be incredibly useful. The Government might not accept that this year, but can we consider taking evidence in future years? I am not the only one calling for this. The "Better Budgets" report produced by the Chartered Institute of Taxation and various other organisations called for the Finance Bill Committee to take evidence two and a half years ago, so external organisations have requested it, not just the SNP.

**Peter Dowd (Bootle) (Lab):** It is a pleasure to serve under your chairmanship, Ms Dorries. I hear what the hon. Lady says. Some of us have not been in the House for a great deal of time. I sat on the Housing and Planning Bill Committee, which lasted for 20 sittings, with a marathon sitting just before Christmas three years ago. We heard a great deal of evidence that significantly informed the debates. Some members of this Committee might have been on that one. Interestingly, some of the evidence we took proved to be absolutely spot on, because the Government subsequently ended up changing some of their housing policies. The Government made the same argument at the time: "No, we have thought this through. We have consulted", but the ability to hear from experts who live and breathe these issues was beneficial.

It was the same on the Criminal Finances Bill, which covered a pretty niche area. The job of Parliament is to scrutinise legislation, so we need the tools to do that. Whichever party is in control, it has the full back-up of the civil service, who are themselves experts and, to their credit, know their work, but it is important that the Opposition are able to get independent assessment and adjudication of what the Government tell us. That does not mean I do not believe a word that Ministers say—I believe everything they say. It is just that we do not necessarily get the full facts. I have found it very useful in the past to have evidence sessions, and the Government should give serious consideration to that.

I think this is the fourth Finance Bill I have sat on in the past two years, although my recollection is not what it used to be. We have also had the customs Bill, which is also a finance Bill, so we have had effectively five finance Bills in a short period of time and in a time of incredible turbulence and change. There might not be a convention or a tradition to take evidence in Finance Bills, but there comes a time when we think, "This is as good a time as any to take evidence because the circumstances have changed substantially."

We have also had what amounts to movement on the convention in relation to the amendment of the law. As everybody knows, it has been used only about half a

dozen times since 1929 when Winston Churchill introduced it. It has been used six or seven times, including three times by the Government in less than that period in years. That is a substantive and significant change. The Minister kindly responded to my letter about that and indicated that it was not necessarily a significant change, but it is. If we as a Committee—as a House—have done something only six or seven times in the best part of 90 years, changing that convention is significant. For that reason as well, we need to take a step back and decide that perhaps we need evidence sessions to tease out some of those important things.

It would also give assurance to the House, to Back-Bench Members and to the public in general that we take those matters seriously and that it is not business as usual—that just because we have done something for years or decades, we do not carry on doing it regardless. It would send a message that, in these turbulent times, the House takes the country's finances seriously.

Therefore, we should seriously consider taking evidence. After all, we are all open to public scrutiny in one fashion or another—in fact, there is no doubt that we welcome it, and I do not suggest that the Government do not welcome it too. If we do not object to that scrutiny, why do we not institutionalise it, do what other Committees have done in the past and take evidence? Let experts in their field challenge us, and let us challenge them.

**Kirsty Blackman:** One of the Government's arguments against taking evidence is the fact that the Bill is split between the Committee of the whole House and the Bill Committee, but does the hon. Gentleman agree that we in the Bill Committee tend to consider the more technical amendments on which we most need evidence to make good legislation?

**Peter Dowd:** That is a perfectly fair point. Inevitably, when we get into Committee, the clauses that we discuss are very technical and it is those technical clauses for which we need some evidence.

At the end of the day, we have had written evidence from the Chartered Institute of Taxation on clauses 7, 11, 81 and several others, which I read with great interest. Some of the comments were very pertinent. It would have been a good opportunity to tease out some of the issues in those clauses in more detail. As I said, none of us are concerned about challenge—that is why we came into Parliament. We are here to be challenged, and that is the nature of our democracy.

**Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op):** My hon. Friend has hit the centrality of the issue. The failure to move the amendment of the law resolution means that this Bill Committee becomes much less of a political conversation and more of a technical one. We can see on the programme motion the amendments that have been ruled out of order—reasonably, by applying the rules that the Government have put on the Committee. It has not been permitted for us to have a political conversation about different approaches to income tax, and if the Committee cannot have the political analysis, we should surely have the technical one, which has to involve experts.

**Peter Dowd:** My hon. Friend has a laser-like focus. In that regard, the Government cannot have it both ways. They cannot tell us that, on the one hand, we are

[Peter Dowd]

dealing with all these technical issues and we should not be dealing with those wider issues, hence the amendment of the law, but in the same breath tell us that we cannot have any face-to-face consultation or oral evidence.

I give credit to the Government in so far as they have consulted pretty widely on these matters, but I have been involved in lots of consultations that have been paper exercises. I do not mean that lightly—they have been genuine attempts at consultation where people have written in to express this or that view—but during the process, I have certainly been in situations where we have decided, in the light of the evidence that we have and of the information provided to us through that consultation process, that we were going to say, in an open and transparent fashion, “Okay, let’s stop. We have all this consultation. We’ve read it. We’ve listened to it. Why don’t we just tease it out a bit more with some of the people who have taken the time to write back to us?” Organisations have indicated to us that they would welcome evidence sessions. The hon. Member for Aberdeen North has indicated some people we could see, but there are lots more. Frankly, we could have three days of evidence sessions, which would not be a bad thing per se. The idea that we focus it down to one day, with the organisations that hon. Lady has identified, is not, in the grand scheme of things, a difficult process, issue or onus. I exhort the Government to listen carefully to what we have said in the genuine spirit of trying to make this a better Bill. There may be agreement and we may have a better Bill where there is no agreement. I exhort the Government to listen carefully and accede or acquiesce—not capitulate—to our request.

**Sir Robert Syms (Poole) (Con):** I have just a few points about where we are going. There are a number of events in Parliament that get quite a lot of public interest; the Queen’s Speech is normally one and the Budget is another. People make representations to the Treasury in advance of the Budget, but afterwards the *Financial Times* and almost every insurance company, bank and accountancy firm produce reams of information on what changes have occurred. The one sure thing about the Budget is that a number of trees will be cut down, to supply information to the great British public on what changes have already occurred. Actually, I do not think that this is one of those Committees that needs to take lots of information, because most of us will have lots of information already.

One could substitute vested interests for the point about experts, because there are an awful lot of vested interests in this country. As a large Committee of the House of Commons, we sometimes have to navigate our way through that, so we could sit for months listening to vested interests on a whole range of subjects and not actually make any decisions. The purpose of this Committee is to look at what the Government have done, maybe make some decisions and then report back to the House.

**Kirsty Blackman:** On that point, is the hon. Gentleman seriously suggesting that both the Treasury and HMRC have vested interests other than trying to make good law?

**Sir Robert Syms:** Out in the big wide world, there are an awful lot of people who would come to this Committee, given the chance. The biggest difficulty we would have

would be deciding who to invite, and we could be sitting in this Committee for months. I think it is quite clear that most people understand the key points of the Budget, because lots of information has been produced. When I was in opposition and the Labour party was in government, I probably made a similar speech to the one made by the Opposition spokesman. The Minister will probably make the same speech that Labour Ministers made when we raised the same point. The only point of having additional information is that it helps the Opposition in tabling amendments. That is the only reason normally stated.

**Jonathan Reynolds:** The process of the Bill is not just to review what the Government have done, but to have a contested conversation about the impact of those changes and what the benefits might be. For example, all of the evidence produced for this Budget and many others would say that the Government’s substantial cuts to corporation tax will cost this country a lot of money. That is not a widely accepted point on the Conservative Benches. They would say that, by reducing the tax rate, the revenue has gone up. No experts would sign off on that, but that is surely the conversation we should have in this Committee, as politicians, based on the evidence submitted. That is the right balance between the two.

**Sir Robert Syms:** I hear what the hon. Gentleman says, but the reality is that we have had a Budget, which is a big event. We then had three or four days of debate on the Floor of the House. We then debated the Finance Bill on the Floor of the House. This Committee will run for a number of sittings. It will then go back to the Floor of the House. This will have more debate than most other Government motions. I suspect that by the end of the process we will be even better informed than we were before, as the serried ranks of the Treasury come in and feed paper to the Minister.

I served on one of the coalition Government’s Finance Bill Committees, and on two or three under the previous Labour Government, dealing with substantive issues such as when we took away all the tax relief on banks when they lost billions of pounds—had we not done so, they would never pay tax again. There were substantial changes made in the Finance Bill after the financial crash. We did not take evidence then, because it was a time for action, not debate. I look forward to hearing Ministers get on with the job of dealing with this Committee and with matters that are important to business and individuals in this country.

9.45 am

**Bambos Charalambous (Enfield, Southgate) (Lab):** I have served on one other Public Bill Committee, which was on the energy price cap. We heard lots of evidence from many companies about the benefits or disbenefits of having an energy price cap. I see no difference between that Bill Committee and this one. I do not see why we should not hear evidence from experts who can advise us on what happens, as we do in other Bill Committees. It does not make sense to have one rule for one situation and a different rule for another.

**Sir Robert Syms:** We could have a general rule that every single Committee of the House should take evidence on every single matter, but the problem is that Committee sittings would then last considerably longer. They would

need to be staffed up and we would have difficulty getting Members to serve on the Committees and listen to all that evidence. Ultimately, governing is about taking decisions. There has to be a balance in understanding what points of view people take. We can sit here endlessly listening to advice, but we have to make choices.

**Kirsty Blackman:** We cannot sit here endlessly listening to advice, because the Committee has to end by 11 December. We are talking about one day of taking information from people so that we can be better informed in the debates that we will have up until 11 December, at which point this Committee will end, because that is what the House has decided.

**Sir Robert Syms:** Members of the Committee have a mandate to scrutinise the Government. If we take one day out of that scrutiny, we are reducing our ability to question the Minister on some very important matters. Personally, I would like to take all the time to question the Minister on why decisions have been taken, and I am sure I will get very good answers.

**The Financial Secretary to the Treasury (Mel Stride):** It is a pleasure to serve under your chairmanship, Ms Dorries, and a pleasure to serve on my third Finance Bill Committee—I think that it is the fourth such Committee for the hon. Member for Bootle, but it is reassuring to see broadly the same team arrayed. We were a fairly jovial and decent lot in the last Committee, so I am pleased to be serving alongside them again. The hon. Member for Bootle said that he always believes everything that the Minister says, which is a fine start to our deliberations over the coming weeks. My hon. Friend the Member for Poole said that I was probably dusting off the previous Labour Government's speech from when they were faced with the same questions. Indeed I have, so I hope that will be acceptable to Opposition Members.

Amendments (a), (b) and (c), tabled by the hon. Member for Aberdeen North, seek to revise the programme motion by introducing a day of oral evidence and extending the time spent in Committee. It is of course important that the provisions of the Bill receive sufficient parliamentary scrutiny. The Government's tax policy making framework ensures that that occurs, and I do not think that evidence to a Public Bill Committee would effectively further that aim.

The amendments would introduce a day of oral evidence from, among others, the Institute for Fiscal Studies, the Chartered Institute of Taxation and the Office for Budget Responsibility. Let me be clear that I agree that effective parliamentary scrutiny of this and any other Finance Bill is crucial, and I am always open to considering how that can be improved. However, for the following reasons, I am not persuaded by the merits of delaying the Committee in order to allow oral evidence to be taken. We accept that any additional evidence sessions would certainly increase the amount of scrutiny of the Bill, but that is not the same as saying that, in the absence of such sessions, the scrutiny of the Bill would be insufficient—as my hon. Friend the Member for Poole has set out, there has been very considerable scrutiny already—or indeed that additional days of evidence would provide a proportionate response to the need for scrutiny.

First, in line with the new approach to tax policy making set out in the Government's 2010 framework, the Government already undertake extensive consultation with stakeholders before legislating in the Finance Bill.

**Kirsty Blackman:** On that point, does the Minister not accept that this year that "extensive consultation" has not been as extensive as it has been in previous years, and nor as extensive as it should be?

**Mel Stride:** I do not accept that. As I will argue, there is a process that we go through, which starts with the Budget announcement. We then go into formal consultation, which is applied to a number of measures within the Bill. We also of course publish draft clauses—I think that was on 6 July this year. I believe that around 226 pages of draft legislation were published at that time out of a total Bill length of 315 pages. It is considerable. We have received written evidence, the Bill will go through this Committee, it was considered by Committee of the whole House, we will then have Report stage, and we will examine amendments all the way through. The level of scrutiny received by a Finance Bill is well in excess of most Bills that come before the House.

My second point, which was raised by the hon. Member for Aberdeen North, relates to the fact that the Bill was considered in Committee of the whole House. Were the amendments to prevail, any evidence session in this Committee would not capture the important issues debated in Committee of the whole House. The Committee should be aware that Committee of the whole House is, I would argue, where the more important measures are considered, and they are put to the whole House rather than simply the members of this Committee.

**Jonathan Reynolds:** The Minister referred to the historical state of affairs for scrutinising Finance Bills. My hon. Friend the Member for Bootle said that the change this time has been the failure to move the amendment of the law resolution. This is only the sixth or seventh time that has happened since 1929. By convention of the British constitution, that has happened only very close to or on either side of an election to tidy up the statute book and get measures through before Parliament prorogues. Is this the Government's established state of affairs? Will we conduct Finance Bills in this way under a limited technical scope by failing to move that amendment of the law resolution?

**Mel Stride:** I am not going to be drawn into what may or may not happen in future—the usual channels and the Government of the day take those decisions—other than to say that this is not a unique occurrence. As the hon. Gentleman recognises, this has happened in the past. Indeed, the very argument that just because it has not happened in the past does not mean it should not happen now, which is being applied to the seeking of an additional day, could also apply to the amendment of the law resolution. It has happened in the past and this is not the first time with a Finance Bill. In fact, the two I have taken through the House to date have been subject to those provisions.

The IFS, the OBR and others produce analysis of Budget measures before or after the event. They also typically give oral evidence to the Treasury Committee on the Budget as a whole before the Committees on the

[Mel Stride]

Finance Bill. Oral evidence at a Public Bill Committee will replicate that analysis while limiting its scope to those parts of the Bill not selected for the Committee of the whole House.

Finally, the programming of business is a matter for business managers and the usual channels. Those channels establish the programme motion that was agreed by the Programming Sub-Committee, which is made up of Government and Opposition Members. They were not persuaded that oral evidence sessions would be beneficial and, I am afraid, neither am I. As such, I urge the Committee to reject the amendments.

**Kirsty Blackman:** The Minister's argument does not make sense in relation to the things that are most important being discussed in the Committee of the whole House. I would contend that clause 1 is probably the most important in the Bill given that it allows Government to charge income tax for future years. I suggest that the ones discussed in the Committee of the whole House are the most political, as they are agreed between the usual channels, and ones where the Opposition tend to think they might be able to get a win out of the Government, as was adeptly proven last week with the number of amendments accepted by the Government. I take the opportunity to say that I am pleased about that, because our amendments are not often accepted—I am quite chuffed about that one.

The Public Bill Committee debates are on the more technical aspects. This is less political and less likely to be chewed over by the *Financial Times* on its front page because it is immensely technical. The tax code has changed significantly and increased massively in the past few years. There is a huge volume of tax legislation and lots of it is incredibly technical. The stuff we are discussing in the Public Bill Committee is immensely technical and I disagree with the Minister on how external organisations have raised concerns about how few of the draft clauses were consulted on.

**Mel Stride:** The hon. Lady is absolutely right that this Committee will debate a number of technical clauses. Surely if they are technical, does that not lend itself to an examination based on written evidence based on, for example, approaching me with written questions or discussions or indeed a meeting, or perhaps a meeting that I can facilitate with officials present to get into the detail, rather than a broad brush quick day with various advisers and organisations that we quiz?

**Kirsty Blackman:** The Minister makes a slightly circular argument. He suggests that questioning him would help us to improve the legislation and that questioning external experts who have to apply tax changes would be less useful.

**Peter Dowd:** Does the hon. Lady agree that there is an issue? The Labour party tabled a number of amendments, 10 or 11 of which were ruled out of scope. I do not criticise that at all. There is no criticism—

9.56 am

*Half an hour having elapsed since the commencement of the proceedings on the motion, the Chair put the Question necessary to dispose of these proceedings (Standing Order No. 83C (9)).*

*Question put, That the amendment be made.*

*The Committee divided: Ayes 8, Noes 10.*

#### Division No. 1]

#### AYES

Blackman, Kirsty	Lewis, Clive
Charalambous, Bambos	Reynolds, Jonathan
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Sobel, Alex

#### NOES

Afolami, Bim	Lamont, John
Badenoch, Mrs Kemi	Stride, rh Mel
Ford, Vicky	Syms, Sir Robert
Jenrick, Robert	Whately, Helen
Keegan, Gillian	Whittaker, Craig

*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.*)

#### Clause 1

INCOME TAX CHARGE FOR TAX YEAR 2019-20

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

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

Clause 3 stand part.

Clause 4 stand part.

**Mel Stride:** Clause 1 provides the charge for income tax for 2019-20, clauses 3 and 4 set the main, default and savings rates of income tax for 2019-20. Income tax is one of the most important revenue streams for the Government, and raised nearly £181 billion last year. The power to charge income tax is legislated annually in the Finance Bill, and is central because it allows for income tax to be collected in order to fund the vital public services on which we all rely. Clause 1 grants this power for 2019-20. Clause 3 keeps the basic, higher and additional main rates of income tax at the same level as last year for England, Wales and Northern Ireland. Clause 4 keeps the basic, higher and additional rates of default and savings rates of income tax at the same level as last year for the whole of the United Kingdom.

We are supporting working people by increasing the tax-free personal allowance and the point at which people pay the higher rate of tax to £12,500 and £50,000 respectively. Keeping rates the same alongside increasing the personal allowance and higher rate threshold means people can keep more of what they earn. By April 2019 we will have cut taxes for 32 million people and taken 1.74 million of the lowest-paid out of income tax altogether since 2015. Clause 1 ensures that the Government can collect income tax in the tax year 2019-20 in order to fund key spending commitments. Clauses 3 and 4 ensure that the rates of income tax remain unchanged and make sure that hard-working people keep more of what

they earn and that those who earn the most continue to pay their fair share. I commend the clauses to the Committee.

10 am

**Kirsty Blackman:** I hope the Minister can answer my question in the positive. In the clauses, the devolved and reserved aspects are split. They are considered separately, which makes a huge amount of sense. I asked the Minister earlier whether he would consider doing that in future years for all clauses, particularly those similar to clause 5. I am not expecting a positive, definite answer that he will do that in future years, but will he commit to considering splitting the devolved and reserved aspects on income tax in future years, so that the House can better scrutinise legislation?

**Mel Stride:** I thank the hon. Lady for her question, which we touched on in the Committee of the whole House. She will be aware that clause 3 is subject to the English votes for English laws process because non-savings earnings are devolved to Scotland, so that clause only applies to Northern Ireland, Wales and England, while clause 4 on the savings and dividend rates applies UK-wide. I understand her point and we will be happy to look at that in the future. As things stand, we support where we are at the moment in the division of those particular clauses.

*Question put and agreed to.*

*Clause 1 accordingly ordered to stand part of the Bill.*

## Clause 2

### CORPORATION TAX CHARGE FOR FINANCIAL YEAR 2020

**Peter Dowd:** I beg to move amendment 8, in clause 2, page 1, line 7, leave out from “tax” to end and insert

“may be charged for the financial year 2020 if the condition in subsection (2) is met.

(2) The condition in this subsection is, prior to 6 April 2019, the Chancellor of the Exchequer has laid before the House of Commons a review of the corporation tax receipts of multinational companies with UK-domiciled subsidiaries in relation to their publicly available UK-based revenue.”

*This amendment requires a review of the effects of corporation tax receipts of multinational companies compare with their UK-based revenue.*

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

Amendment 9, in clause 2, page 1, line 7, leave out from “tax” to end and insert

“may be charged for the financial year 2020 if the condition in subsection (2) is met.

(2) The condition in this subsection is, prior to 6 April 2019, the Chancellor of the Exchequer has laid before the House of Commons a review of the corporation tax receipts of technology companies with UK-domiciled subsidiaries in relation to their publicly available UK-based revenue.”

*This amendment requires a review of the effects of corporation tax receipts of technology companies compare with their UK-based revenue.*

Amendment 10, in clause 2, page 1, line 7, leave out from “tax” to end and insert

“may be charged for the financial year 2020 if the condition in subsection (2) is met.

(2) The condition in this subsection is, prior to 6 April 2019, the Chancellor of the Exchequer has laid before the House of Commons a review of the Commissioners’ effectiveness at applying General Anti-Avoidance Principles with reference to corporation tax collection.”

*This amendment requires a review of the effects of HMRC’s effectiveness in applying General Anti-Avoidance Principles with reference to corporation tax collection.*

Amendment 11, in clause 2, page 1, line 7, leave out from “tax” to end and insert

“may be charged for the financial year 2020 if the condition in subsection (2) is met.

(2) The condition in this subsection is, prior to 6 April 2019, the Chancellor of the Exchequer has laid before the House of Commons a review of the current UK tax gap in respect of corporation tax applying globally agreed avoidance measures to multinationals with UK-domiciled subsidiaries.”

*This amendment requires a review of the effects of the current UK tax gap in respect of corporation tax applying globally agreed avoidance measures to multinationals with UK-domiciled subsidiaries.*

Clause stand part.

**Peter Dowd:** In speaking to amendment 8, I will also speak to amendments 9, 10 and 11, each of which we will press to a vote.

Clause 2 enacts the continued charging of corporation tax. As the explanatory note says, the clause

“charges corporation tax for the financial year beginning 1 April 2020 ...Parliament charges CT for each financial year. This clause charges CT for the financial year beginning 1 April 2020. The rate of CT for the financial year 2020 was set at 17% in Finance Act 2016 Part 2 section 46.”

As I indicated earlier, it is vital to hold the Government to account on the matter of their treatment of corporation tax. The Government have offered huge tax breaks to big business even during their continued programme of austerity, which only two weeks ago the special rapporteur described as causing “misery”. It is important to set that context in relation to our amendments. The Government have slashed—that is the word—the amount of corporation tax paid, with a commitment to continue to cut big company taxes further. By 2020, 11% will have been cut from the main rate.

The main rate of corporation tax applies to companies with profits over £300,000—these are not small family businesses, but big corporations of the sort that we have all come to know, because they play a significant part in our economy. There is no criticism of that, but there is a balance to be drawn.

The main rate started at 28% in April 2010. It was reduced by the former Chancellor to 26% in April 2011 and then was reduced again to 24% in 2012 and 23% in 2013, before reaching 20% in 2015. It was cut further, to 19%, in 2017 with a view to reaching 17% by 2020. As of last year, the Institute for Fiscal Studies found that, compared with 2010, those cuts were denying the country £16.5 billion a year in tax revenue. That will increase if the Government stay in power long enough to push the rate down to 17% by 2020.

The Government have already been criticised by tax experts about the matter, which to some extent takes us back to our debate about the ability to tease out the issues. For example, Bill Dodwell, the former head of tax policy at Deloitte—not a company considered to be particularly socialist—said:

“Nobody seems to welcome the cut to 17 per cent.”

[Peter Dowd]

The British Chambers of Commerce has called for a pause to the corporation tax giveaways. When corporations' own trade associations are making that point, it indicates that something might not be quite right. If it is important that we are all in this together, we must all be in it together on this matter too, and corporations should not be outside that.

We seek to take stock of the Government's policy, which many people describe as corporate welfare, in the context of eight painful years of austerity for some of the poorest in our society and following numerous criticisms of the corporation tax policy by those who will benefit from it. Will the Minister help us to understand the Government's position by addressing those criticisms in turn? Perhaps the Government might wish to introduce a review of corporation tax changes since 2010, so that we can get to the bottom of this important matter. After all, in eight years under the Government, corporation tax giveaways are likely to amount to hundreds of billions of pounds, while the number of people in poverty has risen to 14 million. A review of the matter would also help us to compare the Government's actions with Labour party policy, which is to reverse the cuts and invest the money elsewhere.

Let us have a review to tease out the issues, because £16.5 billion works out at more than £25.5 million per constituency in the UK. The combined total cut from the constituencies of Conservative members of this Committee amounts to £228 million; it is important that the figures are put in context, because that translates to a lot of schools and hospitals that they are prepared to sacrifice.

Along with the important matter of what has happened to corporation tax since 2010, we must also draw a link between the Government's cuts to corporation tax and their wider programme. In our view, there has been economic mismanagement, but we are not necessarily here today to talk about that.

**Bim Afolami** (Hitchin and Harpenden) (Con): The hon. Gentleman asserts figures such as £16.5 billion, but does he accept that the tax rate has a dynamic effect on the amount generated for the Exchequer? It is all very well to cite a number as a static figure and say, "Actually, Labour party policy will double the amount we get," but does he accept that there is a relationship between the rate and the amount that the Exchequer generates because of increased economic growth?

**Peter Dowd:** The hon. Gentleman makes a fair point, which I will address later in my remarks, and which we can tease out across the Committee if we want.

For Members who do not know, labour productivity is calculated by dividing output by labour input. Output refers to gross value added, which is an estimate of the volume of goods and services by an industry, and in aggregate for the UK as a whole. Labour inputs are measured in terms of workers, jobs—"productivity jobs"—and hours worked, or "productivity hours".

The cuts to corporation tax have done nothing to improve our productivity. The hon. Member for Hitchin and Harpenden may wish to listen to that point, so I will repeat it: the cuts to corporation tax have done nothing to improve our productivity. That strikes at the

heart of the Government's failure on the issue. In fact, the economic statistics centre of excellence and the centre for macroeconomics at the National Institute of Economic and Social Research published a study this year of Britain's very poor productivity. That brings us to the point that the hon. Gentleman raised, because one would assume that as a result of the tax cuts, more would be invested and productivity would rise—but that has not happened. The Government have argued that those corporations now receiving significant sums in tax cuts would invest in our economy and drive their business models forward, thus increasing UK productivity. Unfortunately, the 2018 paper shows that the billions of pounds of giveaways have not had a positive productivity effect. To deal with the point raised by the hon. Member for Hitchin and Harpenden, that paper says:

"Average annual...productivity growth was 2.5 percentage points lower during the period 2011-2015 than in the decade before the financial crisis...in 2007. We find that several years on from the financial crisis stagnation remains widespread across detailed industry divisions, pointing to economy-wide explanations for the puzzle. With some exceptions, labour productivity...lost...momentum in those industries that experienced strong growth before the crisis. Three fifths of the gap is accounted for by a few industries that together account for less than one fifth of market sector value added. In terms of why we observe continued stagnation, we find that capital shallowing has become increasingly important in explaining the labour productivity growth gap in service sectors, as the buoyancy of the UK labour market has not been sufficiently matched by investment...The collapse in labour productivity growth has been more pronounced in the UK than elsewhere" notwithstanding those major cuts in corporation tax.

**Anneliese Dodds:** Does my hon. Friend agree that there is a contradiction in Government policy? They appear to believe that cutting corporation tax rates will lead to a higher activity rate and a higher investment rate—as he said, that has not been the outcome—but when it comes to social security, the assumption appears to be that cutting the rate of income that people can take home by having a high taper rate, for example, will necessarily lead to a higher work rate. Actually, the evidence shows that the vast majority of people on social security want to work and there is no evidence that they do not want to. The psychological approach to corporations—that if they give them more corporate welfare, they will work harder, although the evidence does not indicate that that is the case—seems to be very different from the approach to social security recipients, where the view is that if they reduce their income they will work harder, when actually most people want to work.

**Peter Dowd:** I do not want to introduce Gilbert and Sullivan, but the point is that it is a topsy-turvy world where cash for corporations equals productivity, when it does not, and cuts to welfare equal productivity, when they do not. It is not as simple as that and I am afraid that the Government's rather one-dimensional approach does not work. That report shows that the billions handed to those big companies by the Government have not had the required effect on business investment to drive up productivity. The facts are there for everybody to see. No doubt, if we had had some experts here, we could have teased that out a bit more.

**Bim Afolami:** The hon. Gentleman has focused on domestic business investment, but would he not accept that having an attractive corporation tax regime and

providing a business-friendly climate also helps with foreign direct investment? Britain is still a world leader in that.

**Peter Dowd:** Yes, but there is not necessarily a causal link there. The reality is—[*Interruption.*] Let me tease that out. The evidence does not suggest that, as I have tried to point out. The German economy is 35% more productive, because investment in it is significantly better than investment in this country's economy. We are having a debate at the moment about the question of uncertainty in relation to Brexit, which is probably having a more significant effect than the hon. Gentleman suggests.

The bottom line is that the idea that cutting corporation tax per se will lead to growth in the economy has not proven to be the case. The economy is still flatlining, despite those cuts to corporation tax. The best part of half a billion pounds is still sitting in corporate bank accounts not being invested, despite corporate tax cuts.

**Jonathan Reynolds:** This is exactly the sort of conversation that we should have, and exactly what the Finance Bill should talk about. International competitiveness is not only an issue of tax rates; I think we all agree on that. We absolutely recognise that the tax rates on corporate taxation are part of that, but there is at the minute a very poor argument for the UK's being such an outlier among developed nations and continually cutting its rate of corporation tax for diminishing returns, as my hon. Friend has said, when our public services are in dire need, our infrastructure needs are huge and our skills base is being eroded. All of those impact on competitiveness as well. It is the balance that we have to get right.

10.15 am

**Peter Dowd:** My hon. Friend makes an important point: we have to have a balance. The massive cuts in corporation tax—sequentially, over several years—have not had the required effect. If they did, there is an argument to be had, but they have not. There does not appear to be any evidence that that is the case, so it begs the question why. If the Government are trying to make a rational case for it, they have singularly failed and it is time to have another look.

The Government once had a plan to tackle, for example, productivity in 2016 when they tried to maintain that there was an agenda beyond austerity, but that has not been the case. Sadly, the plan was not to reverse the corporation tax cuts and invest in the economy, but simply to push on. As a result, the plan was roundly criticised. The Business, Innovation and Skills Committee said

“we question whether the document has sufficient focus and clear, measurable objectives to be called a ‘plan’. This broad and expansive document represents more of an assortment of largely existing policies collected together in one place than a new plan for ambitious productivity growth.”

That plan was the best attempt so far and it has singularly failed. That is why we will continue to press the Government on the true cost of corporate giveaways both in terms of the tax forgone and their effectiveness.

Amendment 8 requires a review of the effects of corporation tax receipts of multinational companies compared with their UK-based revenue. That is a perfectly reasonable approach in the round—it is not just one-dimensional. The *Financial Times* reported last year that multinational companies avoided paying as much

as £5.8 billion tax in 2016 by booking profits in overseas entities. It reported that that represented almost a quarter of the tax underpaid by large corporations last year. In addition to an apparent avoidance of tax, they also get a tax reduction. It is a great life if you can get it: do not pay tax and get rewarded with another tax cut. If only we could all do that, although I suspect none of us would want to.

Sadly, the situation does not seem to have improved under the Government's plans, despite the warning signs. *The Times* reported two weeks ago that HMRC is now chasing £28 billion in unpaid taxes from multinationals. The Government's response was to give them some more. It is a bizarre approach when they owe £28 billion, or when HMRC is chasing £28 billion. I assume colleagues in HMRC do not simply go around chasing £28 billion for the fun of it, and instead do it because there is a requirement and we need the tax, and importantly because companies should pay their fair share. That represents a 50% increase in avoidance over four years. While the Government give corporations tax cuts, the corporations appear to say, “Thank you very much; we will carry on doing what we usually do and avoid our taxes.”

The problem stems from transfer pricing, which refers to the charges made between different parts of a multinational business for goods, services or intangible assets, including intellectual property, for example. Tax rules provide that transactions between connected parties should be taxed as if they were on arm's length terms. In recent years, multinationals have been accused of arranging their transfer pricing to minimise their tax liabilities in jurisdictions such as the United Kingdom, which accounts for billions of missing tax in the UK.

The Conservative party not only wants to give the wealthiest a tax break but it does not seem too bothered if they give it to others such as corporations that do not necessarily need it. Of course, as my hon. Friend the Member for Oxford East said, that rule applies only to powerful interests and not to the working single mother who pays in full every single month.

**Bim Afolami:** The hon. Gentleman uses the word “corporations” pejoratively and then mentions the hard-working single mother. Does he accept that the hard-working single mother might also run a small business? Why did the Labour manifesto commit to increasing corporation tax on small businesses as well as on multinationals?

**Peter Dowd:** I started my comments by welcoming the role that corporations play in our economy. My use of the word “corporations” was not in any sense pejorative. I have said nothing “pejorative” about corporations. I may have talked pejoratively about those corporations that avoid their tax and I think most other people would, too. Those corporations have a responsibility, and not just legally, to pay tax. I am not suggesting they are evading tax in that sense, but morally they are part of our community. They are part of one of the most stable countries in the world, with a rule of law next—[*Interruption.*] I am absolutely shocked that the hon. Gentleman is laughing at my assertion that we have one of the best processes for the rule of law in this country. I am sure he did not mean to laugh when I was praising the British constitution—I accept that he did not really mean it.

[Peter Dowd]

At the end of the day, the bottom line is that I have not at any time been pejorative, and nor would I wish to be pejorative, about corporations that play their part in society, that pay their taxes, that treat their workers properly and that treat their customers as their first port of call. I would not be pejorative about those corporations, but I will not stop criticising corporations that do not pay their fair share of tax.

To get back to the point, that is why the Government appear to be winding down the diverted profits tax rather than ramping up the pressure on companies that do not pay their way. The review demanded by amendment 8 would strike at the heart of the problem. For too long, the Government have sat idly by and watched the UK being fleeced by many big companies and the public are saying that enough is enough.

On amendment 9, the Government's blind spot in respect of companies paying their share extends in particular to technology companies. It was reported in *The Guardian* this year that Amazon had halved its corporation tax despite posting record profits. The article speaks directly to the amendment by saying:

"The company, which has been locked in a race with Apple and Alphabet to be the world's first trillion-dollar business, revealed that pre-tax profits at its UK business tripled from £24m in 2016 to £72m last year.

The figures were reported by Amazon UK Services, the company's warehouse and logistics operation that employs more than two-thirds of its 27,000-plus UK workforce, in its annual financial filing to Companies House.

The company almost halved its declared UK corporation tax bill from £7.4m in 2016 to £4.5m last year. It received a tax credit of £1.3m from the UK authorities in 2016, and last year paid £1.7m tax on its profits."

I do not have the evidence to hand, because time does not permit me to go into all the details, but it would be interesting to know how many of those 27,000 people are on tax credits themselves because the pay they get from that company is pretty low. There is an unacceptable triple-whammy for taxpayers. No. 1 is that some of those companies' employees get tax credits because they do not get paid enough; No. 2 is that the companies are getting a corporation tax cut; and No. 3 is that they avoid paying their taxes where they can.

Will the Minister guarantee that Amazon will pay a full and reasonable share of tax on its operations next year? I suspect that he is not likely to commit to that suggestion even if he wanted to. What about other companies? Google paid only £50 million last year, despite total sales of £5.7 billion, which is worth repeating. Meanwhile, Facebook paid only £15.8 million in corporation tax, despite collecting a record £1.3 billion in sales. Its accounts show that while it increased its UK income by more than 50% in 2017, its pre-tax profits increased by only 6% to £62.7 million. The Silicon valley-based company's UK taxable profits were reduced by a £444 million charge for unexplained "administrative expenses", which is scandalous.

The Chancellor said that he would introduce a digital services tax in response to that flagrant attempt to undermine our tax base. Oddly, though, the tax seemed to bring in only £5 million in the first year and £275 million in the second. Perhaps the Financial Secretary could tell us where the rest is. That seems a pretty pathetic attempt

to restore a level playing field in our tax system—the digital services tax is a drop in the ocean. What estimate has the Minister made of the total corporation tax lost to HMRC through avoidance by technology companies? What steps has he taken to work with other nations to deliver a comprehensive response? How many meetings has he had with the European Union since the Budget?

As the Minister knows, the European Union's approach is much more comprehensive. A Commission press release set out its approach to digital taxation—it is therefore directly relevant to amendment 9. It demonstrates that the EU's plans are far more developed than the UK's. It is therefore important that we listen to them. The press release states:

"The Commission has proposed new rules to ensure that digital business activities are taxed in a fair and growth-friendly way in the EU. The measures would make the EU a global leader in designing tax laws fit for the modern economy and the digital age",

which is what amendment 9 seeks to do. It continues:

"The recent boom in digital businesses, such as social media companies, collaborative platforms and online content providers, has made a great contribution to economic growth in the EU. But current tax rules were not designed to cater for those companies that are global, virtual or have little or no physical presence. The change has been dramatic: 9 of the world's top 20 companies by market capitalisation are now digital, compared to 1 in 20 ten years ago. The challenge is to make the most of this trend, while ensuring that digital companies also contribute their fair share of tax. If not, there is a real risk to Member State public revenues: digital companies currently have an average effective tax rate half that of the traditional economy in the EU... Today's proposals come as Member States seek permanent and lasting solutions to ensure a fair share of tax revenues from online activities"

as urgently as possible. Like the European Union, we are seeking to create an initiative

"to reform corporate tax rules so that profits are registered and taxed where businesses have significant interaction with users through digital channels. This forms the Commission's preferred long-term solution."

I would like the Government to consider a number of European Union proposals as part of the review, including an interim tax on certain revenue from digital tax activities. The Government could take that issue into account as part of the review, too. I hope they will look at it as well.

10.30 am

Having set out those proposals as briefly as I could—they offer a potential way forward as part of the review under amendment 9—it is clear that the EU is already far ahead of the Government in developing its thinking on this matter, which is critical for our tax base. I hope that the Committee will support our amendment to push the review forward. Should the Government fail to support it, that will show that they are not as committed to tackling tax avoidance as they would like us to believe. They would be open to accusations that it is a paper-thin exercise in public relations.

Amendment 10 would require a review of HMRC's "effectiveness at applying General Anti-Avoidance Principles with reference to corporation tax collection".

Members may not be aware of the background to the general anti-avoidance principles mentioned in the amendment, so I will quote from the House of Commons Library note, whose summary provides sufficient background to inform the debate:

“UK tax law is specifically targeted rather than purposive: in tackling the exploitation of loopholes in the law, governments have legislated against individual avoidance schemes as and when these have come to light. Often the response to this legislation has been the creation of new schemes to circumvent the law, which in turn has seen further legislative action – an ‘arms race’ between the revenue authorities and Parliamentary counsel on one side, and on the other, taxpayers aided and abetted by the legal profession.

Over the past twenty years many commentators have suggested having legislation to counter tax avoidance in general: by providing certainty for both sides as to the tax consequences of any transaction, a ‘General Anti-Avoidance Rule’.”

We support the adoption and implementation of a general anti-avoidance tax rule to strengthen HMRC’s ability to tackle tax avoidance wherever it occurs and whoever does it. Amendment 10 would measure the rule’s effectiveness in tackling corporation tax avoidance specifically. As I have outlined, corporation tax avoidance remains a serious issue that needs to be addressed if we are to restore and expand our tax base. A review such as the one proposed in the amendment could look at how the general anti-avoidance principles might be strengthened, particularly in regard to corporation tax avoidance.

The current guidance on the GAAR published by HMRC makes it clear that corporation tax is under its purview. The question then is whether that principle can be strengthened or more regularly applied to prevent abuse of our own taxation rules. We must look at what the general anti-avoidance rule is itself, particularly the section on HMRC’s application of it, which is the scope of the amendment we have tabled. I will spare the Committee any more substantive detail on what that section refers to. I think people will—

**Clive Lewis** (Norwich South) (Lab): Thank you for that.

**Peter Dowd:** People will thank me for it—I am sure that is the case—but I exhort people to read that detail, which will give them an insight into a way forward.

The question that a review would fundamentally seek to ask is whether the section of the GAAR that I referred to but will not quote from is strong enough in providing HMRC tax officials with the basis for pursuing corporation tax avoidance. The review would also look at its relationship to the other sections of the guidance in meeting that aim.

A related matter is whether the hollowing out of HMRC has had an impact on its effectiveness in preventing avoidance and evasion, and we cannot ignore that. My constituency, as you are well aware, Ms Dorries, is home to a significant number of HMRC staff, and they have been impacted, as everywhere has, by the Government’s hollowing out of HMRC. This matter should be considered as part of the review proposed by our amendment. The effective resourcing of HMRC needs to be reviewed as well.

**Bambos Charalambous:** Does my hon. Friend agree that we need more senior HMRC inspectors to go after the corporations that are avoiding tax and that without investment in HMRC we will not be able to recoup the taxes that are necessary to fund this country’s economy?

**Peter Dowd:** My hon. Friend makes a fair point. This is not about the production of civil servants for the sake of it, just having them in a job where they do very little

and are not particularly productive. Those civil servants are incredibly productive. There are various figures on the amount spent on chasing tax avoidance: if we put in £1, we might get £9 or £10 back—more according to certain studies. We need investment in the system, so my hon. Friend’s assertion is absolutely spot on. Resourcing should be considered as part of the review of corporation tax proposed in the amendment.

For too long, the Government have asked HMRC to pay the cost of a financial crisis that it had no part in, by implementing cuts in the very Department we need to support if we are to put an end to some of these avoidance gains. The impact of the Government’s austerity agenda was recognised by the National Audit Office, which published a report suggesting that the quality of services provided by HMRC to personal taxpayers collapsed in 2014-15 and in the first seven months of 2015-16. Between 2010 and 2014-15, HMRC cut personal tax staff from 28,000 to 15,000, which has almost certainly had an impact on the functioning of HMRC. The NAO analysis indicates that the quality of services deteriorated, which I do not think is a surprise to anyone. That gives a sense of the impossible pressure that HMRC is being put under and the difficulty of delivering on tax avoidance under the Government’s agenda.

Finally, amendment 11 requires

“a review of the effects of the current UK tax gap in respect of corporation tax applying globally agreed avoidance measures to multinationals with UK-domiciled subsidiaries.”

In respect of corporation tax, there has been some debate about what the tax gap in question is. I start by referring Members to HMRC’s own analysis of the tax gap, published this year. That analysis says:

“The estimated total tax gap for Corporation Tax was £3.5 billion in 2016-17 (£3.4 billion in 2015-16). This equates to 10.6% of the overall tax gap in 2016-17...The Corporation Tax gap for large businesses in 2016-17 is estimated at £1.1 billion. This represents 5.3% of total theoretical liabilities, the same as in 2015-16. There has been an upward revision to the 2015-16 estimate since the 2017 edition of ‘Measuring tax gaps’ by around £0.1 billion due to more recent data becoming available”.

There are around 170,000 mid-sized businesses in the UK, defined as the smallest businesses previously managed by the Large Business Service and the largest small and medium-sized enterprises that were reorganised into the mid-sized business directorate. Corporation tax on mid-sized businesses is about £0.1 billion higher than in 2015-16, and the corporation tax gap for small businesses is estimated at £1.6 billion for 2016-17, which is equivalent to 8.8% of total theoretical corporation tax liabilities. Those figures demonstrate the Government’s failure to apply proper enforcement measures against corporation tax avoidance: even on their own Department’s analysis, billions are slipping through the net every year. A review would be a first step towards ensuring that we applied the proper rules against multinationals with UK-domiciled subsidiaries, for example, and that those multinationals were paying their fair share.

A recent survey by ActionAid showed that eight out of 10 of British citizens want the Government to get on and deal with this issue. The Government are, in effect, upsetting 80% of the country with their inaction on this matter. Quite a significant number of people believe action has to be taken. I therefore call on the Minister to get on with it, accept our amendments and follow our proposal in dealing with tax dodgers at the corporate level once and for all.

**Kirsty Blackman:** I will speak relatively briefly on clause 2 and the amendment. To begin with, it is clear that the SNP supports clause 2 and we are not going to argue against the Government having the ability to charge corporation tax next year. It is quite important they do that for a number of reasons. One is that, of all the taxes levied upon businesses, corporation tax is one of those better liked by them. It depends not just on fixed assets, like business rates, but on the profit businesses are making, so they feel less unhappy about paying as it is more of a fair tax than some of the others. It is only a fair tax, however, if it is charged and if the companies are paying the corporation tax they are due to pay.

As for the asks being put forward from the Opposition Front Bench on this, the Government should not be scared of publishing more extensive data than they do currently on the tax gap, particularly around corporation tax in this instance. If the Government were to do that, they would be incredibly transparent and, if they are as good at collecting corporation tax as they suggest, that would dissuade other people from trying to dodge the tax in the first place. This would be both transparent and good for scrutiny, while also dissuading those who are looking to see where they can dodge the system. If people knew that corporation tax was difficult to dodge—if the Government put forward that information—they would be less likely to try and dodge it.

On the issue of multinational corporations and what a small minority—by far a small minority, not all of them—do in trying to not pay the tax they owe in certain countries, the Government have made great play of trying to be global Britain and saying that after Brexit this is going to be, apparently, an outward-looking country. Where better to start being global Britain than by making multinational agreements on improving the tax system? That would be good for everybody.

Every country benefits if more of the tax owed by corporations is taken. Coming together with other countries across the world and making that something that the UK Government set out to do in this new global Britain landscape would be really good. This is about not just the Government trying to make trade deals and seeing what we can do to benefit us, but trying to make these multinational agreements where everybody would benefit. Companies looking to avoid tax would know it would be incredibly difficult to do that because countries across the world would come together. If the Government want to lead the world in anything, I suggest that reducing tax dodging is an area where they should try and think about doing so.

The comments from Opposition Front Benchers about HMRC staff were incredibly important. The SNP has consistently made the case against HMRC offices being closed on the basis that expertise is being reduced. I raised this issue during consideration of the Taxation (Cross-border Trade) Act 2018. We can see where expertise is being reduced in areas such as Border Force, which previously had immigration-related staff and HMRC-related staff, who dealt with tax issues. Due to the Government's political priorities, the two were put together. They particularly looked at immigration-related staff and improving Border Force's capacity in that regard, rather than looking at improving capacity with regard to HMRC staff. In that instance, the Government chose not to increase the capacity to crack down on tax dodging and tax avoidance in relation to customs.

I am concerned that the changes to HMRC offices will result in more issues being overlooked. If the Government think they are doing a good job, they should not be scared to come forward with as much information as possible about this. That would achieve two things. First, it would allow them to be transparent and allow us to scrutinise them and ask the necessary questions, particularly about the tax gap and tax avoidance issues. Secondly, it would mean that people who were thinking of coming here to avoid tax would have that information and would see that the UK was not a good place for that.

10.45 am

At this stage of our debate, I am not making a point about the rates of corporation tax that the Government are setting. My point is that whatever rate they choose, they need to collect everything that is owed, because these are significant sums of money. People who commit £2,000-worth of benefit fraud are rightly chased for it, but these corporations can owe millions of pounds. That could make a significant contribution to the Exchequer, so the Government need to look at it.

The SNP supports Labour amendments 8, 9, 10 and 11, but we will be happy to support clause 2.

**Mel Stride:** I thank the hon. Members for Bootle and for Aberdeen North for their wide-ranging contributions to the important debate about corporation tax. As we know, clause 2 brings in the corporation tax charge for 2020, the rate of 17% having been set in part 2 of the Finance Act 2016.

The hon. Member for Bootle referred to slashing tax for big businesses. It is a typical Opposition characterisation of our tax policy to say that the largest companies are being treated to corporate welfare, as he put it, but tax cuts apply right across the board, including to the smallest businesses in our country. Given that we are reducing tax to 17% by 2020 for both small and large businesses, the Opposition's proposal to increase it to 26% for large businesses and 21% for smaller businesses would represent overall tax increases of 50% and 25% respectively.

**Anneliese Dodds** *rose*—

**Mel Stride:** I see that the hon. Lady is itching to intervene.

**Anneliese Dodds:** Does the Minister acknowledge that we are talking about profitable businesses and not about unprofitable businesses, of which unfortunately there are a large number in many parts of the country? I am pleased to hear him acknowledge that Labour's tax plans include a differential rate for small businesses, but surely he must acknowledge the sunk cost in what his Government have done. Through their cuts to central Government funding, they have forced local authorities to rely more on business rates and council tax, so the fixed costs that all businesses pay have gone up.

**Mel Stride:** The hon. Lady correctly identifies that Labour's position is for small businesses to pay 21% in corporation tax. Given that we are taking it down to 17%, her party's policy would result in the tax bill for hard-pressed companies on high streets rising by some 25% for smaller businesses—a pretty extraordinary and

hefty increase—and by some 50% for larger businesses. One has to ask what the effect of those tax increases would be. They would not drive productivity, as the hon. Member for Bootle would have us believe, but do quite the reverse: they would increase the costs on businesses, increase the pressures to drive up prices for their products and, critically, reduce returns to investors. The hon. Gentleman mentioned the importance of investment in our country, but we cannot increase that by driving up corporation tax rates.

As the hon. Members for Oxford East and for Aberdeen North rightly said, business rates are a fixed cost that cannot be avoided, irrespective of whether a business is profitable, but we are driving those rates down. In the last Budget, because of the prudent stewardship of our economy, we were able to announce a 30% reduction in rates for retailers at or below the rateable value of £51,000. That will take a huge amount of pressure off about 90% of the high street retailers in our country.

**Jonathan Reynolds:** I am extremely grateful for Minister's courtesy. The Government would have a strong case if those big reductions in corporation tax had produced a commensurate increase in corporate investment. Surely the question for the Government is this: how come this country still has a lower rate of corporate investment than France, which has a corporation tax rate of 38%? How come it has a lower rate of corporate investment than Germany, with its corporation tax at 31%?

On UK inward investment, if as a minimum we simply matched the bottom rate in the G7, that would mean corporation tax rising to 24%. The point surely is the diminishing return from driving it down and relying on business rates and employer's national insurance instead. The balance is wrong for the UK economy.

**Mel Stride:** I draw the hon. Gentleman's attention to the position of the Office for Budget Responsibility on cutting corporation tax rates. It makes a clear link between cutting the level of corporation tax and a commensurate increase in the level of business investment. That is the view of that independent organisation and the information is there for all to see.

The hon. Gentleman raises the issue of the level of investment in the UK economy. In fact, it is 30% higher than it was in 2010, albeit we have been pulling ourselves out of the financial difficulties we entered at that time. He raises the issue of inward investment. It seems clear and obvious to me that the lower the level of corporation tax, the more attractive that is to companies overseas, who look at those businesses. He suggested earlier that our rate was very low compared with others. America has just reduced its corporation tax rate from 35% to just 21%.

**Jonathan Reynolds:** It is 25%.

**Mel Stride:** I will be a little more generous even than the hon. Gentleman and say I believe it is 26%. Whatever the interplay between the rates, the corporation tax rate has been substantially slashed, to use the expression adopted by the hon. Member for Bootle. The Irish Republic has a rate of just 12.5%, which has been a big driver of the differential investment between the Irish Republic and Northern Ireland.

**Peter Dowd:** There is always a danger in these situations of comparing apples and pears. This is to compare the largest economy in the world—the United States—which has 50 states and different levels of tax, with this country. On the other hand, the comparison is with the Republic of Ireland, with a population of about 4 million and a gross domestic product significantly below ours. We need reasonable comparators. I am sure the Minister will agree that those are likely to be our European neighbours.

Would the Minister agree that he is missing the point? We have a contention, which I laid out and will not repeat. The issue is to address the amendments. Our argument is that the amendment requires a review of the effects of corporation tax receipts on multinational companies compared with their UK-based revenue. We make our assertions on the basis of independent evidence and say we should let the Government do that, through institutional mechanisms. Does the Minister not agree that that would be a sensible way forward and we can then have these debates again?

**Mel Stride:** I shall come to the issue of the amendments momentarily. I would just say in conclusion to this debate on tax that it is a dangerous position for the Opposition to adopt. They are telling large businesses and entrepreneurs and the 5 million small businesses up and down the country that a significant tax hike is in their and the economy's best interest when it clearly is not. The clause introduces the ability further to relieve that element of taxation.

The hon. Members for Bootle and for Oxford East spoke at some length about avoidance. The Government have an exemplary record on clamping down on avoidance, evasion and non-compliance. There have been 100-plus measures since 2010, bringing in and protecting some £200 billion in revenue, a vital amount of money for our public services.

As the Committee will be aware, we have one of the lowest tax gaps in the world at 6% for 2015-16, the last year for which figures are available. That compares very favourably with the record of the last Labour Government—in 2005-06, the figure was well above 7%. The difference would fund every policeman and woman in England and Wales. We recognise that bringing in tax receipts is extremely important.

On HMRC staffing, 28,000 full-time equivalents in HMRC are engaged in tax inspection. We have invested an additional £2 billion in HMRC since 2010 for that purpose. The fruits are already being seen in near record lows in the tax gap.

The hon. Member for Bootle urged us to work closely with the EU on tax avoidance. The Committee of the whole House debated clauses 20, 23 and 19 on control of foreign companies, exit taxation rules and certain anti-hybrid rules, all of which emanate from the EU anti-tax avoidance directive. We have been in the vanguard of the base erosion and profit shifting project, as the Committee will know, to clamp down on avoidance.

The hon. Members for Bootle and for Aberdeen North mentioned digital businesses. We need to understand the important point that, when we look at profits generated by companies through digital platforms and the interaction of UK consumers with them, we are not referring specifically to avoidance—the hon. Member for Bootle may have suggested that. We are looking at the current international tax regime and whether it is fit for purpose

[Mel Stride]

in taxing that form of profit generation. The current regime basically assigns taxation rights to the jurisdiction when there is economic activity in that jurisdiction, as defined by the buildings, where the intellectual property rests, whether people are employed, where the risks are taken, where the management is domiciled and so on. We want to move to a situation where we are able to tax those businesses because of the profit generation—the value generation—that they are creating, as I have described.

**Kirsty Blackman:** It would be useful if, after this meeting, the Minister could write to us with details of countries with which he or his team have had discussions. Any other information about the nature of those discussions would be incredibly useful, so that we can be sure that the Government are taking this seriously on a multinational level.

**Mel Stride:** I would be very happy to do that. The hon. Member for Bootle specifically asked me what meetings I had had about the digital service tax measure. I have had personal interactions with a number of countries. I attended the OECD meeting in Paris some months ago where I furthered and put forward the UK's position, which is broadly that we should work on a multilateral basis with the OECD and the EU so that we come to a collective agreement. The value of doing that is not limited to the fact that we would iron out any risks of double taxation that would result from going on a unilateral basis. However, we have also made very clear, as the Chancellor announced in the Budget, that we will unilaterally bring in just such a tax by 2020 in the absence of multilateral arrangements. I would be very happy to write to the hon. Lady with further detail on her specific question.

Amendments 8 and 9 seek to make the clause contingent on a report on how the corporation tax receipts of multinational companies and technology companies compare with their respective UK-based revenue. Like most countries, the UK taxes companies on their UK profits and not their UK revenues to reflect their ability to pay. Therefore, the proposed report would have limited relevance to policy. However, the Government have not been complacent about taking action within the rules of the international corporate tax system, as I have described.

Amendment 10 seeks to make the clause contingent on a review of HMRC's effectiveness in applying the general anti-avoidance principles in relation to corporation tax collection. The Government apply a wide range of anti-avoidance measures, as I have set out, bringing in some £200 billion since 2010. The general anti-abuse rule, or GAAR, has been operational since 2013. Although the GAAR works principally as a deterrent, it has enabled HMRC to counteract the tax advantages that people try to gain by using abusive arrangements. An additional review of the GAAR's effectiveness would not add significant value. The GAAR advisory panel provides an important safeguard by ensuring that HMRC's decisions on GAAR cases are informed by its independent opinion.

11 am

**Anneliese Dodds:** On that point, the current incarnation of GAAR is focused on abuse rather than avoidance, as the Minister mentioned. I wonder whether he can clarify

something. I understand that the GAAR panel has given 12 opinions, but there are only nine on the website, although in any case that seems a relatively small number of decisions taken. Does he not feel that it would be appropriate to review the GAAR panel's operations at this stage?

**Mel Stride:** I do not, for the reasons that I have given. On the matter of how many references there have been, nine in total have supported HMRC's position. That said, if the hon. Lady has information that suggests there have been 12 referrals, I will look into what might be a further three and what the status of those was.

**Anneliese Dodds:** I received notice that there were 12 in a ministerial response to a written question that I tabled. That might indicate that the panel did not support HMRC in three cases. If that is the case, it would be enormously helpful for us to know why.

As the Minister knows, when the panel was created, considerable concern was expressed about the variety of its membership. The individuals themselves are obviously upright, knowledgeable people of good standing, but they come from a restricted group of people, many of whom have been involved in devising some of the tax schemes that the panel might be required to look at.

**Mel Stride:** The hon. Lady makes an entirely reasonable request for that information. As I indicated, I am happy to provide it to her. In fact, divine inspiration has just arrived—I have an answer; I knew it was lost somewhere in my mind. There have, in fact, been 12 opinions, all of which have been supportive of HMRC. If she would care for any further information, I am happy to provide it outside the Committee.<sup>1</sup>

Amendment 11 would make the clause contingent on a review of how the application of globally agreed measures to combat avoidance by multinationals would impact the tax gap. HMRC publishes annual updates on its tax gap analysis. The corporation tax gap is estimated to have declined from 12.4% of total theoretical liabilities in 2005-6, under the previous Government, to 7.4% in 2016-17.

**Peter Dowd:** I have a quick question. There is a cumulative effect of the Minister saying to us that there have been reviews on this and reviews on that. The phrase used is, "We keep these things under review." I completely accept that the Government do that, but—I think I have asked about this before—it would be helpful to find out what the process is for keeping such things under review, other than a Sir Humphrey-type approach, which is to just say, "We keep these things under review," so we all sit down and think, "That was a good answer," and forget to ask the next question.

**Mel Stride:** I think the hon. Gentleman has described the process beautifully. I would add to his observation that we do have more formal methods of engagement than that which he describes. We publish tax information impact notes for every single tax measure and there is the process that we debated earlier for how taxes and the measures in a Finance Act are scrutinised over time, and so on.

To conclude this fairly lengthy debate, I urge the Committee to reject the amendments and I commend the clause to the Committee.

1. [Official Report, 3 December 2018, Vol. 650, c. 5MC.]

**Peter Dowd:** I thank the Minister for his response and those hon. Members who intervened to try to tease the matter out. He has not told me, or anybody on this side of the Committee, anything that suggests that the Government take the matter of corporation tax and the need for reviews as seriously as we do, or that gives reassurance to the public out there. While everybody else is receiving a pay rise—just about—after 10 years, potentially on a sustained level, the Government have said that, eventually, they will invest in the NHS, but as those things begin to come through, people are still not convinced that corporations, which many of them work for, are playing by the rules.

The Minister has not said anything that convinces us to the contrary; hence our amendments. If he is convinced of his argument—I have no reason to believe otherwise—he needs to convince not just Government Members, but Opposition Members and the great British public. Some 80% of people do not believe that large corporations are playing fair by the system. Either they are wrong, in which case the Government should tell them so, or they want an eye kept on this issue, which our amendment would do.

I have no doubt that we will come back to this matter in the next Finance Bill, when the Minister and I might or might not be here in Committee. No matter what the Government think, it is not going away—it will come back to haunt the Finance Committee year in, year out. I exhort the Minister to listen to that.

**Mel Stride:** If it is in order, Ms Dorries, I will give the hon. Member for Oxford East an additional piece of information on the issue of referrals to the panel. There were nine cases rather than 12; there were 12 opinions on those nine cases, all of which supported HMRC. That might explain how I had a figure of nine while the hon. Lady was focused on 12.<sup>1</sup>

**Anneliese Dodds:** How can there be more than one opinion about an individual case?

**Mel Stride:** I shall write to the hon. Lady on this matter and any others that she wishes to inquire about.

*Question put, That the amendment be made.*

*The Committee divided: Ayes 8, Noes 10.*

#### Division No. 2]

##### AYES

Blackman, Kirsty	Lewis, Clive
Charalambous, Bambos	Reynolds, Jonathan
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Sobel, Alex

##### NOES

Afolami, Bim	Lamont, John
Badenoch, Mrs Kemi	Stride, rh Mel
Ford, Vicky	Syms, Sir Robert
Jenrick, Robert	Whately, Helen
Keegan, Gillian	Whittaker, Craig

*Question accordingly negated.*

*Amendment proposed:* 9, in clause 2, page 1, line 7, leave out from “tax” to end and insert

“may be charged for the financial year 2020 if the condition in subsection (2) is met.

1. [Official Report, 3 December 2018, Vol. 650, c. 5MC.]

(2) The condition in this subsection is, prior to 6 April 2019, the Chancellor of the Exchequer has laid before the House of Commons a review of the corporation tax receipts of technology companies with UK-domiciled subsidiaries in relation to their publicly available UK-based revenue.”—(Peter Dowd.)

*This amendment requires a review of the effects of corporation tax receipts of technology companies compare with their UK-based revenue.*

*Question put, That the amendment be made.*

*The Committee divided: Ayes 8, Noes 10.*

#### Division No. 3]

##### AYES

Blackman, Kirsty	Lewis, Clive
Charalambous, Bambos	Reynolds, Jonathan
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Sobel, Alex

##### NOES

Afolami, Bim	Lamont, John
Badenoch, Mrs Kemi	Stride, rh Mel
Ford, Vicky	Syms, Sir Robert
Jenrick, Robert	Whately, Helen
Keegan, Gillian	Whittaker, Craig

*Question accordingly negated.*

*Amendment proposed:* 10, in clause 2, page 1, line 7, leave out from “tax” to end and insert

“may be charged for the financial year 2020 if the condition in subsection (2) is met.

(2) The condition in this subsection is, prior to 6 April 2019, the Chancellor of the Exchequer has laid before the House of Commons a review of the Commissioners’ effectiveness at applying General Anti-Avoidance Principles with reference to corporation tax collection.”—(Peter Dowd.)

*This amendment requires a review of the effects of HMRC’s effectiveness in applying General Anti-Avoidance Principles with reference to corporation tax collection.*

*Question put, That the amendment be made.*

*The Committee divided: Ayes 8, Noes 10.*

#### Division No. 4]

##### AYES

Blackman, Kirsty	Lewis, Clive
Charalambous, Bambos	Reynolds, Jonathan
Dodds, Anneliese	Smith, Jeff
Dowd, Peter	Sobel, Alex

##### NOES

Afolami, Bim	Lamont, John
Badenoch, Mrs Kemi	Stride, rh Mel
Ford, Vicky	Syms, Sir Robert
Jenrick, Robert	Whately, Helen
Keegan, Gillian	Whittaker, Craig

*Question accordingly negated.*

*Amendment proposed:* 11, in clause 2, page 1, line 7, leave out from “tax” to end and insert

“may be charged for the financial year 2020 if the condition in subsection (2) is met.

(2) The condition in this subsection is, prior to 6 April 2019, the Chancellor of the Exchequer has laid before the House of Commons a review of the current UK tax gap in respect of corporation tax applying globally agreed avoidance measures to multinationals with UK-domiciled subsidiaries.”—(Peter Dowd.)

*This amendment requires a review of the effects of the current UK tax gap in respect of corporation tax applying globally agreed avoidance measures to multinationals with UK-domiciled subsidiaries.*

*Question put, That the amendment be made.*

*The Committee divided: Ayes 8, Noes 10.*

**Division No. 5]**

Blackman, Kirsty  
Charalambous, Bambos  
Dodds, Anneliese  
Dowd, Peter

**AYES**

Lewis, Clive  
Reynolds, Jonathan  
Smith, Jeff  
Sobel, Alex

**NOES**

Afolami, Bim	Lamont, John
Badenoch, Mrs Kemi	Stride, rh Mel
Ford, Vicky	Syms, Sir Robert
Jenrick, Robert	Whately, Helen
Keegan, Gillian	Whittaker, Craig

*Question accordingly negatived.*

*Clause 2 ordered to stand part of the Bill.*

*Ordered, That further consideration be now adjourned.*  
*—(Craig Whittaker.)*

11.12 am

*Adjourned till this day at Two o'clock.*