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)

Sixth Sitting

Tuesday 4 December 2018

(Afternoon)

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PBC (Bill 282) 2017 - 2019

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not later than

Saturday 8 December 2018

The Committee consisted of the following Members:

Chairs: †Ms Nadine Dorries, Mr George Howarth

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

Colin Lee, Gail Poulton, Joanna Dodd, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 4 December 2018

(Afternoon)

[MS 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)

Clause 36

OIL ACTIVITIES: TRANSFERABLE TAX HISTORY

2 pm

Question (this day) again proposed, That the clause stand part of the Bill.

The Chair: I remind the Committee that with this we are discussing the following:

Amendment 84, in schedule 14, page 260, line 15, leave out sub-paragraph (d).

The provision as drafted allows companies to transfer TTH worth double the value of anticipated decommissioning costs. This reduces the incentive for companies towards efficiencies in decommissioning costs and paves the way for decommissioning-related tax repayments far bigger than the companies are currently acknowledging. This amendment removes that provision.

Amendment 81, in schedule 14, page 261, line 29, at end insert—

"(aa) assessing the impact on employment, skills and the Exchequer from the asset's production life and planned decommissioning phase, and"

Amendment 89, in schedule 14, page 261, line 42, at end insert—

"(d) includes an assessment of the impact on the Exchequer from the amount spent on directly employed and contracted staff by the seller over the production life of the asset to date; and the impact on the Exchequer from the buyer's plans for employed and contracted staff up to and including the decommissioning stage."

This amendment requires a decommissioning security agreement to include an assessment of the impact on the Exchequer from the amount spent on staff, in order for that agreement to be qualifying for the purposes of this Schedule.

Amendment 85, in schedule 14, page 268, line 40, at end insert—

"(aa) the amount spent by the purchaser in post-acquisition periods on new capital investment, major maintenance work, retraining of redundant staff, initiatives to reduce methane emissions or initiatives to introduce carbon-capture techniques into the operations in relation to the relevant TTH assets ('post-acquisition qualifying investment')".

This amendment, and amendments 86 and 87 incentivize capital investment by new purchasers in job creation and emissions reductions. Combined, the amendments limit the TTH which may be claimed to an amount equal to such investment.

Amendment 86, in schedule 14, page 269, line 3 at end insert—

"(c) the amount by which total post-acquisition qualifying investment exceeded the higher of excess decommissioning expenditure and the total TTH amount as calculated for the first activation period under paragraph 35."

See explanatory statement for Amendment 85.

Amendment 87, in schedule 14, page 269, line 40, at end insert—

"(c) provided that the total activated TTH amount may never exceed the purchaser's post-acquisition qualifying investment for the relevant TTH assets or TTH oil fields."

See explanatory statement for Amendment 85.

That schedule 14 be the Fourteenth schedule to the Bill.

Clause 37 stand part.

The Exchequer Secretary to the Treasury (Robert Jenrick): If I may, I will conclude the remarks I was making earlier—[HON. MEMBERS: "Hear, hear!"]—to widespread acclamation. Clause 36 will establish transferable tax history, which is widely supported across the industry and will help to protect and increase the number of jobs in the oil and gas sector in the whole of the United Kingdom and, in particular, in north-east Scotland. We see this as a great step forward for this important national asset. We believe that it is fiscally responsible, as was certified by the Office for Budget Responsibility. It will bring in revenues to the Exchequer of £65 million, and reports to the contrary are misguided.

Clive Lewis (Norwich South) (Lab): Given that we know that the decommissioning costs could come to around £24 billion and that there is provision in the Bill to double that to £48 billion—I asked this question in my opening remarks, but I will ask it again—what money has the Treasury put aside specifically to cover these costs for future Governments, a little bit further into the future?

Robert Jenrick: Decommissioning costs will be covered by future Governments over the course of decades to come. We estimate that the costs will run into something in the region of £24 billion, as the hon. Gentleman says, although, as I said in my remarks earlier, we are working closely with the industry to bring down those costs. We hope the UK will become a world-leading market for decommissioning and that we will see at least a 35% reduction in those costs over time. The measure before us will help the situation by increasing revenues to the Exchequer, which could be set against future decommissioning costs if required.

Clive Lewis: We have said that the costs could be up to £48 billion—no insignificant sum of money. If we do not ring-fence some of the petroleum revenues to pay for this, it will fall entirely on future Governments further down the line, and nothing is being done now to prepare for that. That is a lot of money that could hit a future Government and a future Exchequer in goodness knows what economic conditions.

Robert Jenrick: The hon. Gentleman is arguing that we should ring-fence revenues from the oil and gas sector, whether through petroleum revenue taxation, the supplementary charge or whatever it might be in the future. That is not what we have done in the past. It is a peculiar argument to make when opposing the transferable tax history measure, which will increase revenue to the Exchequer, extend the life of a number of fields and make decommissioning easier and more affordable in the future. With that, I commend clause 36 to the Committee and ask hon. Members to reject the amendments.

Question put and agreed to.

Clause 36 accordingly ordered to stand part of the Bill.

Schedule 14

Oil activities: transferable tax history

Amendment proposed: 84, in schedule 14, page 260, line 15, leave out sub-paragraph (d).—*(Clive Lewis.)*

The provision as drafted allows companies to transfer TTH worth double the value of anticipated decommissioning costs. This reduces the incentive for companies towards efficiencies in decommissioning costs and paves the way for decommissioning-related tax repayments far bigger than the companies are currently acknowledging. This amendment removes that provision.

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 10.

Division No. 21]

AYES

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

NOES

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

Question accordingly negatived.

Amendment proposed: 81, in schedule 14, page 261, line 29, at end insert—

"(aa) assessing the impact on employment, skills and the Exchequer from the asset's production life and planned decommissioning phase, and".—*(Clive Lewis.)*

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 10.

Division No. 22]

AYES

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

NOES

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

Question accordingly negatived.

Amendment proposed: 89, in schedule 14, page 261, line 42, at end insert—

"(d) includes an assessment of the impact on the Exchequer from the amount spent on directly employed and contracted staff by the seller over the production life of the asset to date; and the impact on the Exchequer from the buyer's plans for employed and contracted staff up to and including the decommissioning stage."—*(Clive Lewis.)*

This amendment requires a decommissioning security agreement to include an assessment of the impact on the Exchequer from the amount spent on staff, in order for that agreement to be qualifying for the purposes of this Schedule.

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 10.

Division No. 23]

AYES

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

NOES

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

Question accordingly negatived.

Schedule 14 agreed to.

Clause 37 ordered to stand part of the Bill.

Clause 43

Higher rates of tax for additional dwellings etc

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

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

New clause 10—*Review of higher rate of tax for additional dwellings*—

"(1) The Chancellor of the Exchequer shall commission a review on the revenue effects of the amendments to FA 2003 made in section 43.

(2) A report of the review under subsection (1) must be laid before the House of Commons before 29 October 2019."

This new clause requires a review of the revenue effects of the provisions in clause 43, and for that review to report within 1 year of that clause becoming effective.

New clause 11—*Annual statement on effects of provisions of section 43*—

"(1) The Chancellor of the Exchequer must make an annual statement to the House of Commons detailing how the provisions in section 43 have affected instances in which land transaction returns are amended to take account of subsequent disposal of the main residence.

(2) The statement must specify—

(a) the number of such instances, and

(b) such information as the Commissioners hold as to the characteristics (including income) of those concerned.

(3) The first such statement under subsection (1) must be made before 29 October 2019, and each subsequent statement must be within twelve months of the previous statement."

This new clause requires an annual statement on how the provisions in section 43 have impacted the number of back claims of HRAD.

New clause 12—*Review of higher rate of tax for additional dwellings*—

"(1) The Chancellor of the Exchequer shall commission a review on how the provisions of section 43 have affected residential property prices.

(2) A report of the review under subsection (1) must be laid before the House of Commons before 29 October 2019."

This new clause requires a review on how the provisions in clause 43 have affected house prices, and for that review to report within 1 year of that clause becoming effective.

The Financial Secretary to the Treasury (Mel Stride): Clause 43 makes changes to ensure that the stamp duty land tax higher rates for additional dwellings rules are easier to understand and more transparent. In April 2016, the Government introduced additional rates of SDLT for those purchasing additional residential property such as second homes and buy-to-let properties. The rates are 3 percentage points above the rates of SDLT ordinarily payable and are part of the Government's commitment to support first-time buyers. The changes reflect feedback from the public and industry specialists about the key areas where the rules on the higher rates have proved challenging or do not work as well as they could.

In general, purchasers buying their first property, replacing a main residence or buying an additional property worth less than £40,000 will not be subject to the higher rates. Someone buying their new home before they sell their old home, however, must pay the higher rates up front but can claim a refund when they sell their old home within three years of buying their new home. When the old home is sold more than 12 months after the purchase of the new property, individuals are required to reclaim the higher rates within three months of the sale of the old property. The first change introduced by the clause will increase that period to 12 months, giving taxpayers a longer period within which to reclaim the higher rates. The change will apply to all disposals of a previous main residence from 29 October 2018.

The second change addresses the term "major interest" in relation to the higher rates of stamp duty land tax, where some stakeholders have suggested that existing legislation is unclear. The higher rates of stamp duty land tax are intended to apply when someone buys or already owns a major interest in a dwelling. "Major interest" is used to ensure that the higher rates for additional dwellings apply only to meaningful purchases of residential property and not to minor interests—for example, a right of way or a right to light. This change confirms, in line with the Government's existing treatment, that an undivided share in land constitutes a major interest for the purposes of the higher rates. That also takes effect from 29 October 2018.

New clause 10 seeks to commission a review on the revenue effects of the amendments to the Finance Act 2003 made by clause 43. It would require the Chancellor of the Exchequer to make an annual statement to the House on those who have made a reclaim for the higher rates. The new clause is not necessary; as is stated in the tax information and impact note published at the 2018 Budget, these changes are expected to have a negligible impact on the Exchequer, so a review on the revenue effects is not required. Her Majesty's Revenue and Customs already publishes annual and quarterly statistics setting out transactions subject to the higher rates of SDLT on additional properties and the transactions, volumes and values reclaimed.

New clause 12 seeks to require a review of the effect of clause 43 on residential property prices. Clause 43 simply increases the time from disposal for people to make a claim to 12 months and confirms existing practice on the definition of "major interest". Neither change is expected to have an impact on house prices and such a report would not be of benefit to Parliament. I therefore urge the Committee to reject the new clauses.

The changes in the clause will help to ensure that the rules on the higher rates of stamp duty land tax are easier to understand and more transparent. I commend the clause to the Committee.

Sir Robert Syms (Poole) (Con): I am glad I caught my right hon. Friend just as he was coming to his peroration. I have a constituent who had a home in Malaysia, where he was working. He moved back to Poole to retire and bought a flat. He was charged the higher rate of stamp duty because the flat was classified as a second home because he still owned a home in Malaysia. When I wrote to the Treasury, it said that that was because having a second home in Malaysia had an impact on the British housing market, which I did not think was a very convincing answer.

Does this rule apply worldwide if one owns a home outside the UK? In effect, if someone has a holiday home outside the UK, they get charged higher stamp duty when they buy a house in the UK. If they sell their house in Malaysia, Spain or France within three years, do they then get a reduced rate of stamp duty land tax? As an aside, it seems bonkers that we are charging people a higher rate on the basis that they have a home halfway round the world, but that is the world we seem to live in.

Mel Stride: The central point is that if someone is UK tax resident, their income is taxed, albeit that some of it may occur in other jurisdictions and perhaps be subject to double taxation arrangements between that jurisdiction and our jurisdiction. None the less, my hon. Friend's assumption is correct that if someone has a property overseas, it is effectively counted as if it were a domestic property in the context of this clause. The easements that the clause introduces in terms of greater time to put in an application for a rebate at the higher rate apply equally whether one of the properties is overseas or here in the United Kingdom.

Anneliese Dodds (Oxford East) (Lab/Co-op): As the Minister explained, the clause would change the parameters for claiming a refund on the additional dwelling SDLT by quadrupling the time that claimants have to reclaim the funds, potentially for up to a whole year after they have sold their old home, if that is later than a year after the filing date for the SDLT date for the new home—so the second parameter stays the same, if that makes sense. It is quite a complex change to understand.

The "major interest" provision is also tightened to make it clearer that a major interest in a dwelling includes an undivided share in a dwelling for the purpose of the higher rates for additional dwellings. I understand that the Government have suggested that the extended time period is necessary to enable those who might find it difficult to claim to do so—for example, those who are elderly or vulnerable due to serious illness.

In principle, the changes do not water down the Government's initial stated commitment to charge additional SDLT for those owning additional properties, provided they are held on to for more than three years and provided that they fall outside the multiple dwellings category, which I will come back to in a moment. None the less, given that the changes appear to be focused on the context for the provision of additional dwellings, as against continuously occupied single dwellings, we feel it is necessary to subject their effectiveness to review, in order to ensure that they do not water down the initial measure in any way. That is what new clauses 10, 11 and 12 ask for.

2.15 pm

New clause 11 asks for a review of the impact of these measures on the number of back claims of higher rates for additional dwellings, which I will call HRAD. Relatedly, new clause 10 asks for a review of the revenue effects of this new approach to exemption from HRAD. The reviews are surely desirable in a context where as many as nine out of every 10 additional property owners are in the top half of the wealth distribution, as was discovered by the Resolution Foundation, and where the proportion of adults owning multiple properties has risen substantially in recent years.

In contrast, as I am sure the Committee will be aware, home ownership has fallen precipitously among young people, with the chances of a young adult on a middle income being a homeowner having fallen by more than a half over the last 20 years, according to the Institute for Fiscal Studies. The number of people under the age of 45 who own their own home has fallen by 1 million since 2010. Of course, the number of new homes for social rent has fallen by 80% since 2010. We really need to understand the effectiveness or otherwise of the existing additional dwelling charge and whether or not these measures would reduce it.

It is also important to review these measures to consider their impact in relation to other tax-focused interventions that the Government are or are not making to enable sufficient access to continuously occupied singular dwellings, especially in hotspots for holiday and other additional homes. In this connection, it would be helpful if the Minister explained how this measure squares with the continuation, as I understand it, of multiple dwellings relief, which the Conservatives introduced in 2016, and which has received some press comments due to its use by certain individuals whom I am sure the Committee will be aware of. I will not add to their embarrassment here. The multiple dwellings relief enables not just a removal of the additional dwellings charge, but an actual reduction in the stamp duty charge, where a transaction or a number of linked transactions include freehold or leasehold interests in more than one dwelling.

The multiple dwellings relief is rather complicated to explain, but essentially it enables multiple simultaneous purchases to be counted separately for the purposes of stamp duty, albeit with a 1% floor. It treats them as if they were individual purchases, which means that the overall purchaser is tax-benefited, because if they were paying for all those properties in one block, they would trigger higher rates of stamp duty than just the individual rates.

For example, if five houses are bought for £1 million overall, that gives us £200,000 per house. The amount of SDLT payable on £200,000 is £1,500, which, multiplied by five, is £7,500. That is what would have been paid under the scheme, although there is a 1% floor, so overall the amount of tax would be £10,000. If tax had been paid on the £1 million overall, it would have been much more substantial, because it would be shifted into a higher rate of stamp duty. It is peculiar that we seem to have—unless I have missed some announcement from the Government—a continuation of that tax relief for multiple homes, yet an additional charge for just having one additional home. I have to say, I found the discussion raised by the hon. Member for Poole very interesting. I wonder how many people who are in the situation that he described are aware of the situation.

Sir Robert Syms: I suspect that there are a lot of people with holiday homes abroad who do not realise that when they buy a property, they have to pay a higher rate of stamp duty land tax.

Anneliese Dodds: I am very grateful for that intervention. Furthermore, presumably it would be relatively difficult for the Exchequer to assure itself that that additional purchase had happened. This seems like quite a bureaucratic system, but I am sure the Minister can explain to us exactly how it works and how it is ensured that it is processed properly.

It would also be helpful to consider the measures in relation to the actions advocated by Labour, including enabling local authorities to treble council tax on empty properties after they have been empty for a year. Although the Government have shifted a little in this area recently, councils unfortunately still have to wait 10 years—an incredibly long time—before they can levy that level of premium.

We also need to consider the impact of these measures on house prices, which, as the Minister intimated, is demanded by new clause 12. There is a desperate need for action to level the playing field for those seeking housing for their families to live in continuously, as against those seeking a holiday home. Here again, the Opposition seek to place a surcharge on second homes that are used as holiday homes, based on council tax banding, which could raise £560 million a year to help tackle homelessness, as well as helping to level the playing field between those who can afford additional homes and those trying to take their first step on to the housing ladder. We surely need to understand the impact of the clause in relation to other potential measures.

Finally, while I have the chance, I inform the Minister that when one uses a particularly well-known search engine to try to find the very exciting HMRC stamp tax manual, it unfortunately finds the versions from 2010 initially, rather than more up-to-date versions. That surely needs to be ironed out.

The Chair: Mr Syms, do you want to speak?

Sir Robert Syms: No.

Mel Stride: I am sure that my hon. Friend will be tempted to speak by the time I have finished my remarks.

The hon. Member for Oxford East raised several points. She sought an assurance that we are not watering down the measure. I can certainly give that assurance. For example, the three-year window will be the same for people to reclaim the higher rate where a property is not sold before a new property is purchased, albeit that we are giving people more time to apply for that rebate. The essence of the measure remains very much the same.

The hon. Lady pointed out that home ownership is falling, particularly among young people. The Government are heavily engaged on that and have brought in various measures, as she will know, not least in the stamp duty area, with the stamp duty relief for first-time buyers. None the less, the statistic that she quoted of there being 1 million fewer homeowners under 45 than in 2010 is certainly something that we seek to address. I reassure her that, since the higher rates have been introduced, more than 650,000 people have bought their first home, and first-time buyers make up an increased share of the mortgaged housing market. That is what the underlying measure that we are debating is really all about: supporting first-time buyers and first-time home ownership.

The hon. Lady also raised multiple dwellings relief and gave a clear exposition of how it works by way of her example of the £1 million and the five properties. The way she described it was entirely accurate. In other words, there is a disaggregation, and then the appropriate level of stamp duty is applied to each one of those properties at, in her example, the £200,000 level. However, it is also the case that each one of those properties in her example would attract the additional stamp duty charge in a situation in which more than one property is, of necessity, owned by the same purchaser.

The hon. Lady's final point was about the potential impact of these measures on house prices. I go back to my earlier remarks that this a change in the timing by which individuals are required to make reclaims at the higher rate; it is not a change to the window of opportunity for doing so. As I set out, that in itself is not expected to change house prices.

Question put and agreed to.

Clause 43 accordingly ordered to stand part of the Bill.

Clause 44

Exemption for financial institutions in resolution

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

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

Amendment 90, in clause 48, page 32, line 39, at end insert—

"85B Review of possible register

(1) Within three months of the passing of the Finance Act 2019, the Chancellor of the Exchequer shall review the viability of establishing a public register on the use of the exemption from stamp duty established under section 85A.

(2) A report of the review under this section shall be laid before the House of Commons as soon as practicable after its completion.".

This amendment would require the Chancellor of the Exchequer to review the viability of a public register of financial institutions in resolution benefitting from the exemption from stamp duty for certain financial transactions.

Clause 48 stand part.

Mel Stride: Clauses 44 and 48 will simplify and strengthen the current financial institution resolution regime by introducing an automatic exemption from stamp taxes on shares for public bodies and creditors whose interests are converted into shares, and stamp duty land tax—SDLT—for certain transfers of land arising from the exercise of resolution powers.

Under the Banking Act 2009, the Government have the power to exempt from stamp taxes on shares and SDLT transfers of property, in the form of shares or land that arise from an exercise of resolution powers. However, the current legislation requires the Government to pass secondary legislation exempting a defined set of transfers. This introduces potential timing challenges and creates additional complexity when resolving a failing financial institution.

The changes made by clause 48 avoid that by specifying exempt transfers in primary legislation. The stamp taxes on shares exemption will be limited to transfers of shares to a bridge entity or a public body that holds the shares temporarily while the institution is being resolved, and to the transfer of shares in exchange for temporary certificates issued to creditors that demonstrate their entitlement to the shares. The exemption does not cover the private sale and transfers of shares in a failing institution to a private sector purchaser, where stamp taxes on shares will be charged as usual.

Similarly, the changes made by clause 44 specify SDLT transfers in primary legislation. This exemption will be limited to transfers of land to a bridge entity or public body that holds the land temporarily while the institution is being resolved. The exemption does not cover the private sale and transfer of land of a failing institution to a private sector purchaser, where SDLT will be charged as usual.

The changes will simplify and strengthen the process of resolving a failed institution. In the event that a creditor is found to be worse off as a result of resolution action, when compared with an ordinary insolvency, they are entitled to compensation, which would be paid by the Treasury. The changes will protect taxpayers by reducing the risk of the Government having to compensate creditors in order to prevent the "no creditor worse off" principle being violated. They were announced in the autumn Budget 2017 and the draft legislation was subject to consultation. Officials from the Treasury and HMRC have worked closely with officials from the Bank of England to develop the legislation.

Turning to the amendments that have been tabled, amendment 90 seeks a review, within three months of the enactment of the Bill, of the viability of establishing a public register on the use of the exemption from stamp duty—something that I have already raised—and would require a report of the review to be laid before the House of Commons soon after its completion. The clauses do not create any tax exemptions for failing institutions themselves. The exemption would apply to creditors of failing financial institutions who see their debt holdings bailed in for equity, to ensure that affected creditors are not penalised inadvertently. The exemption also applies to the Bank of England, which may, in certain circumstances, need to take temporary ownership of a failing institution's assets, in order to protect financial stability.

The clauses will strengthen and add transparency to the resolution process by providing further clarity for affected creditors and the taxpayer. The register would impose an additional and unnecessary burden on the Bank of England and provide no great benefit to the public. By creating an exemption from stamp taxes on shares and SDLT for certain transfers arising from the use of resolution powers, the Government are simplifying and strengthening the UK's resolution regime, and I therefore commend the clauses to the Committee.

Anneliese Dodds: I am grateful to the Minister for his explanation. As he intimated, clause 44 ensures that SDLT is not charged on transfers of land following the exercise of certain resolution powers under the special resolution regime. It is paralleled by clause 48 for stamp duty. As he has intimated, our amendment 90 would require the Government to produce a review and potentially introduce a register of financial institutions in resolution that might benefit from the exemptions for SDLT and stamp duty for certain financial transactions resulting from the measure.

We are asking for such a review to have a clearer understanding of which firms might be relieved of SDLT and stamp duty in this manner. This is without prejudice to the function of the clauses, which we understand and support. In other words, we support the concept that the Bank of England should be able to use its resolution stabilisation powers to manage failing financial institutions in an orderly manner and should as part of that, where required, be able to transfer property, potentially including land held by that body, to a temporary holding entity appointed by the Bank of England or to a temporary public body. In that context, we agree that it does not make sense for SDLT or stamp duty to be paid. We are willing not to press our amendment, because of the general acknowledgment of the importance of the measure.

2.30 pm

However, I have a question about clauses 44 and 48. The explanatory notes state that they will reduce

"the need for specific regulations to be made under section 74 of the Banking Act 2009 to provide an exemption from a SDLT charge on each exercise of certain resolution stabilisation powers under the Banking Act 2009."

Obviously, the same applies to stamp duty. In their words, this

"will strengthen and simplify the process of resolving a failing financial institution and help to uphold the 'no creditor worse off' principle by ensuring an exemption from SDLT"—

or stamp duty—

"is available at the time of resolution announcement."

That appears to imply that it would have been possible to create measures as amendments to the Banking Act to achieve that end through regulation. I wonder why it is implied that specific banking regulations are viewed as too onerous to create, whereas amendments to the Finance Act 2003, which established the current English SDLT and stamp duty system, are somehow simpler to enact. I am frequently informed by businesses and individuals, as I am sure many of us are, that they balk at the length and complexity of tax law, yet here we are adding to it when an alternative mechanism could perhaps have been found. In that connection, it would be helpful to know whether the Office of Tax Simplification was happy with the measure.

The Minister referred to the fact that the clause was transferring the tax treatment into primary legislation, seeming to suggest that putting measures in place through primary legislation was preferable to putting them in place via regulation. I dare to say that I hope the Minister will have discussions with his colleagues, who seem intent on avoiding the use of primary legislation when it comes to, for example, the UK's withdrawal process, and in whom we often see not even a willingness to use the affirmative procedure for secondary instruments, let alone primary legislation.

Mel Stride: Taking up the points made by the hon. Member for Oxford East, I will begin with her final point about why we have approached this by way of primary legislation rather than relying on existing powers to make regulations. At the heart of that is our ability to act quickly in the circumstances of the resolution powers being brought into effect, to ensure that everything goes smoothly and we do not end up in a situation where compensation might be due, where it could be shown that the measures we had taken had not been as effective as they might otherwise have been under a normal insolvency process. That is why relying on a general position in primary legislation would be preferable to a number of exercises of secondary powers.

The question of why we have made changes to the Finance Act 2003 rather than the Banking Act, and the associated question that the hon. Lady asked about whether the Office of Tax Simplification was content with our approach, are highly technical and certainly not questions to which I have a ready answer, I am afraid. I undertake to the Committee to go away and ensure that I write to the hon. Lady with a full explanation on both those points.

Question put and agreed to.

Clause 44 accordingly ordered to stand part of the Bill.

Clause 45

CHANGES TO PERIODS FOR DELIVERING RETURNS AND PAYING TAX

Anneliese Dodds: I beg to move amendment 95, in clause 45, page 29, line 19, at end insert—

"(11) The Chancellor of the Exchequer must lay before the House of Commons a report on any consultation undertaken on the provisions in this section.

(12) A report of the review under subsection (9) must be laid before the House of Commons within two months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to report on any consultation undertaken on the provisions in Clause 45.

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

Clause stand part.

[The Chair]

New clause 13—*Equality impact analysis of provisions of section 45*—

'(1) The Chancellor of the Exchequer must review the equality impact of the provisions in section 45 in accordance with this section and lay a report of that review before the House of Commons within six months of the passing of this Act.

(2) A review under this section must consider—

(a) the impact of those provisions on households at different levels of income,

(b) the impact of those provisions on people with protected characteristics (within the meaning of the Equality Act 2010),

(c) the impact of those provisions on the Treasury's compliance with the public sector equality duty under section 149 of the Equality Act 2010, and

(d) the impact of those provisions on equality in different relevant parts of the United Kingdom and different regions of England.

(3) In this section—

"relevant parts of the United Kingdom" means—

(a) England, and

(b) Northern Ireland;

"regions of England" has the same meaning as that used by the Office for National Statistics.'

This new clause requires the Chancellor of the Exchequer to carry out and publish a review of the effects of Clause 45 on equality in relation to households with different levels of income, people with protected characteristics, the Treasury's public sector equality duty and on a regional basis.

Anneliese Dodds: I am grateful to be serving on this Committee with you in the Chair, Ms Dorries; I do not think I have said that before, and I apologise for that.

This clause reduces the time limit that purchasers have to file an SDLT return and pay the tax due from 30 days after the effective date of the transaction to 14 days. It applies to transactions to purchase land in England and Northern Ireland with an effective date on or after 1 March 2019. Of course, since 2015 there has been a separate land and buildings transaction tax in Scotland, and since earlier this year there has also been a different regime in Wales, where the relevant tax is the land transaction tax.

SDLT was introduced—we were just referring to the relevant Act—in 2003, replacing stamp duty on land transactions. Data from SDLT returns are used by a variety of actors, after being submitted to the Valuation Office Agency, to carry out activities such as valuations for the purposes of council tax and business rates.

This clause obviously has some similarities with clause 14, to the extent that it requires a faster turnaround for the payment of a tax, but clearly in this case it is payment of SDLT rather than capital gains tax. Many of the concerns expressed in relation to that change also apply in this case. They include the question whether taxpayers and, above all, their agents are likely to be sufficiently aware of the new deadline. As a result, with amendment 95, we are asking the Chancellor of the Exchequer to

"lay before the House of Commons a report on any consultation undertaken on the provisions in this section."

It appears that many taxpayers—some 85% of them, according to HMRC's figures—already submit their return in line with the proposed new timetable. However, the remaining 15% may have reasons for failing to submit so quickly and those surely should be examined before we embark on this halving of the deadline. Indeed, there appeared to be significant concern among respondents to the consultation about the proposed reduction to the filing and payment window. The consultation response stated:

"Many felt it would be manageable for straightforward transactions—for example most purchases of residential property. Many envisaged difficulties for more complex transactions where the property purchased is subject to leases. Although only a small proportion of reportable transactions are likely to be affected, they amount to approximately 50,000 transactions every year."

That is clearly a very large number, and those transactions may be particularly concentrated in their effects among certain segments of the population. It is for that reason that new clause 13 would require a full impact assessment of the measure to be undertaken and to consider its impact on people with protected characteristics, people with different incomes and people living in different regions.

I note in the consultation document that, at least at the time of the consultation, there was no HMRC facility for filing and paying SDLT simultaneously. It would be helpful to understand from the Minister whether that facility is coming, as it would surely make the system more efficient.

I was also surprised to see in the consultation document that more than 40% of the returns submitted on paper included errors. That is an incredibly high rate. It would be helpful to know what has been done to deal with that problem, as that system clearly cannot be helping either the taxpayer who has—presumably inadvertently, most of the time—made the error or the HMRC officer who has to try to rectify it. The very high usage of cheques, which need to be accompanied by the correct 11-figure unique taxpayer reference number, also seems almost designed to create an inefficient and error-ridden system.

It was stated in the consultation document that the shorter timescale would be accompanied by a number of other measures to improve the effectiveness of SDLT filing, but it is unclear to me whether and when those new measures are coming into place. One such measure would be requiring all agents to file online, which does seem sensible, but I was intrigued to see in the consultation document the claim that online filing may not be

"reasonably practicable…because of remoteness of location, or on grounds such as religious beliefs."

It would be helpful if there were more joined-up thinking across Government. For example, it is very difficult for claimants of universal credit to receive it without using the online system. Surely more of them are likely to be affected by living remotely than professional agents involved in property transactions. It would also be useful if the Minister could clarify why religious faith might impact on an individual's ability to use the internet and why that might be the case for those filing returns for stamp duty and not for those attempting, for example, to claim universal credit.

It was stated in the Government's response to the consultation that they would look to potentially introduce electronic payment at the same time as the reduction of the reporting period to 14 days, so can the Minister please inform us whether electronic payment will indeed be available when this measure comes into play?

Mel Stride: Clause 45 makes changes to improve the SDLT filing and payment process. In answer to the hon. Lady's question about whether we will provide facilities on the site to pay simultaneously, we do not have plans to do so. That is because the online service cannot be combined with Bacs and CHAPS services at present.

The hon. Lady made a more general point about the mistakes that are made in filing. As she knows, we consulted on the information being sought as part of the process, and we will be applying various simplifications as a consequence, most notably around complex commercial lease arrangements. The information that we have hitherto sought in that respect will now no longer be sought. That simplification, and others, should be beneficial in cutting down the mistakes that the hon. Lady referred to.

Currently, the purchaser of land, or the purchaser's agent, must make a stamp duty land tax return and pay tax due within 30 days of the effective date of the transaction—usually the completion date. The changes made by clause 45 will reduce the time allowed to make an SDLT return and pay the tax due from 30 days after the effective date of transaction to 14 days. That is in line with other initiatives in recent years that bring tax reporting and payment closer to the date of the transaction. The hon. Lady referred, I think, to clause 14 on capital gains tax, where a similar approach has been taken. This is in line with these other initiatives.

The measure will not change liabilities for the purchaser, but will lead to tax being paid earlier. The change applies to purchases of land situated in England and Northern Ireland where the effective date of the transaction is on or after 1 March 2019. This change will directly affect approximately 20,000 businesses, mainly agents, such as licensed conveyancers and solicitors. Each year, this will directly affect fewer than 500 individuals who file their own SDLT returns without using an agent. However, the impact on administrative burdens for businesses is expected to be negligible.

The Government announced the change at autumn statement 2015 and consulted on it, as the hon. Lady described, in 2016. The Government confirmed at autumn Budget 2017 that it would come into effect on 1 March. To help purchasers and agents to comply with the new time limit, HMRC has worked with key representative bodies to agree simplifications to the SDLT return, for example, by reducing the amount of information required. These improvements will be in place when the new time limit begins. The measure will result in a yield of £60 million in 2018-19—the year of implementation—and a small ongoing yield in future years.

Amendment 95 would require a report on any consultation undertaken on the provisions in this section.

Bambos Charalambous (Enfield, Southgate) (Lab): What steps has HMRC put in place to make sure that the 20,000 businesses that are going to be affected are properly informed of the change, and know that it is coming?

Mel Stride: HMRC will, as a matter of course, issue guidance on all major tax changes, and that will be available online. As part of the consultation, as I have outlined, a number of these organisations were consulted in detail, not just about the measures but to make sure that those businesses are ready and appropriately informed.

The amendment is not necessary. I can give the Committee the information it requires now, because it is already in the public domain. The Government published a document on 20 March 2017 in response to the consultation that we published in the autumn of 2016, and we published draft legislation in July 2018 for technical consultation. HMRC also held meetings with stakeholders, which included representative bodies from the property and conveyancing industries. Their views on the information required in the return are reflected in the changes being made to make compliance with the new time limit easier.

New clause 13 would require a review of the equality impact of clause 45. The new clause is not necessary either, because the Government set out in the tax information and impact note published on this change in July 2018. It is not anticipated that there will be any impact on groups with protected characteristics. Clause 45 does not change anyone's SDLT liability; it just brings a requirement to file a return and pay the tax closer to the date of the transaction. For that reason, direct impacts on different types of households will be negligible, and the type of analysis required by the amendment would not be meaningful.

Regarding other regions of the UK, Land and Property Services in Northern Ireland—an agency of the Department of Finance of the Northern Ireland Executive—was consulted and is content with the measures. The changes will improve the SDLT filing and payment process, and I commend the clause to the Committee.

Anneliese Dodds: I am grateful to the Minister for his comments. However, I am sure the whole Committee is looking to the Government to ensure that the payment and reporting systems can be calibrated as soon as possible. Surely, the very high rate of error is a terrible waste of taxpayers' and, indeed, HMRC's time. I hope he prioritises sorting that out and having the relevant discussions with the Bacs and CHAPS systems so it can be dealt with.

2.45 pm

I underline yet again the contrast, which I note the Minister did not mention, between the Government's apparent concern with the digital divide when it comes to those who have sufficient resources to purchase a home and are liable for stamp duty, and their concern when it comes to those with very low incomes who try to access social security. None the less, in the light of the Minister's remarks, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 45 ordered to stand part of the Bill.

Clause 48 ordered to stand part of the Bill.

Clause 49

STAMP DUTY AND SDRT: EXEMPTIONS FOR SHARE INCENTIVE PLANS

Anneliese Dodds: I beg to move amendment 91, in clause 49, page 33, line 2, at end insert—

"(c) after subsection (4) insert—

'(5) Within three months of the passing of the Finance Act 2019, the Chancellor of the Exchequer shall review the revenue effects if—

(a) the provision of section 49(2) of that Act had not been made, and

(b) the exemption under subsection (3) of this section did not apply to a Schedule 2 SIP that was not approved between the coming into force of the relevant provisions of the Finance Act 2014 and the passing of the Finance Act 2019.

(6) A report of the review under this subsection (5) section shall be laid before the House of Commons as soon as practicable after its completion.'"

This amendment would require the Chancellor of the Exchequer to review the revenue effects if the tax exemption under section 95 of the Finance Act 2001 had not applied to self-certified share incentive plans.

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

Anneliese Dodds: The clause makes a minor change to ensure that existing stamp duty relief continues to apply to both non-approved and approved share incentive plans. Our amendment 91 calls for a review of the revenue effects of that measure compared with the status quo, under which only approved plans are covered. The amendment is intended to give us a better handle on the overall cost of SIPs and how that relates to their benefits.

As I am sure Committee members know, SIPs have been tax advantaged since 2001, when stamp duty and what was then stamp duty reserve tax—it is now SDLT—were removed from the transfer of shares in a SIP from trustees to an employee. The requirement for approval was removed in 2014, but the appropriate corrections to legislation were not made. I note that the changes in the clause are required purely because of errors of omission back then, which perhaps highlights some of the issues the Committee has discussed.

SIPs avoid many of the problems with other share incentive plans, not least by being provided to all employees rather than only to a subset. We have seen how share plans have been manipulated when they have been provided only to the top management of companies. SIPs avoid that. Although so-called free shares can be linked to the achievement of performance targets, they cannot be allocated individually. They can be provided only to a particular business unit or to the whole company, so they cannot be manipulated by, for example, very top management.

Some categories of shares can be removed from employees who leave the firm through either voluntary resignation or dismissal within three years of their joining the SIP. That and the stake that SIPs create for employees in their company are viewed by some commentators as positive aspects of the plans. In addition, there is a considerable cost saving for firms of up to £138 for every £1,000 invested in SIPs by their employees. We must acknowledge, however, that the people who gain most from such schemes are those who are already in a higher-rate tax band, who by my calculation gain around an additional third of the tax they would otherwise pay, compared with a basic rate taxpayer.

In addition, SIPs have complex interactions with the social security system. I want to ask the Minister for clarification in that respect. Information provided to SIP holders states clearly that a small number of people may be affected by the fact that, because of their salary sacrifice—I suppose in practical terms that is what this is—for their SIP, they will not have paid enough national insurance contributions to qualify for particular benefits. However, it is unclear whether contributions to a SIP are treated differently for tax and social security purposes.

Some claimants of tax credits have received mixed messages about whether contributions to SIPs should be added back on to their gross pay for the purpose of informing the Department for Work and Pensions about their income. Individuals do not have to declare their SIP contributions for the purpose of income tax, or at least those contributions generally are not chargeable to income tax. There is a peculiar and potentially unfair difference there.

That is compounded by the fact that tax becomes payable on some of the different types of shares within a SIP if an individual sells them within five years—for example, if they have to switch jobs. Some individuals have said that that is almost a form of double taxation for people who claim social security. They suggest it is a bit of an anomaly, and I can see why. For people affected in this way, they would be better off buying their firm's shares at market prices rather than taking part in a SIP in the first place. That is the situation with tax credits, but I cannot find any information anywhere about the treatment of these schemes for those claiming universal credit.

I looked at the IR177 document "share incentive plans and your entitlement to benefits" but that was produced in January 2011, and there seems to have been no amendment of it since then. There does not seem to have been any amendment to the SIP manual relating to universal credit either, or at least not since November 2015. Having gone through all the iterations of the manual, I did not wish to waste any more time searching for a potentially non-existent needle in a haystack.

Will the Minister clarify whether contributions to SIPs are counted as income for the purposes of calculating working tax credit or universal credit? If so, will the Department be looking at this issue? Might it be trying to devise a different approach, given that individuals will be affected by the counting of those shares as income if they leave a SIP scheme early? People on low incomes may well have to switch jobs more regularly than others do, so it would be helpful if he looked into that. Perhaps he knows the answer already. If not, will he write to us? Some people would find that enormously helpful.

Mel Stride: On the hon. Lady's specific question about the interaction of SIP contributions and the reporting of income, and the further interaction with working tax credits and universal credit, I do not know the answer, and I do not think my officials can immediately answer it. I will have a closer look at that and write to her, as she requests.

Clause 49 makes a minor correcting amendment to section 95 of the Finance Act 2001 concerning stamp duty and stamp duty reserve tax exemptions for SIPs. Stamp duty and stamp duty reserve tax exemptions for SIPs were introduced in the Finance Act 2001. Until 2014, share incentive plans had to be approved by HMRC before an employer could operate them. These were referred to as approved share incentive plans. The Finance Act 2014 removed the requirement for HMRC to approve share incentive plans and replaced it with a self-certification process. All references to approved share incentive plans should have been removed from legislation, but a change to section 95 of the Finance Act 2001 was omitted. The clause changes the wording of section 95 of the Finance Act 2001 to ensure that it is consistent with other provisions of the share incentive plans code. No taxpayers should have incurred stamp duty on self-certified SIPs since the rule changed in 2014, and this provision confirms and clarifies the position. No changes are made to the existing exemptions available for share incentive plans.

Amendment 91 would require a review of the revenue effects if the stamp duty exemptions for SIPs had not applied to self-certified share incentive plans from 2014. This provision is a minor technical change that brings the wording of the legislation back in line with its application. There will be no revenue impact as a result of the correction. SIPs offer a combination of tax incentives to employers, and estimates for the cost of the stamp duty exemptions for SIPs are not available. The clause makes a minor correcting amendment to exemptions for share incentive plans, and I commend it to the Committee.

Anneliese Dodds: I am willing to withdraw amendment 91, given the Minister's clarification, and I am grateful for his willingness to write to me about the issue that I raised. I make the general point that it is important that we consider these interactions between the social security system and the taxation system. It is particularly important for people on low incomes that we always bear that in mind. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 49 ordered to stand part of the Bill.

Clause 50

Duty of customers to account for tax on supplies

Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op): I beg to move amendment 92, in clause 50, page 33, line 11, at end insert—

"(9B) An order made under subsection (9) for the purposes of subsection (9A) must be accompanied by a statement by the Treasury of the expected impact of that order on—

(a) the number of traders who are expected to benefit from the reduction of a burden, and

(b) the supply chain in respect of the description of goods or services.".

This amendment would require an order made under the new provision of Clause 50 to be accompanied by an impact statement.

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

Jonathan Reynolds: We now turn to the part of the Bill that addresses value added tax, which is always a much-anticipated part of a Finance Bill. There is a lot to look forward to. Clause 50 relates to the duty of customers to account for VAT on supplies. It is designed to give the Government the flexibility to mend some items of anti-fraud legislation so that there does not end up being an undue burden on small businesses. It works in conjunction with an order of the Value Added Tax Act 1994, specifically section 55A, which aims to prevent so-called missing trader fraud.

I will provide some context about the ongoing challenges presented by VAT. These appear to fall into two categories, which I believe overlap: fraud, and the complications that administering and reporting VAT poses for businesses. Tackling those challenges is impossible if they are considered to be mutually exclusive. Fraud continues to be a major issue for the Exchequer in collecting the level of VAT that is owed, and VAT fraud costs the UK at least £1 billion a year.

That was discussed at length in last year's Finance Bill Committee, in October 2017, when the Government introduced a clause to place new obligations on fulfilment houses to help to tackle VAT fraud, which has, understandably, worsened with the rise of online sellers that obtain goods through third-party sellers based abroad. As my hon. Friend the Member for Bootle said at the time:

"Many small businesses find themselves outcompeted and outpriced by overseas traders, which not only have lower operating costs but artificially lower their prices by failing to pay VAT on the goods they sell to UK consumers through fulfilment houses based here."—[*Official Report, Finance Public Bill Committee,* 24 October 2017; c. 117.]

That is something that we will all recognise.

My hon. Friend further highlighted that we will all have received casework from small businesses

"that found themselves severely disadvantaged when filling out their VAT returns when they were unable to obtain VAT receipts from either their overseas supplier or the fulfilment business in question. In one case, the reason for the problem was simple: there were no VAT receipts because the seller had not charged VAT, unbeknownst to that particular British business. The online fulfilment house involved simply washed its hands of the matter and blamed a third-party seller that it supposedly has no control or influence over."—[*Official Report, Finance Public Bill Committee,* 24 October 2017; c. 117.]

That flags just one of the multiple VAT issues that small businesses face. The Opposition believe that they need more support in getting to grips with the tax if we are ever to close the VAT gap. The situation has been worsened by the Government's disaster-stricken attempts to transition to "Making tax digital", which have thankfully been delayed to next year to give businesses some chance to adapt.

HMRC believes that there is a £3.5 billion VAT gap resulting from mistakes made by businesses when they submit VAT returns. Tax professionals, via the Chartered Institute of Taxation, said in written evidence to the Treasury Committee's VAT inquiry earlier this year that HMRC must improve its VAT guidance and show a greater willingness to provide rulings where businesses want certainty over VAT treatment. It also echoed the Opposition's repeated warnings over the diminishing resources and capacity of HMRC, which has been subject to a series of cuts resulting in staff reductions and office closures. That was admirably highlighted by my hon. Friend the Member for Oxford East in her summer tour of HMRC office closures, which was well received across the country. I should say that the cuts were not well received, but the attention that she was able to bring to them was.

The Chartered Institute of Taxation makes six recommendations to help address the VAT gap, which it estimates at a shocking £12.6 billion. I will focus on just one today, which is its request that the Government resist the temptation to

"introduce widespread changes that are disruptive to the majority of compliant businesses".

[Jonathan Reynolds]

That is tied to concerns around the clause, despite what appear to be quite laudable intentions behind it. The clause relates to so-called missing trader fraud. It is a huge problem, and not only in the UK; it is perpetrated across the EU in several different ways. Europol estimates that the cost to the EU is about €60 billion. Fraud is carried out in supply chains, sometimes by organised criminal gangs. They take advantage of the VAT exemption across borders, charge VAT in the UK when the product is sold on and subsequently disappear without relaying it to the Exchequer. As referred to earlier, section 55A of the Value Added Tax Act 1994 helps to prevent that by making the customer, rather than the supplier, responsible for declaring the VAT on certain goods and services, thus taking the benefit of VAT away from the seller.

3 pm

From October 2019, construction services and works on existing buildings will be added to that list of goods and services, given the prevalence of missing trader fraud in the sector. This is where it gets slightly more complicated, unfortunately, so I will refer to the Chartered Institute of Taxation's helpful advice on the matter, which says that subsection (3) of section 55A states that

> "the value of any 'relevant supplies' purchased by the customer over £1,000 must be aggregated along with its turnover from its own business supplies for the purposes of the VAT registration threshold test (currently £85k of taxable supplies in a rolling 12 month period). Note that when construction and building works supplies are included in s.55A, the Order amends the default position so that the £1,000 small value supplies limit will not apply…Clause 50 creates a power for the Treasury to modify the position on the inclusion of 'relevant supplies'…in the turnover test for the VAT registration threshold...In effect this means that a decision can be made on whether the customer may exclude relevant supplies from the turnover test. The aim of the measure is to prevent the anti-fraud provision from unintentionally pushing a small business over the VAT threshold."

The order that it works with in tandem extends the reverse charge mechanism. Again, the Chartered Institute of Taxation's helpful explainer says:

> "The reverse charge in this sector applies for business to business transactions where the supply is subject to a positive VAT rate, the customer is registered for UK VAT and is required to report through the Construction Industry Scheme…There is a nil threshold on sales, meaning all qualifying transactions are impacted."

As we understand it, we see the logic in the clause. Construction businesses may get drawn into declaring VAT in ways that are deemed unnecessary. However, we would caution against adding any further complexity for businesses, given the warnings I mentioned earlier. Therefore, it needs to be backed up by proper guidance and advice through an adequately staffed and resourced HMRC.

Even as someone who used to work in corporate law, I found sifting through the changes to articulate them to the Committee quite a challenge. It would be a big ask for someone to try to do that while running a business day to day. Stakeholders have also raised the issue of complexity in the practical application, which particularly applies to making sure that those in the chain know where they are in it, especially where that relates to an end user for tax purposes, so it is clear who is responsible for VAT accounting.

Equally, we must be careful that making the changes does not have any impact on local supply chains, which is why we have tabled amendment 92, which would oblige the Government to publish the impact on traders who are expected to benefit from the reduction of the burden, as well as the supply chain, which comes into scope. That will enable us to quickly identify if an undue administrative burden is having an impact on supply chains in turn.

My second question concerns how heavily the development and enforcement of such VAT rules are dependent on co-operation from the European Union. I would be grateful if the Minister elaborated on how the plans to clamp down on missing trader fraud are evolving in the light of our expected departure from the EU. Surely our departure from the customs union will prompt some sort of dramatic rethink.

Many hon. Members present are veterans of the Bill Committee on the Taxation (Cross-border Trade) Act 2018. In my view, VAT was one of the most complex issues that we dealt with there—the hon. Member for Aberdeen South is nodding. I would appreciate further information from the Minister about what consultation the Government have entered into about the measure, what feedback was provided, and how concerns about the administrative burden on construction and building works businesses will be addressed.

We would also like to highlight that the making tax digital implementation date for some businesses has been pushed back to October 2019, which will clash with the introduction of new mechanisms to integrate the changes. Has sufficient thought been given to how the burden can be eased for those affected?

Finally, I urge hon. Members to vote for amendment 92, which would empower us and give us the information we need to help small businesses to cope better with VAT collection.

Kirsty Blackman (Aberdeen North) (SNP): First, the hon. Member for Aberdeen South (Ross Thomson) and I are two very different people. He is a lot taller, has dark hair and is a Conservative Member of Parliament. Lots of people have made this mistake over time. He also has very different views from mine on Brexit.

To follow up on some of the issues raised, I am comfortable supporting the Opposition amendment; it makes sense to ask for this information. A couple of matters were raised during the debate. It is important that reasonable VAT guidance is given to organisations. As we have previously discussed in Committee, people can only pay the correct tax if they understand how the tax system works. If they do not have the appropriate guidance, it is difficult for them to ensure that they pay the right VAT.

It is clear that the Government and HMRC are falling short in the information that they communicate to the companies and organisations that are expected to jump through these hoops. It would be useful if the Government looked at that and ensured that they improve the information they are providing to companies and organisations, so that they can better understand their liabilities and how to comply with them.

Lastly, in relation to discussions around the Taxation (Cross-border Trade) Act 2018, the hon. Member for Stalybridge and Hyde mentioned the changes from making tax digital and the impact of that on companies that are finding it more difficult to navigate the system. Another possible impact, depending on what happens with any withdrawal agreement, is that move from acquisition VAT to import VAT, which would also have a significant impact on companies, because they would have to pay significantly more money to allow them to do things differently.

I was pleased that the Government moved on that point after sustained pressure on them through the passage of the Taxation (Cross-border Trade) Bill. I appreciate that they agreed to put in place a deferment scheme in the event of no deal; that is positive. However, we do not yet know what the deal will look like. Could we have more commitment from the Government about smoothing that path, if there is to be change from acquisition to import VAT?

Obviously I would rather there was no change and we all stayed in a customs and VAT union, with common VAT as the preferred option. If there is to be any change, will the Government reassure us that companies that will be provided with as much support as they can, in order to make that change without the cash-flow impact suggested by organisations such as the British Retail Consortium?

Mel Stride: Before I get into more general points on the clause, I will turn to some specific issues raised by Members, starting with the hon. Member for Aberdeen North. I entirely take her points about the distinction between her and my hon. Friend the Member for Aberdeen South. The differences are quite stark in all respects, though I am not sure to whose benefit that is.

The hon. Lady is entirely right to suggest that we need good guidance on these issues. I should point out that a primary focus of the proposed change is to ensure that we do not, under the existing arrangements, have a number of construction companies falling due to VAT and going over the threshold. That does bring unwanted complexity for those who would not otherwise be in that situation. It is worth bearing in mind that the reason behind the measure is trying to avoid drawing ever more businesses in that sector into the VAT regime.

The hon. Lady also reminded us of the discussions that we had at length on the Taxation (Cross-border Trade) Bill, when most of us were all together.

Peter Dowd (Bootle) (Lab): Happy days.

Mel Stride: Happy days. I thank the hon. Member for Aberdeen North for her positive comments about the position that the Government have taken on acquisition VAT as opposed to import VAT, and extending that—at great cost to the Exchequer, of course—to all external trading arrangements, whether with the EU27, as they will become, or the rest of the world.

It is worth making a general comment on the VAT gap, which featured prominently in the contribution from the hon. Member for Stalybridge and Hyde. That gap has fallen from 12.5% under his party in 2005-06 to 8.9% on the latest figures. That is a pretty significant drop in relative terms across that period. Clause 50 amends the anti-avoidance provisions in section 55A(3) of the Value Added Tax Act 1994, which will enable effective implementation in October 2019 of the VAT reverse charge to combat missing trader fraud in construction sector supply chains. As announced at autumn Budget 2017, the Government are introducing a VAT reverse charge for specified construction services, which is due to come into effect from 1 October 2019.

This measure will help to tackle the problem of organised criminal gangs fraudulently creating or taking over companies in the sector to steal VAT and income tax, known as missing trader fraud. Under reverse charge accounting treatment, the customer, if VAT registered, is responsible for settling VAT with HMRC. As a result, suppliers cannot get the tax due and hence cannot steal it. However, there is currently an anti-avoidance provision in the primary legislation for VAT reverse charges, which requires businesses that purchase supplies subject to a VAT reverse charge to include those purchases as part of their turnover for VAT registration purposes.

Reverse charges apply only to supplies to other VAT-registered businesses. Therefore, this provision was designed to prevent fraudsters from avoiding reverse charges, especially on mobile phones, by instead charging VAT to small unregistered businesses before going missing. The current anti-avoidance provision has the effect of making unregistered businesses purchasing supplies covered by the reverse charge registrable for VAT sooner.

The construction sector has many businesses legitimately trading close to, but below, the VAT threshold. The current anti-avoidance provision could therefore push some legitimate small businesses over the VAT threshold and increase the burdens placed upon them. Clause 50 will amend the VAT Act to allow future VAT reverse charge statutory instruments, including one for the construction sector, to waive this anti-avoidance provision. That means that unregistered businesses will not have to add purchases of construction supplies subject to the reverse charge to their turnover for the purposes of VAT registration, thereby limiting the impact of the reverse charge on small businesses.

Disabling this provision in the construction sector will not have an impact on the effectiveness of the reverse charge, because builders are unlikely to be involved in the sort of supply chains that feature in large-scale missing trader fraud in construction. However, the Government do not wish to remove the provision in its entirety, as it may be beneficial for other sectors subject to missing trader fraud.

Amendment 92 would require that, whenever the Treasury makes use of the Government's proposed new power to disapply the anti-avoidance provisions in section 55A(3) of the VAT Act, it would also publish a statement setting out the number of traders expected to benefit from being relieved of the burden to register for VAT as a result, and the impact of the VAT reverse charge and the disapplication of the anti-avoidance provisions on the supply chain in the sector that they target. The Government have closely considered the amendment, but ultimately deem it unnecessary. Whenever a Treasury order is made to require the use of a VAT reverse charge in a particular sector, HMRC publishes a tax information and impact note as a matter of course. This note will highlight the scale of the reverse charge's expected impact in terms of numbers of traders who will be affected and whether the anti-avoidance provisions will apply, and outline how the changes will help to disrupt fraudulent supply chains operating in that sector. This publication is more than sufficient for the purposes

[Mel Stride]

sought by amendment 92. I urge the Committee to reject the amendment, and I commend clause 50 to the Committee.

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 24]

AYES

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

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 50 ordered to stand part of the Bill.

Clause 51

Treatment of vouchers

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

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

That schedule 16 be the Sixteenth schedule to the Bill.

New clause 8—*Review of Schedule 16 provisions on voucher circulation and distribution*—

"(1) The Chancellor of the Exchequer must commission a review of the expected impact of the provisions of Schedule 16 on the circulation and distribution of vouchers in—

(a) the United Kingdom, and

(b) the European Union.

(2) A report of the review under subsection (1) must be laid before the House of Commons within 3 months of the passing of this Act."

This new clause requires a review of how the provisions in Schedule 16 affect voucher circulation and distribution.

New clause 9—*Review of potential divergence of VAT treatment of vouchers*—

"(1) The Chancellor of the Exchequer shall commission a review that will consider the potential public revenue, and other impacts, if domestic law regarding the VAT treatment of vouchers were to diverge from European Union law.

(2) A report of the review under subsection (1) must be laid before the House of Commons within 3 months of the passing of this Act."

The provisions of Schedule 16 transpose Council Directive (EU) 2016/1065. This new clause requires a review of the revenue effects of diverging from EU law on the VAT treatment of vouchers.

3.15 pm

Mel Stride: Clause 51 and schedule 16 make changes to ensure that we can properly collect VAT when purchases are made using vouchers. It amends the Value Added Tax Act 1994, introducing new section 51B, 51C and 51D and new schedule 10B. These clarify the VAT rules for postage stamps and set out new rules for the VAT treatment of vouchers issued after 1 January 2019.

Members of the Committee will be familiar with tokens—for example, those used in the purchase of books—but the world of vouchers has expanded significantly in recent years. The UK vouchers market is now estimated to be worth about £6 billion a year. As well as the traditional use of vouchers as Christmas presents, vouchers now play a large part in business promotion programmes and staff incentive schemes, which rely heavily on complex distribution systems using electronic, plastic and internet-based products, as well as the traditional paper voucher. Some businesses issue and redeem their own vouchers, whereas others issue vouchers to be redeemed by others. VAT law has been slow to adapt to these changes. This new law modernises the rules and introduces a simpler system.

Anneliese Dodds: The Minister is extolling the virtues of vouchers and noting how innovative many of the company schemes that use them are, but why are the Government still committed to removing individuals' capacity to benefit from childcare vouchers?

Mel Stride: I think that issue may be outside the scope of the clause, tempted though I am to be drawn into the issue of childcare and vouchers. The hon. Lady will have noted the delay that we implemented in that respect, to make the transition that little bit easier for some of those who might have been impacted.

The clause transposes new EU law, which we pressed the European Commission to introduce, to help combat tax avoidance. The new law has to be in place by 1 January 2019 and the Provisional Collection of Taxes Act 1968 will give the measure effect until Royal Assent of this Finance Bill.

From a VAT perspective, vouchers are unexpectedly complex. That is because, for one payment, a buyer gets two things: a voucher and an underlying good or service. Without special rules, we risk taxing twice: once for the voucher and a second time for the underlying supply. Gift vouchers could be used to buy products with different VAT rates. It is therefore often difficult to apply VAT at the time the gift voucher is bought. Furthermore, gift vouchers are now often sold at a discount to the face value, via distributors to businesses, which give them away for free in business promotion or staff incentive schemes. It is then not always clear to the shop accepting the voucher exactly what has been paid.

Finally, trading vouchers across borders resulted in problems of double and non-taxation, as different countries have different rules. The changes made by clause 51 and new schedule 16 will standardise these rules. First, the legislation specifies the type of voucher covered. Quite a few things nowadays look similar to vouchers, but are not recognised as vouchers under the VAT system—for example, the type of card many of us store money on to go on holiday or give to our children. We are not talking about vouchers that are totally free from when they are issued to when they are used to buy something, such as discount vouchers found in magazines or toothpaste money-off tokens.

The legislation identifies two distinct types of voucher and sets out specific VAT treatments for each. If we know what the voucher can buy and where, that can be charged at the point of issue and at any subsequent transfer of a voucher through its distribution network. If these details are not known at the time of issue, because it is a general gift voucher, we must wait until it is used to be able to apply the correct VAT. Therefore, the law identifies single-purpose vouchers, such as a traditional CD token that can be used only to buy CDs, which are limited to specific products, and multi-purpose vouchers, such as a WHSmith gift voucher, which can be used to buy many things,.

To avoid charging VAT twice, single-purpose vouchers are subject to VAT throughout distribution, but no VAT is charged on redemption. In contrast, multi-purpose vouchers are VAT-free through distribution, but are subject to VAT at redemption. For the multi-purpose voucher, the redeemer—the shop—must account for VAT. If they know the amount paid for the voucher, they should account for the VAT on that value. If they do not know the amount paid, they should account for VAT on the face value of the voucher.

Because the activities of any distributor of multi-purpose vouchers are disregarded for VAT purposes, there will be certain restrictions on the extent to which they can reclaim VAT incurred on related costs. I hope that the Committee is following this very closely, because it is an extremely important series of elaborations on how these vouchers work. HM Treasury and HMRC have consulted with the relevant businesses represented, and HMRC will be clear in guidance on how the rules will work.

The two new clauses would require two reviews by the Government within three months of the passing of the Act. New clause 8 concerns the impact of the provisions on the circulation and distribution of vouchers in the UK and the EU. New clause 9 concerns potential revenue and other impacts that could arise if UK law were to diverge from EU law.

Collecting VAT when vouchers are used is always complex, and it will inevitably take some time for the new rules to bed in. Throughout the negotiations about the changes in the underlying EU law, the Government were in regular contact with the UK businesses affected by the changes, and it was generally felt that this option was the best of the various options identified. Officials have worked hard with businesses to ensure as smooth a transition as possible, and HMRC has offered to be pragmatic as businesses get to grips with the new system.

I can reassure the Committee that the Government will continue to monitor the effects of the change and other developments in this area, including impacts on revenues. With regard to divergence from EU law, it is far too early to consider such impacts, given that we do not yet know the future agreement with the EU and what it will look like in respect of the VAT system more generally. However, I stress to the Committee that a key advantage of this measure is to ensure a level playing field across the EU, so that UK businesses are not disadvantaged by different rules in other EU member states, which they would need to understand and which could result in double taxation or—in terms of Exchequer impact—no taxation at all. I therefore ask the Committee to reject the new clauses, and I commend the clause and schedule 16.

Jonathan Reynolds: I begin with a word of apology to the hon. Member for Aberdeen North for mixing up my Aberdeen constituencies. I can only say to her that in a former Parliament a former Member for Aberdeen South and I were both shadow Energy Ministers, and that at some level I must be missing him and I cannot bring him back. However, that is no excuse for mixing up the two parts of Aberdeen.

Clause 51 relates to gift vouchers and the transposition of an EU Council directive clarifying the consistency of treatment of vouchers. I thought that this was more interesting than it sounded in the explanatory notes; the Minister has done a very good job on that. As he said, this Christmas, when people are out shopping, not many of our fellow citizens will understand that vouchers pose a challenge to HM Treasury in charging VAT, because when a customer buys a voucher, should we charge the VAT on that, or should we charge it when they spend the voucher?

As the Minister said, the discrepancy is further complicated because there will be some stores that sell gift vouchers that then offer zero-rated VAT items, such as children's clothes. I understand that there have been mismatches in the way that different member states have approached these questions, and that this situation has potentially led to double taxation or no taxation at all across borders. That is the background to the introduction of the EU vouchers directive agreed in June 2017.

The Minister outlined the new regime of single-purpose vouchers and multi-purpose vouchers; I do not think that anyone wants me to repeat that. However, it makes sense that there is clarity on vouchers, finally, and that the risk of there being either double taxation or intra-EU taxation is avoided.

However, professional bodies have raised a number of issues, which I would appreciate some further detail from the Minister on. It is my understanding that there is still no new guidance available from HMRC on this measure, even though implementation is from 1 January 2019. As I mentioned in relation to the previous clause, VAT is a complex and time-consuming area for businesses, so they need as much advice and notice about it as possible. The timing of this implementation, in January, will also coincide with one of the peak times of the year for voucher redemption—hopefully, all of us will get a voucher for Christmas—and that could create a further burden. Gift vouchers are an important part of revenue for UK businesses.

This is a very challenging time for the high street, so the Opposition are mindful that we do not want to create any additional administrative barriers for smaller shops as they develop their businesses. As the Chartered Institute of Taxation has highlighted, shops will need to be able to identify the date of purchase for vouchers, to assess whether they need to declare VAT, given that the rules will be changing. It is surely important, therefore, that they receive as much support as possible from HMRC through the process and receive as much guidance as they can. Those technical details are a concern, and I would appreciate further context from the Minister on how they might be mitigated.

[Jonathan Reynolds]

Clause 51 also raises a wider issue, given that it relates to the transposing of EU laws into the UK and our future compliance with EU VAT regulations. Historically, it has not been possible for the UK to fully diverge from the EU on setting rates for VAT. VAT revenues to the Exchequer are a crucial part of the UK's tax landscape, and we need to know how crashing out without a deal or abruptly pulling out of the customs union will affect how we set VAT rates in future. That is why Labour has tabled new clauses 8 and 9, in relation to schedule 16, which is associated with this clause. New clause 8 would oblige the Government to

"commission a review of the expected impact of the provisions of Schedule 16 on the circulation and distribution of vouchers in—

(a) the United Kingdom, and

(b) the European Union."

Vouchers are an important part of business for UK retailers. As we leave the EU, questions should be raised about whether this decision on compliance will still work best for both sides, as it has been drafted on the basis that the UK is a member of the customs union. Given that circumstances will change quite dramatically in future, we must be mindful of how this will impact on ongoing changes.

Subsequently, new clause 9 mandates the Government to produce a review of the potential divergence from EU policy of the VAT treatment of gift vouchers, so that we can properly assess its implications. Supporting our high street in today's challenging environment is a priority for all of us. I therefore urge Members to vote for our new clauses, to make sure that we create the best possible taxation framework for vouchers and help our retailers to succeed.

Mel Stride: I will be brief, but will hopefully answer the questions that the hon. Member for Stalybridge and Hyde has posed. First, as regards guidance, these measures were consulted on widely with UK businesses and stakeholders, and HMRC has recently shared draft guidance with stakeholders for comment. HMRC's guidance was published yesterday, so that is now in the public domain. Of course, if the hon. Gentleman has any particular observations on that, I would be happy to take representations from him. The Government have also given businesses advance notice of the changes. A consultation document was published last December, HM Treasury and HMRC have been in constant discussion with businesses, and we published the draft legislation last July on L-day, with an impact assessment last month.

My final point relates to the hon. Gentleman's comments about future VAT arrangements in the context of our departure from the EU. Of course, at this stage, we do not know exactly what those will look like. However, the Government have made a general statement that we are seeking to have arrangements that are broadly in line, so that we do not have very dramatic changes when we depart from the European Union.

Question put and agreed to.

Clause 51 accordingly ordered to stand part of the Bill.

Schedule 16 agreed to.

Clause 52

GROUPS: ELIGIBILITY

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

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

Amendment 93, in schedule 17, page 305, line 28, at end insert—

"PART 3

REVIEW

"16 (1) The Chancellor of the Exchequer shall commission a review on the impact of the provisions in this Schedule on the number of individuals and businesses entering into VAT groups.

(2) A report of the review under sub-paragraph (1) must be laid before the House of Commons before 1 April 2020."

This amendment requires a review of the impact of this measure on the number of individuals and businesses entering into VAT groupings for the purpose of tax planning, and for that review to report by the end of the tax year 2019-20.

Amendment 94, in schedule 17, page 305, line 28, at end insert—

"PART 3

REVIEW

"16 (1) The Chancellor of the Exchequer shall commission a review on the potential revenue changes if domestic law were to diverge from European Union law in relation to VAT groups.

(2) A report of the review under sub-paragraph (1) must be laid before the House of Commons within 3 months of the passing of this Act."

This amendment requires a review on the potential revenue changes if domestic law were to diverge from European Union law in relation to VAT groups.

That schedule 17 be the Seventeenth schedule to the Bill.

Mel Stride: Clause 52 makes changes to the Value Added Tax Act 1994 to allow certain non-corporate entities such as partnerships and individuals to join a VAT group. VAT grouping is an important VAT accounting simplification for UK businesses. It allows companies within the same corporate group to operate under one VAT registration and submit a single VAT return. Members of a VAT group can share goods and services with each other without the need to account for VAT. This helps businesses operate effectively and saves time and resource, for both businesses and HMRC.

Clause 52 will simplify VAT accounting arrangements for many UK businesses and ensure that the UK's VAT grouping rules operate effectively. It is up to the UK Government to determine how VAT grouping rules operate, to ensure that they work effectively for UK businesses. They must adhere to EU VAT principles when doing so. Following a judgment of the Court of Justice of the European Union in 2016, HMRC held a consultation to determine which entities should be eligible to join VAT groups. HMRC listened carefully to the representations made during this consultation and held detailed discussions with VAT expert stakeholder groups to ensure that the changes to VAT grouping rules work for businesses and HMRC, including publishing draft legislation in July this year.

The changes made by the clause will help reduce VAT accounting burdens for many businesses. Under current rules, only corporate bodies can join a VAT group. We will amend the Value Added Tax Act 1994 to allow non-corporate entities such as partnerships or sole traders to join a VAT group, where those entities control all other members of the VAT group. Although these changes will bring administrative benefits for businesses, it is important that the rules are not misused, so we will update existing anti-avoidance rules via a statutory instrument to ensure that no taxpayers use VAT grouping to avoid VAT. The changes made by the clause are expected to have a negligible impact on the Exchequer.

Amendments 93 and 94 would require the Chancellor to commission a review on the impact of these changes to individuals and businesses and a further review on the UK tax revenue impact of any future divergence from EU VAT grouping rules. The Government do not intend to accept these amendments. The VAT grouping changes have been made following extensive consultations by HMRC. HMRC's response to the consultation was published in December 2017.

With respect to a review of the UK tax revenue impact of any future divergence from EU VAT grouping rules, it is worth noting that although the UK must follow EU VAT law principles, the UK Government already have the ability to tailor UK VAT grouping rules to our own specifications. If any future changes are made to UK VAT grouping rules, they will of course receive parliamentary scrutiny at that time. I do not consider, therefore, that either of the proposed reviews is required.

3.30 pm

Jonathan Reynolds: I will speak briefly to clause 52, schedule 7 and our related amendments. As the explanatory notes say, UK VAT grouping already allows for two or more bodies corporate, such as limited companies or limited liability partnerships, to register collectively as a VAT group if they are both established in the UK and under common control. Their VAT return is considered as one and, therefore, supplies between the individual subsidiaries are disregarded for tax purposes.

However, a judgment from the European Court of Justice in September 2015 on a case relating to a shipping company widened this definition beyond bodies corporate. After consultation, this has been extended to a wider definition, including non-corporate entities such as partnerships and individuals that have a business establishment in the UK and control a body corporate.

We are awaiting further guidance from HMRC in relation to non-corporate entities, which we are told by the Government will be published after Royal Assent. Outstanding issues remain that the guidance will urgently need to address. The Chartered Institute of Taxation, which has been helpful in providing briefings on the VAT-related issues in the Bill today, has outlined a number of these questions already. We need to know whether partnerships could have partners that were both UK and non-UK resident, and whether a partnership that had UK business premises with entirely non-resident partners would be eligible. How would the ongoing challenge of the physical presence test be monitored and policed? That is especially pertinent given HMRC's constrained resources.

Equally, it is important to understand how ongoing eligibility for partnership will be assessed. Questions that need to be answered include whether there should be an annual declaration or tick box on the VAT return to encourage regular self-assessment. Will VAT groupings be cross-referenced with partnership or sole trader tax returns within that group to ensure accuracy? Another issue raised by the Chartered Institute of Taxation is whether partnership and sole trader tax registration details should be used to tag and monitor which partnerships or sole traders were within a VAT group, both for HMRC administration and for taxpayers' reference when dealing with such entities and checking VAT registrations.

The Government's 2017 consultation document stated:

"The government recognises that any widening of grouping will come with a revenue cost unless it excludes businesses that make exempt supplies. This is not something that the government is planning to do, so any potential change must be assessed to fully understand the effect on UK revenue."

I appreciate that the Minister's comments appeared to contradict that, but that also appears to be contradicted by the wording in the consultation document last year.

The consultation also says:

"Whilst we agree that there may be implications with joint and several liability for certain entities, the government has no immediate plans to make any changes to joint and several liability rules."

Can the Minister confirm that both statements still apply 12 months later, and that there is no intention to change joint and several liability rules now or widen grouping in a way that impacts on revenue?

Ensuring compliance and that revenue is fully collected must be our priority. It is noted that, in the 2017 consultation, the majority of respondents agreed with HMRC's view that an entity could be excluded to prevent evasion, avoidance and abusive practices. However, given the large VAT gap in the UK, the Opposition believe we must be vigilant to any potential opportunities that arise that can be exploited with regard to VAT treatment by incentivising individuals or businesses to enter into groups for tax purposes when they might not otherwise have done so. That is why Labour has tabled amendment 93; I encourage Committee members to vote for it. It mandates the Government to commission a review on the impact of provisions made on the number of individuals entering into VAT groups for the purposes of tax planning by the end of the tax year 2019-20. That will help us to identify quickly whether a distorting effect has been created by the legislation.

The second, wider issue in relation to the clause and schedule is how our own changes in VAT legislation will be impacted by our departure from the EU. Amendment 94 would require a review of the potential revenue changes if domestic law were to diverge from EU law in relation to VAT groups. As we outlined when discussing clause 51, we must take stock of the full impact as the Government propose our departure from the customs union. That will have a huge bearing on how we collect VAT, and potentially VAT revenues, if we choose to deploy flexibility in what we do and do not accept. This measure is no exception and for the purposes of scrutiny it is critical that we have a full understanding of its impact on the UK.

Kirsty Blackman: It is not our position that the UK should leave the common VAT area, but we support both Labour amendments, because it is sensible that we have more information about all these provisions, so that the House can take better-informed decisions.

Jonathan Reynolds: I am extremely grateful for the hon. Lady's intervention and entirely agree with it.

On the access of financial services to the single market once we leave the EU, under the terms of what the Government have negotiated—that single market access will almost certainly be denied unless the equivalence provisions prove adequate, although most people expect them not to be—the Government's advice to firms in the UK is to set up subsidiaries in the EU. It was reported to me in meetings yesterday in the City that there is concern that when those subsidiaries are created, the connected UK entities will not be able to enter VAT groups in the UK, which would therefore trigger a substantial tax liability in order for firms to comply with the Government's own advice on market access to the EU. The Minister may not be able to answer that now, but I want to put it on the record.

I call on all Committee members to support both amendments today so that we can get a clear and full picture of the wider impact of the measures on the future VAT policy approach outside the EU and on closing our own VAT gap here in the UK.

Mel Stride: The hon. Gentleman raised a large number of questions, most of them very specific and quite technical, not least around the treatment of UK resident individuals in the context of VAT grouping, as opposed to non-residents in a similar situation, where perhaps a business has—my terminology—a permanent establishment here, but is run by non-residents. He also made various points about the administration of VAT groups. I will write to him about those issues and the other points he raised in that part of his contribution. He asked a specific question about whether we are updating joint and several liability rules for these changes. The answer is that we are not. HMRC will continue to monitor the rules, of course, to ensure that they work effectively for UK businesses.

The final point that the hon. Gentleman raised related to our future relationship with the European Union. His specific question, as I understand it, was about compliance with the financial services arrangements that might be in place once we have left the European Union: if, as a consequence of that, a UK financial services business had a subsidiary or another operation within the EU27 as opposed to here, would that prohibit that particular operation from participating in a VAT group with the UK domicile concern? I have absolutely no idea what the answer to that is, but I did at least understand his question and I am happy to look into it and get back to him.

Question put and agreed to.

Clause 52 accordingly ordered to stand part of the Bill.

Schedule 17

VAT GROUPS: ELIGIBILITY

Amendment proposed: 93, page 305, line 28, at end insert—

PART 3

REVIEW

16 (1) The Chancellor of the Exchequer shall commission a review on the impact of the provisions in this Schedule on the number of individuals and businesses entering into VAT groups.

(2) A report of the review under sub-paragraph (1) must be laid before the House of Commons before 1 April 2020". —*(Jonathan Reynolds.)*

This amendment requires a review of the impact of this measure on the number of individuals and businesses entering into VAT groupings for the purpose of tax planning, and for that review to report by the end of the tax year 2019-20.

The Committee divided: Ayes 9, Noes 10.

Division No. 25]

AYES

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

NOES

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

Question accordingly negatived.

Amendment proposed: 94, page 305, line 28, at end insert—

PART 3

REVIEW

16 (1) The Chancellor of the Exchequer shall commission a review on the potential revenue changes if domestic law were to diverge from European Union law in relation to VAT groups.

(2) A report of the review under sub-paragraph (1) must be laid before the House of Commons within 3 months of the passing of this Act." —*(Jonathan Reynolds.)*

This amendment requires a review on the potential revenue changes if domestic law were to diverge from European Union law in relation to VAT groups.

The Committee divided: Ayes 9, Noes 10.

Division No. 26]

AYES

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

NOES

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

Question accordingly negatived.

Schedule 17 agreed to.

Clause 53

RATES OF DUTY ON CIDER, WINE AND MADE-WINE

Peter Dowd (Bootle) (Lab): I beg to move amendment 96, in clause 53, page 34, line 14, at end insert—

"(5) The Chancellor of the Exchequer must review the revenue effects of the changes made to the Alcoholic Liquor Duties Act 1979 by this section and lay a report of that review before the House of Commons within six months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the revenue impact of the revised rates on cider and wine.

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

Amendment 103, in clause 53, page 34, line 14, at end insert—

"(5) The Chancellor of the Exchequer must review the expected effects on public health of the changes made to the Alcoholic Liquor Duties Act 1979 by this section and lay a report of that review before the House of Commons within one year of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the impact of the revised rates on cider and wine on public health.

Amendment 97, in clause 54, page 36, line 12, at end insert—

"(5) The Chancellor of the Exchequer must review the effect on the cider industry of the changes made to the Alcoholic Liquor Duties Act 1979 by this section and lay a report of that review before the House of Commons within six months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the impact of Clause 54 on the cider industry.

Amendment 98, in clause 54, page 36, line 12, at end insert—

"(5) The Chancellor of the Exchequer must review the expected effects on public health of the changes made to the Alcoholic Liquor Duties Act 1979 by this section and lay a report of that review before the House of Commons within one year of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the impact of Clause 54 on public health.

Amendment 99, in clause 54, page 36, line 12, at end insert—

"'(5) The Chancellor of the Exchequer must review the expected effects in each part of the United Kingdom and each region of England of the changes made to the Alcoholic Liquor Duties Act 1979 by this section and lay a report of that review before the House of Commons within one year of the passing of this Act.

(6) In this section—

"part of the United Kingdom" means

(a) England,

(b) Scotland,

(c) Wales, and

(d) Northern Ireland;

"regions of England" has the same meaning as that used by the Office for National Statistics."

This amendment would require the Chancellor of the Exchequer to review the impact of Clause 54 on different parts of the United Kingdom and regions of England.

Clause stand part.

Peter Dowd: I am delighted to see you in the Chair, Ms Dorries. Clause 53 provides for an increase in line with inflation based on the retail prices index in the rates of excise duty charged on all wine and made-wine with a strength at or below 22% alcohol by volume—ABV—and sparkling cider and perry exceeding 5.5% ABV but less than 8.5% ABV. The changes will come into effect on and after 1 February 2019. As we approach Christmas, we felt it was important to scrutinise this measure closely: poring over the matter, one might say. The Government have ensured that enjoying a nice glass of rouge by the fireside over a game of charades—they know a lot about charades—will cost a little bit more. Never fear though, we have tabled a number of amendments to clause 53, which I will address in turn.

It is important to note the context of the rates. Duties on alcoholic drinks are forecast to raise £11.5 billion this year, split between beer and cider at £3.7 billion; wine duties, £4.3 billion; and spirit duties, £3.5 billion. The House of Commons Library provides us with a potted history of recent developments on the matter of excise duty, an area of strong interest to the great British public.

3.45 pm

In his spring statement—the Budget—the Chancellor announced that excise duties for alcohol would be increased in line with inflation with effect from 13 March. Provision to set duty rates was made by the Finance Act 2017 and introduced before the general election of happy memory. In addition, the Government launched a consultation on options for reform, to ensure that duty rates better corresponded to alcoholic strength, specifically a new duty rate band to target cheap, high-strength white ciders, and a new lower-strength still wine band to encourage the production and consumption of lower-strength wines.

In the autumn Budget, the Chancellor confirmed that the Government would introduce a higher-rate duty on white ciders from 2019, while duty rates on alcohol would be frozen. Freezing duties is estimated to cost between £225 million and £240 million a year from 2018-19, with provision to set the new duty rate band on white cider included in the Finance Bill introduced after the autumn, "later this year", as quoted.

That new provision for white cider is presumably contained in clause 54, although we have some queries, which I will come on to. I would first like to note the Government's use of RPI in this instance. It would appear that the Government apply different inflationary indices to policies, depending on which would provide them with either the most income or with the least expenditure.

There is a question of transparency. We have seen that with students forced to take loans indexed using RPI, saddling them with significant debt. I suspect that makes the loan book more attractive. Meanwhile, RPI was scrapped in favour of the lower consumer prices index for the indexing of public sector pensions, meaning our public sector workers are £12,000 worse off when they retire.

Will the Minister set out exactly why RPI was chosen as the appropriate index in this instance? The Office for National Statistics recently described RPI as "a very poor measure", yet the Government still apply it to all revenue-raising policies, which is strange. Perhaps the Government will add a cross-departmental review of inflationary indexation to the very long list of reviews that make up much of their domestic policy agenda. No wonder they do not want to take any of our reviews; I suspect they have enough of their own to be getting on with.

For now, we should fully imbibe the implications of amendment 96 and make a sober judgment on whether the Government have taken the correct approach to this issue. The amendment would require the Chancellor of the Exchequer to review the revenue impact of the raised rates on cider and wine. I have looked closely at the policy papers for the Bill and, once again, could find no indication of the revenue that the Government hope to raise from the RPI-indexed inflationary increase. Perhaps the Financial Secretary would inform me about that; he might have a little bit more divine inspiration, as I move on. It could be that the Government are worried about how the press might treat such a figure. Again, it is a matter of transparency. We have been forced to raise the issue numerous times in our debates on the Bill; there is a total lack of information *[Interruption.]* I am not that boring, am I? Give me a break. It is okay; it is better than the barracking I usually get.

I have referred to the "Better Budgets" report from the Institute for Government and the Chartered Institute of Taxation, which makes clear the need for more information provided in good time. Once again, we are being asked to spend hours and hours in Committee scrutinising the barest sets of facts, with no hope of meaningful amendment. That is why we have tabled an amendment calling for a review, making a wholly uncontroversial request for costings of the higher duties that have been introduced. Sadly, the Government no longer seem to be capable of providing that basic information, so I ask again: will the Minister provide us with costings for this measure, or commit to our review?

I will refer, if I may, to amendment 103, which I think we will debate in due course. That amendment, tabled by the Scottish National party, would

"require the Chancellor of the Exchequer to review the impact of the revised rates on cider and wine on public health."

That is a very important matter, and we would support it; we have tabled a similar amendment. In December 2016, Public Health England published a report on the public health effects of alcohol consumption in the United Kingdom. That study found that

"Alcohol is now more affordable and people are drinking more than they did in the past. Between 1980 and 2008, there was a 42% increase in the sale of alcohol. Despite recent declines in sales, as a nation we are still drinking too much, with over 1 million hospital admissions relating to alcohol annually.

The economic burden of health, social and economic alcohol-related harm is substantial, with estimates placing the annual cost to be between 1.3% and 2.7% of annual GDP. Alcohol related deaths affect predominantly young and middle aged people; as a result alcohol is a leading cause of years of working life lost"

in this country. Professor Kevin Fenton, National Director for Health and Wellbeing at Public Health England, has said:

"The harm alcohol causes is much wider than just on the individual drinker. Excessive alcohol consumption can harm children, wreck families, impact on workplace colleagues and can be a burden and drain on the NHS and economy. It hits poor communities the hardest."

In fact, my hon. Friend the Member for Sefton Central (Bill Esterson) has on many occasions raised the issue of the damaging and tragic effects of alcohol on children in the womb through foetal alcohol syndrome. The report goes on to say:

"Since 2008, there has been a drop in total alcohol consumption but there has not been a corresponding drop in the level of related harms. The evidence review makes clear that alcohol-harm disproportionately affects the poorest communities, even though on average they drink no more than more affluent groups."

Other findings suggest that

"most adults in England drink alcohol—more than 10 million people are drinking at levels that increase the risk of harming their health;5% of the heaviest drinkers account for one third of all alcohol consumed; alcohol is the leading cause of death among 15 to 49 year olds and heavy alcohol use has been identified as a cause of more than 200 health conditions; alcohol caused more years of life lost to the workforce than from the 10 most common cancers combined—in 2015 there were 167,000 years of working life lost; the evidence strongly supports a range of policies that are effective at reducing harm to public health while at the same time reducing health inequalities—reducing the affordability of alcohol is the cost effective way of reducing alcohol harm".

That evidence has to be considered in the context of the Government's long-standing policy of alcohol duty cuts and freezes. The House of Commons Library describes that in some detail, which I will not go into, but it is well worth having a look at the report. Those cuts, it is worth noting, come at some expense during a time of austerity, and we cannot ignore the fact that they could further contribute to the concerning picture set out in the report by Public Health England. The Economic Secretary indicated that there was a requirement for evidence, but the evidence in this regard is resounding: a public health approach to alcohol duties will not only raise revenue for the Exchequer, but reduce the harm caused by alcohol in our society.

Bambos Charalambous: My hon. Friend is making an excellent and, shall I say, spirited speech. Does he agree that the Government have totally ignored the health effects of alcohol consumption in the way they have implemented alcohol duties?

Peter Dowd: It leads me to believe that the Government have not paid enough attention. That is why we want to have a look at it in the round and why we want a review. Let us see the evidence. If the evidence indicates my hon. Friend's contention, as I think it will, we would need to do something.

Unfortunately, despite the move to begin to increase duties on wine and cider as set out in clauses 53 and 54, it seems that the Government's policy on wider alcohol duties reflects continuation rather than a break with the last eight years. Will the Minister confirm that it remains the Government's policy to increase only those alcohol duties included in the clause and to freeze all those not included? That being the case, does it not seem that the attempt in clause 54 to increase the price of mid-strength cider is a mere sticking plaster on the Government's wider policy of ignoring the harm to the public's health caused by cheap alcohol? In other words, when it comes to applying this approach across all duties, it seems that they bottled it. Could it be that they choose to grab a quick Budget headline once a year instead of taking an evidence-based approach to alcohol harm like that adopted by the last Labour Government?

I question the logic of creating an additional rate of duty to ciders up to only 7.5% alcohol by volume. A cursory look at the white cider market suggests that many of the products that the Government seek to make more expensive are currently listed at exactly 7.5% ABV, which is the upper band of the new duty applied by the clause. Clearly, while those ciders would be covered by the new band of duty, it would take only an additional spoonfull of sugar, as the saying goes, to push them up to 7.6% ABV, which is currently covered by the higher rate of duty that is applied to so-called high-strength ciders. Would it not have been a better approach for the Government simply to reduce the lower band of excise applied to higher-strength ciders to ensure that that duty instead applied from 6.9% ABV all the way up to 8.8% ABV? Will the Minister expand on what logic has been pursued by the Government and whether it might incentivise the industry to take more decisive action to reduce the strength of their white ciders or begin to diversify their products?

Amendment 97 would require the Chancellor of the Exchequer to review the impact of clause 54 on the cider industry. The point is to see how far the Government have tried to work with industry to develop and implement a more public health-oriented approach to their products while minimising the impact such an approach has on the industry.

Anneliese Dodds: Is my hon. Friend aware that there used to be a differential regime for small-scale cider producers, whose product was often of far greater quality than the kinds that are often linked to alcohol overuse? That no longer exists, partly because of changes at EU level. Surely we need to know more from the Government about what they are doing to support that part of the industry as well as clamp down on the production of very high-volume, high-alcohol product.

Peter Dowd: My hon. Friend makes a pertinent point and I am sure the Minister was listening. What have the Government done to work with producers to transition to less harmful products while protecting jobs and livelihoods? That could provide an opportunity for the industry to move into other cider products—perhaps those not so reliant on glucose and corn syrup and using the cheaper pomace, all of which presumably add to the negative health effects. I hope the Minister will speak to the work that the Government are getting on with in that regard.

4 pm

Amendment 98 would require the Government to review the public health effects of clause 54. I have spoken about the links between alcohol and public health in relation to amendment 103. Amendment 98 seeks to look at the measures set out in clause 54 in the context of the Government's wider policies on alcohol. Is it enough to simply address mid-strength ciders while continuing to freeze wider alcohol duties? Will this have much of an impact in the context of the Government's wider policies? That is what we hope to winkle out through this amendment and it will be an important exercise for the Government to undertake. If they are committed to developing policy based on evidence, I do not see why they would not wish to undertake such a review. It can only help to provide a clear picture.

I will not be here on Thursday, so I will not have much of an opportunity to quote Cicero. He identifies that drunkenness on wine, like disease, must be curbed. He also said—I think he was referring to the Ministers—that the wise mind is always devoid of vice and never swells up. That will be their epitaph if they listen to me today.

Finally, amendment 99 looks at the regional impacts of the new duty. We know the cider industry in the UK is concentrated in certain regions—west country scrumpy, for example, Buckinghamshire and Herefordshire, the Welsh seidr and even the Channel Islands, which have had a cider tradition stretching back to the middle ages. In fact, the Minister in those days may have been drinking that sort of Channel Islands cider. What work has the Treasury done to assess the impact of changes to excise duty on production in those regions? That is important and another element of regional economies and regional disparities. Challenging the prevalence of white ciders may have a positive effect on some regional manufacturers while others may suffer as a result. It is important to understand the changes if we are to continue to support British cider producers across the areas I have mentioned and beyond. [*Interruption.*] Again, I am having bad luck with people moving out of their chairs. It is a trend.

Mel Stride: In 10 minutes you will be on your own.

Peter Dowd: As long as that? Ten minutes? My word.

I should point out that, under a more active Government—one not simply going through the motions—these measures would already have been taken into account, acted upon and been on offer for proper scrutiny during this debate. Nevertheless, I hope the Minister will see the benefits of the review as set out in our amendment and agree that it is worth while—or that Members will choose to support amendment 98 to see that it is implemented. That brings our amendment on this particular matter to a close. Cheers.

Kirsty Blackman: I rise to speak to amendment 103 in my name and that of my hon. Friend the Member for Paisley and Renfrewshire South, but I would also like to speak a little more widely about the clause and the Labour amendments. First, I would like to ask the Minister a question about the post duty point dilution, which was in the Red Book. Hopefully, he can answer or get inspiration during the course of the debate. The changes do not appear to be in the legislation, so it would be useful if the Minister could explain when the legislative changes to post duty point dilution will take effect. I understand that the hope is that it will be put into legislation to be enacted in April 2020, but it would be useful if we could have an idea of the legislative process to ensure that those changes are made. I have been lobbied heavily on this by one of my constituents. I know it is important to a lot of people and that the Government have to their credit committed to making changes in the autumn Budget 2017.

Returning to our earlier discussion, I am not clear what the Government are trying to do with the changes to alcohol taxation. Are they trying to incentivise good behaviour; are they trying to disincentivise bad behaviour; or are they trying to generate revenue for the Exchequer? It is important for the Government to clarify that and accept the Labour amendment on the revenue impact on the Exchequer and on public health. That would

[Kirsty Blackman]

make a big difference, because we would be clear about the Government's intentions and what the Government expect to achieve.

On public health, people who want to get drunk quickly often drink high-strength ciders. It is important the changes focus on people who are not drinking for pleasure in the main, but who are drinking to get as drunk as they possible can. Those are the alcohol deaths we are trying to combat in Scotland with the new minimum unit pricing we introduced, which is a clear and well-intentioned public health change. Minimum unit pricing is all about making sure that high-strength alcohols that can be bought very cheaply are increased in price, so that people cannot get hold of them as easily. We predict that we will see a reduction in alcohol deaths as a result of the changes to legislation in Scotland.

What do the Government expect will be the impact of their legislation, particularly the extreme impact on people who are dying from alcohol misuse? What numbers do they expect to see as a result of the changes? If the Government accept Labour's amendments, it would be useful if the review included the number of people whom they expect to save so that we can measure them against that.

Lastly, it is important that the Government tax this stuff and increase the tax rates as inflation increases. We want the Government to take a step back and have a holistic look at the entire system and explain why they are taxing things in the way that they are, rather than tweak and bodge and make changes year on year, as often happens in this place, so that we end up with something that is unwieldy and does not fulfil the intentions of the Bill in the first place, let alone the intentions of the world as we see it. Will the Minister provide answers?

Sir Robert Syms: The Government have sensible policies on this. We debated an amendment earlier today about securing jobs in the North sea when there are relatively few jobs on oil rigs. The hospitality industry is one of the biggest employers in the United Kingdom. It is also very important for the tourist industry. The Government have been constantly keeping taxes under review to see what gets a reasonable amount of income and what is fair for consumers.

We also have to understand that we have been through a difficult economic period and incomes have not risen as much as one would like. One of the disadvantages of putting up some of these prices is that it will affect not middle class people, but some of those on the lowest incomes who have every right to enjoy a drink. I therefore think that the Government policy is perfectly sensible.

Kirsty Blackman: I agree that the hospitality industry is incredibly important, particularly to tourism. However, the oil and gas industry supports 135,000 jobs and is also very important to the livelihoods it supports.

Sir Robert Syms: I am sure it is, but I suspect the hospitality industry is 10 times that. The other factor about the drinks industry generally is that it is very regionally diverse, with the scotch industry in Scotland, and wine, cider and beer producers. We all have representations from the owners of breweries, which employ people and are sometimes very important parts of the local economy. We have all had representations from people who run public houses, which are also central to the community. One of the worst things that has happened over the past few decades is the number of public houses that have closed, which has had a material impact on many people and communities. This is a matter of balance, and the Government may be wrong or they may be right, but I think they are more likely to be right because their approach is more likely to secure jobs in the hospitality and brewing industries, and to achieve a proper balance so that people can enjoy a meal or a drink out.

There is a serious alcohol issue, but the producers of wine and beer label things very clearly to show the strength of alcohol. There is a strong "Drinkaware" campaign, so it is not difficult for people to find out the impact of alcohol, but we know there is a hard core of heavy drinkers, many of whom use A&Es and ambulances. It costs about half a million pounds a year to keep an ambulance on the road, and many of them are disproportionately used by people who abuse alcohol. The focus, if there is any focus, ought to be on addiction services and trying to intervene with those who abuse alcohol rather than on the vast majority of people who enjoy a drink.

The hon. Member for Bootle, in his amusing speech—we will miss him on Thursday when he is no doubt raising a cheer to Cicero in whatever he is doing—noted that the industry contributes substantially to the Treasury. Some of those billions of pounds have to go to the NHS because of drinking, but the industry also generates a lot of money for good causes and things that the Government need to provide.

This is a matter of balance, and I think the Government have it right. There may come a time when prices have to go up. If incomes start to rise more substantially—we hope that will be a factor in a few years and that there is evidence that pay is picking up a bit—it may be time to review the taxes, but I think the Government have got this one right.

Robert Jenrick: I gather there may be a vote in a few moments' time, but I will begin by addressing, in no particular order some of the points that have been raised by the hon. Member for Aberdeen North. We are interested in the Scottish and indeed the Welsh Government's actions on minimum unit pricing. It is fair to say that the jury is still out on whether that has been effective, but we will be watching with interest, as will the Department of Health and Social Care and Public Health England, and that will inform the decisions we take at future Budgets.

The hon. Lady asked about post duty point dilution. This is an issue that she has rightly highlighted, and a number of the producers who are likely to be affected by this and who are based in the UK will no doubt be asking the question she has asked. We intend to give this further consideration and lay draft legislation on L-day next year, in the early summer of 2019, with a view to legislating on it in the autumn Budget 2019 and its coming into force from April 2020. While I have spoken to some of the small number of British producers who will be affected and I note their concerns, this is a question of fundamental fairness in the duty system.

Kirsty Blackman: Perhaps I did not express myself very well. My constituents are lobbying for the change to be made; they are not lobbying against the change being made. I was asking when this would come in, because they are hoping for it to come in.

Robert Jenrick: It is coming in as swiftly as possible, although because of the impact on the small number of British manufacturers, we have given them some time at least—until April 2020—to make any adjustments they might need to.

My hon. Friend the Member for Poole advanced what has been our approach to this issue—a nuanced one that helps those on low incomes to enjoy a drink, particularly at Christmas time. We are concerned, as he is, about supporting the British pub industry. As he says, the number of pubs has declined significantly. It is still declining, although it has stabilised somewhat in the last year or so. We are taking a number of actions, including freezing duties where appropriate, to help to support them.

My hon. Friend also made the point that the drink industry has a significant regional element to it, whether that is the Scottish whisky industry, which is very important to particular regions of Scotland where large numbers of distilleries are clustered in small areas, such as Moray or the areas around Aberdeen, or the cider industry in Herefordshire—where I grew up—and throughout the west country and Wales, which as we have heard has a particular resonance and supports local jobs. We have taken a nuanced approach, but where there are particular interventions that we feel we need to make, as with white cider, we have made them and will continue to make more in the future if that is required.

I now turn to the questions raised by the hon. Member for Bootle in his entertaining speech. I hope, Ms Dorries, that you did not have to reach for a stiff drink in the middle of it, although you might do by the time I have finished. *[Laughter.]* Well, we are about to talk about the retail prices index and the consumer prices index.

4.15 pm

The Government have historically used RPI. We have committed to moving away from it, but we want to do so in a considered and coherent way, as it has a number of impacts elsewhere on the public finances, including on gilts and pensions. Those impacts need to be considered carefully. We do that on a case-by-case basis as we make decisions in Budgets. I will come to the amount that is likely to be raised in a moment, but had we made the decision to freeze wine, that would have cost the Exchequer about £150 million a year, so these are significant sums.

I will come in a moment to a more detailed explanation of what information is in the public domain. The hon. Gentleman asked me specifically, and a great deal of information in this area is published. Through Her Majesty's Revenue and Customs we publish quarterly revenue receipts for each of the alcohol duty categories. At both the Budget and the spring statement, the Office for Budget Responsibility forecasts for the rest of the financial year. There is no shortage of information in the public domain in this area. I appreciate that that is not always the case, but I do not think that this area requires further reviews or information.

The hon. Gentleman asked about alcohol-related harms, which we all care about. We want to take a nuanced view. Just because we have, on occasion, frozen some of the duty categories—in this Budget, we have done it for beer, spirits and cider, although not for wine—that does not mean that we are oblivious to those concerns. That area is led primarily by Public Health England and the Department of Health and Social Care. We listen to them very carefully, and they contribute to our thinking as we approach every Budget.

As the Minister responsible for these areas, I met a range of stakeholders in advance of the Budget—not just those who produce alcohols, but those who campaign and are interested in alcohol-related harms, and I did the same for tobacco, for example, where there are, of course, similar concerns. We take those concerns on board, and I believe that the Home Office and the Department of Health and Social Care are currently taking evidence on, and will publish next year, a new alcohol harms strategy, which the hon. Gentleman or other Members might like to take part in.

With respect to the hon. Gentleman's question about why we chose not to reduce the band for high-strength cider, we wanted to encourage, as I think he does, reformulation through a gradient of duty. It therefore seemed sensible not to tax 6.9% the same as 8.5%, but to create an incentive for producers to reduce through a series of different duty bands. That decision was taken as a result of careful consideration and engagement with the craft cider industry, which he and other hon. Members have mentioned, such as those producers in Somerset and Herefordshire I met to listen to their concerns. We wanted to limit the degree to which they would be adversely affected by the actions of larger producers of white cider. I think we all agree that it is unfortunate that, in the course of taking action against producers of white cider, which carries health concerns, we may inadvertently bring into the same rules those who produce craft ciders, which we all enjoy in pubs, which have a particular importance to certain regions of the country and which employ people in the west country and so on.

As we have heard already, the clauses make changes to alcohol duty rates from 1 February 2019. It was announced in the Budget that the duty on beer, spirits and most ciders would be frozen this year. The duty rates on most wine and higher-strength sparkling cider will rise by inflation to generate funds to pay for vital public services. As we have heard, this industry contributes a great deal to the cost of public services. The clauses also set the new duty rate for mid-strength cider.

With those changes, we continue to support the pub industry, which we believe plays an incredibly important part in British cultural life. I think that view is shared across the House—during the Parliaments in which I have been in the House, it has been a cross-party matter. The British Beer and Pub Association estimates that approximately 30 million adults visit a pub at least once a year, which clearly shows the significant role pubs play in our lives and our communities.

Pubs are important community assets that promote responsible drinking and provide a place for people to socialise, tackling a whole range of other issues, such as loneliness. We therefore took the decision in the Budget to take further action to support the pub industry. Even today, as pubs continue to diversify with products such as food and gin, approximately half of all pub sales are of beer. It continues to play an essential part in pub revenue, so the Government have frozen the duty on a pint of beer, following on from the freeze in beer duty in our autumn Budget 2017. As a result of our action to support pubs, the price of a typical pint of beer is now 14p lower than it would otherwise have been since the beer duty escalator ended in 2013.

I think the hon. Member for Bootle asked whether we have a policy to freeze duties on beer, or on any other category, in the future. The answer is no. The Treasury considers each duty on its own merits as we approach every Budget. There is no suggestion that the freezes in duties on beer, spirits or cider will necessarily continue in future Budgets, but they will be considered on their own merits. As we approach each Budget, those individual decisions will be determined by the arguments that we have already heard about the cost of living, the importance to regional economies and the protection of pubs and other community assets, as well as public health.

The Budget also froze the duty on spirits. As we have already heard, the Scotch whisky industry is one of the great British success stories. Scotch whisky exports were worth more than £4 billion to the British economy in 2017, accounting for around 20% of food and drink exports in the same year. *[Interruption.]* I am not quite sure what that sound was—a different type of spirit? [Hon. Members: "Cicero."] It could be the ghost of Cicero rearing his ugly head again, rather than heading straight to Bootle.

The freeze on spirits duty means that the average tax on a typical bottle of Scotch is now £1.54 lower than it would otherwise have been since the spirits duty escalator ended in 2014. Freezes on spirits duty are instrumental in encouraging investment in the sector. We have listened carefully to the stakeholders who campaigned for many months leading up to the Budget and who made the important point that the Scotch whisky industry is essential to the Scottish economy on a range of levels, from employment, innovation and exports to Scotch whisky tourism, which alone is now worth £500 million a year. The freeze on spirits duty will help elsewhere, too, including through support for British gin—a continuing success story that the Government are happy to back, with production and exports breaking records every year and forecast to continue doing so in the near future.

The Budget also announced that the duty on most ciders would be frozen, meaning that a typical pint of cider is now 2p cheaper than it would otherwise have been since the cider duty escalator ended in 2014. As well as offering support to pubs, the freeze goes a long way to supporting the rural economies that we have spoken about. The decision to freeze was also influenced by a desire to support craft cider producers, who would otherwise be inadvertently affected by changes elsewhere, as I have described. Duties on sparkling cider will increase by RPI in line with inflation. *[Interruption.]*

4.24 pm

Sitting suspended for Divisions in the House.

5.1 pm

On resuming—

The Chair: Mr Jenrick, did you want to finish your point?

Robert Jenrick: No, I am happy to proceed.

Peter Dowd: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment proposed: 103, in clause 53, page 34, line 14, at end insert—

"(5) The Chancellor of the Exchequer must review the expected effects on public health of the changes made to the Alcoholic Liquor Duties Act 1979 by this section and lay a report of that review before the House of Commons within one year of the passing of this Act."—*(Kirsty Blackman.)*

This amendment would require the Chancellor of the Exchequer to review the impact of the revised rates on cider and wine on public health.

Question put, That the amendment be made.

Question negatived.

Clause 53 ordered to stand part of the Bill.

Clause 54 ordered to stand part of the Bill.

Clause 55

Rates

Peter Dowd: I beg to move amendment 100, in clause 55, page 36, line 30, at end insert—

"(4) The Chancellor of the Exchequer must review the revenue effects of the changes made to the Tobacco Products Duty Act 1979 by this section and lay a report of that review before the House of Commons within six months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the revenue impact of the changes to the rates of excise duty on tobacco products.

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

Peter Dowd: If hon. Members consult the Treasury's Red Book published with the Budget, they will see that tobacco duties account for £9.2 billion of revenue. That relates to amendments 100, 101 and 102. It would therefore be accurate to describe tobacco duties as one of the Treasury's most important revenue streams, as few taxes have consistently contributed such a level of revenue to the Exchequer, but there will be a fall. The fall in the expected receipts from tobacco duties raises questions about their long-term viability as a stable source of revenue for the Exchequer.

What is often overlooked in this discussion is where the revenue raised from increasing tobacco duty actually comes from, particularly given that smoking is no longer as socially acceptable or widespread as it once was. In 2016, those with an annual income of less than £10,000 were almost twice as likely to smoke as those with an annual income of £40,000 or more.

To return to the Treasury forecasts for tobacco duties, it is clear that tax receipts will inevitably fall victim to the success of smoking cessation programmes and the shifting demographics of those who smoke. Smoking prevalence is highest among younger adults: almost 20% of 16 to 34-year-olds smoke, compared with less than 11% of those aged 60 and over. However, younger adults report lower levels of daily consumption. The House of Commons Library found that the prevalence of cigarette smoking tends to be higher in the north of England. For instance, almost 18% of those in Yorkshire and the Humber were smokers, compared with about 14% in the south-west. That regional variation is quite clear and apparent.

Data on NHS stop smoking services in England shows that between April and December 2016, more than 200,000 people set a date to quit smoking and 50% reported successfully quitting at a formal follow-up. Those statistics clearly show that an increasing number of people are quitting smoking, which will inevitably affect the revenue that the Exchequer receives from tobacco duties. It looks as if the changes in clause 55 will exacerbate that, as cost is one of the greatest influences on people to give up smoking, besides health. The Tobacco Manufacturers Association has long complained that the UK's rates of tobacco taxation are higher than those of any other European country. It is therefore hard to see how much bandwidth the Government have for raising further taxes.

The Opposition welcome the fact that fewer people smoke today than even 20 years ago, but it is clear that the Treasury and Ministers need to begin to consider the long-term viability of tobacco duties, and an alternative source of revenue to replace the £9 billion a year they represent. We are concerned that without forward planning, the Treasury will not be equipped to handle the fall in tobacco receipts and will instead be forced to borrow money or, more likely, to pursue further austerity and cut public services that we rely on. We hope that the Minister will take our request seriously and support the Opposition's proposal for a review, as well as considering the long-term stability of tobacco duties.

The Opposition amendments to clause 56 would introduce a new excise on tobacco for heating, more commonly known as tobacco for vaping.

The Chair: Order. That is a separate debate, so the hon. Gentleman needs to move on to the substance of his amendment.

Peter Dowd: Okay, Ms Dorries. In relation to amendment 102, we would require the Government to undertake a review of clause 56 and its impact on public health.

The Chair: Order. Clause 56—

Peter Dowd: I accept the point that you are making, Ms Dorries. I have moved the amendment and laid out our overall position on tobacco revenues, and on that basis I shall not take up the Committee's time further.

Robert Jenrick: Clause 55 implements changes announced in the Budget concerning tobacco duty rates. My right hon. Friend the Chancellor announced that the Government will increase tobacco duty in line with the escalator. The clause therefore specifies that the duty charged on all tobacco products will rise by 2% above RPI inflation. In addition, duty on hand-rolling tobacco will rise by an additional 1% to bring it to a total of 3% above RPI inflation this year.

The clause specifies with respect to the minimum excise tax—the minimum amount of duty to be paid on a pack of cigarettes—that the specific duty component will rise in line with cigarette duty. It also sets the rate for the new category of tobacco product, tobacco for heating, at the same rate applicable to hand-rolling tobacco. The new tobacco duty rates will be treated as taking effect from 6 pm on the day they were announced, 29 October, with the exception of the rate for tobacco for heating, which will take effect on 1 July 2019.

We recognise the potential interactions between duty rates and the illicit market. The Government have to be careful not to raise rates too far and fast, as that might exacerbate the illicit market. We included an important measure at the time of the Budget: the creation of a UK-wide anti-illicit trade group, bringing in law enforcement and representatives from the devolved Assemblies, and building on the good work done by the Scottish Government. We hope that that will mean we can take forward and intensify our efforts to tackle the illicit trade.

Amendment 100 would place a statutory requirement on the Chancellor to review the revenue effects of changes to tobacco duty, as we have just heard from the hon. Member for Bootle. The Chancellor assesses the impacts of all potential changes in the Budget considerations every year. The tax information and impact note published alongside the Budget announcement sets out the Government's assessment of the expected impacts. Detail on the revenue impacts is set out in the policy costings document, which is also published alongside the Budget. Both include the expected revenue impact to 2023-24.

In addition, HMRC publishes a quarterly bulletin covering all excise duty receipts. The information that the amendment calls for will already be in the public domain for Members to scrutinise. It is not an area that requires further reviews and information, as there is no shortage of information in the public domain.

I take the hon. Gentleman's point that, with the use of cigarettes declining, this is an area where we would expect revenues to fall in the years ahead. That is, of course, something that we take into account as we review duty rates for each fiscal event, with our two objectives, which I hope hon. Members will support: the primary objective is to protect public health, but the secondary one is to raise revenue to support vital public services.

I hope that I have reassured the Committee, and I ask that amendment 100 be withdrawn.

Peter Dowd: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 55 ordered to stand part of the Bill.

Clause 56 ordered to stand part of the Bill.

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

5.12 pm

Adjourned till Thursday 6 December at half-past Eleven o'clock.

Written evidence reported to the House

FB01b Association of Taxation Technicians (clauses 79 and 80: Time limits for assessments, etc)

FB02d Chartered Institute of Taxation (clauses 50 to 52 – VAT)