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)

Eighth Sitting

Thursday 6 December 2018

(Afternoon)

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not later than

Monday 10 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

Thursday 6 December 2018

(Afternoon)

[Mr George Howarth *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 60

Rates of duty from 1 April 2020

2 pm

Kirsty Blackman (Aberdeen North) (SNP): I beg to move amendment 104, in clause 60, page 44, line 17, at end insert—

"(3) The Chancellor of the Exchequer must review the effects of a reduction in air passenger duty rates from 1 April 2020 and lay a report of that review before the House of Commons within six months of the passing of this Act.

(4) A review under subsection (3) must in consider the effects of a reduction on—

(a) airlines,

(b) airport operators,

(c) other businesses, and

(d) passengers."

This amendment would require the Chancellor of the Exchequer to review the effects of a reduction in air passenger duty.

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

Amendment 120, in clause 60, page 44, line 17, at end insert—

"(3) The Chancellor of the Exchequer must review the effects of the changes made in subsection (1) and related matters specified in subsections (4) and (5) and lay a report of that review before the House of Commons within six months of the coming into force of the changes.

(4) The matter specified in this subsection is the revenue effects of the changes.

(5) The matter specified in this subsection is the effects of the changes on—

(a) CO_2 emissions,

(b) the United Kingdom's ability to comply with its third, fourth and fifth carbon budgets,

(c) air quality standards,

(d) air travel demand, and

(e) air traffic movements."

This amendment would require the Chancellor of the Exchequer to review the revenue, environmental and certain other impacts of the changes made by Clause 60.

Amendment 121, in clause 60, page 44, line 17, at end insert—

"(3) The Chancellor of the Exchequer must review the effects of the changes made in subsection (1) together with the matter specified in subsection (4) and lay a report of that review before the House of Commons within six months of the coming into force of the changes.

(4) The matter specified in this subsection is to assess whether the rate for privately-owned and privately-chartered jets is reflective of environmental costs relative to the other rates and bands of air passenger duty."

This amendment would require the Government to review the extent to which rates of air passenger duty for privately-chartered and privately-owned aircraft reflect environmental costs.

Clause stand part.

Kirsty Blackman: I will not speak for a terribly long time, because I am sure the Committee is not keen on being detained for any longer than necessary.

The devolution of air passenger duty has not been properly completed, so the Scottish Government are unable to put in place air departure tax, which we committed to introducing, or to make our proposed changes first to halve that tax and then to remove it completely. We are keen to do that because we believe it is important that we can attract people to visit, live and work in our country, and those steps were in the manifesto we were voted in on in 2016.

Complete devolution has not happened due to an issue with our exemption for the highlands and islands. I understand that the UK Government and the Scottish Government are working on that. It would have been great if it had been dealt with before, because we hoped to have air departure tax in place in April. It has not been dealt with, but I get the impression that people are still around the table trying to solve the issue, which is good news.

In lieu of APD being properly devolved and our having the powers to make our planned changes in Scotland, we support a UK-wide reduction in APD. That is why we tabled amendment 104, which would require the Chancellor of the Exchequer to

"review the effects of a reduction in air passenger duty rates from 1 April 2020"—

we chose that date because the industry has asked us to ensure that any change in rates is not made immediately—

"and lay a report of that review before the House of Commons within six months".

The review would have to

"consider the effects of a reduction on—

(a) airlines,

(b) airport operators,

(c) other businesses, and

(d) passengers."

One of the key issues for us is that the comparatively high taxes in the UK sometimes cause difficulties for airlines and airport operators. If we take into account VAT, air passenger duty and other taxes, the UK is one of the more highly taxed places to visit as a tourist. We are keen to see changes so that we can secure the routes we have and run more routes.

Given the remoteness of some communities in Scotland, it is important that we have good access to flights. I live in Aberdeen, which is about two and a half or three hours' drive from Glasgow and Edinburgh. There are international flights out of Aberdeen, but not as many as I would like—there are lots of places we cannot get to unless we drive to Glasgow, Edinburgh or even further afield. I have previously looked at flying from Newcastle to get a better range of flights.

I would appreciate it if the Minister, if he cannot accept the amendment, talked a bit about what he thinks would be the impact on airlines, airport operators, other businesses and passengers of reducing air passenger duty. If he does not want to talk about that because it is not the Government's policy to reduce air passenger duty, it would be interesting to hear why it is not their policy given my concerns. We are calling for a review because the amendment of the law resolution does not allow us to change it in a serious way. I hope I have laid out the Scottish National party's position clearly.

Clive Lewis (Norwich South) (Lab): With your leave, Mr Howarth, I will speak to amendments 120 and 121, and press them to a vote if necessary, before moving on to other significant questions that we feel need answering in relation to the clause. As numerous environmental non-governmental organisations, scientists and even the chair of the Committee on Climate Change have observed, the Government are failing to tackle the climate crisis that is already upon us, and we believe that that is reflected in their policy on air travel. There is an awkward mismatch between our world-leading climate change legislation and our policy and prevailing political attitudes towards aviation.

The purpose of amendment 120 is to force the Government to share with Parliament the impact, or the lack thereof, of their proposed changes to air passenger duty on a variety of environmental concerns. The Committee will be aware that the projected impact of climate change poses severe risks, not just to the natural environment but to the prosperity of the British nation and the welfare of the people we represent in the House.

Aviation has a significant and growing impact on climate change. Emissions from the sector rose by 1.2% in 2016. It currently represents about 7% of the UK's total emissions yet, on current projections, that figure will reach 25% by 2050 as a result of increases in aviation demand and carbon reduction in other sectors. That is because aviation currently enjoys a uniquely generous target under our national framework for reducing emissions through to 2050—namely, it is not expected to make any contribution in our carbon budgets to those reductions, and is instead required to conform to a level of emissions in 2050 that are no higher than 2005 levels, which is 37.5 megatonnes of carbon dioxide. That is known as the Committee on Climate Change planning assumption for aviation. That generous target is in recognition of the difficulty of decarbonising air travel through technology and operational improvement, and of the utility and social value of air travel for those who are lucky enough to use it.

Department for Transport aviation forecasts show that UK aviation emissions are currently on course to exceed even that generous limit, thus potentially jeopardising our ability to meet our overall climate change targets in the form of the fourth and fifth carbon budgets. The Committee on Climate Change has repeatedly called on the Government to develop a robust domestic mitigation policy framework for international aviation emissions for flights taking off from UK airports. Most recently, its 2017 and 2018 progress reports in Parliament highlighted the need for a new strategy and new policies to ensure UK aviation emissions are at about 2005 levels in 2050. In its 2018 assessment of the Government's clean growth strategy, it warned that they are falling far short of the necessary action. It noted that no progress has been made on this requirement.

The Committee on Climate Change is currently working to update its advice to the Government on mitigating aviation emissions. It is due to report on that in the spring—we await that with interest. One aspect of its guidance that is unlikely to change and is highly salient to the clause is the recognition that the UK's participation in international mitigation programmes for aviation emissions, such as the International Civil Aviation Organisation's CORSIA—carbon offsetting and reduction scheme for international aviation—agreement to offset growth from 2020 and the EU's emissions trading scheme will simply not be sufficient to keep UK aviation emissions within safe limits, as defined by the Committee on Climate Change.

Likewise, even if some fairly heroic assumptions are made about technology, operational improvements and the uptake of genuinely sustainable biofuels, the projected growth in demand for air travel is expected to outstrip these efficiency gains, causing emissions to rise above the safe limit. In 2009, the Committee on Climate Change advised the Government that:

> "Deliberate policies to limit demand below its unconstrained level are therefore essential if the target is to be met."

That has remained its formal position ever since.

The statutory advice to Government by the committee—renowned, by the way, as among the best climate change advisers in the world—is therefore that the growth in demand for UK air travel must be limited if our climate change targets are to be met. That is clear. However, no Government, least of all this one, has yet proposed any such policies. On the contrary, this Government have acted to remove constraints to growth in UK air traffic, such as by approving a third runway at Heathrow Airport without any corresponding measures to meet climate change commitments.

That is why we seek through amendment 120 to compel the Government to review air passenger duty, its effect on the demand for air travel and the consequent effect on greenhouse gas emissions. That is not to say that APD is the only lever that the Government have, but it is incumbent on them to make it clear how they will achieve the climate objectives agreed by consensus of the House. Perhaps the Minister will answer some questions—I am sure the Committee on Climate Change will be interested in hearing the answers.

What impact APD rates have on demand today? How high would APD rates need to be, or what other measures would have to be in place, to constrain growth in emissions to within the safe limits advised by the Committee on Climate Change? Was that even a consideration of the Government when developing the Bill? Assuming that the Minister agrees it is indeed the Government's goal, he might say that APD is not the best or most equitable route to achieve that goal, but we need to be clear that there is another route. The answers we hope to receive will help us all as legislators

[Clive Lewis]

to decide whether APD and the suggested rate changes are indeed an effective mechanism to achieve the Government's stated policy, or whether alternative measures would be more economically efficient and fiscally progressive.

We understand that limiting growth in demand for air travel is politically fraught, and that important social justice dimensions must be considered when designing any policies to achieve that aim. The issue, however, cannot be ducked forever. The Government have been, and continue to be, remiss in their duties by failing to make any assessment of the potential for different fiscal measures or other policy approaches to constrain UK aviation emissions in line with Committee on Climate Change guidance.

Modal shift from air to rail is an important feature of nearly all decarbonisation scenarios intended to deliver zero net emissions by the middle of the century, as per the UK commitment under the Paris agreement. At the moment, however, it is much cheaper to travel from London to Edinburgh by plane than by train. That is in part a product of the chronic failure of Britain's ill-advised experiment with the privatisation of our railways, but there is an argument that it is also due to tax advantages enjoyed by aviation over other modes of transport, which brings us back to the clause.

Under international air service agreements, it is prohibited to tax aviation fuel—an anachronism from the earliest days of international aviation, when only a handful of passenger planes were in the sky and Governments sought to do all they could to nurture this exciting new economic sector. Seventy years later, more than 23,000 aircraft are in the global fleet, and yet this highly mature industry continues to enjoy tax-free fuel, a perk it has retained through a combination of lobbying and the structural difficulties of levying a tax on an activity that, by its nature, crosses national boundaries.

That anomaly is the subject of intense debate in France, where motorists are rightly pointing out the gross disparity between the high rates of duty in the form of a carbon tax levied on petrol and diesel at the pump, and the total absence of taxation on aviation fuel. Former French environment Minister, Nicolas Hulot, last week joined calls for kerosene to be taxed. Serving members of the French Government say that they are now speaking with the European Commission.

In addition to duty-free fuel, airline tickets, planes, parts, repairs and fuel are all zero-rated for VAT, alongside items such as baby clothes and wheelchairs. There is also the duty-free shopping in airports. Given that history, the price of air travel does not reflect the environmental damage caused by flight. Taxing air travel appropriately is clearly a difficult political problem to solve, and I want to make it clear that we do not advocate that such travel should become a privilege available only to the rich. However, it is important to understand the social justice dimensions of the challenge clearly.

APD has been criticised in the past as a blunt instrument. That may be true, but it is overall a fiscally progressive tax in the sense that it is mostly collected from households at the upper end of the income spectrum. Government survey data suggests that about half of British residents do not take any flights in a given year, while about a fifth say they never fly. Research suggests that 70% of all flights by UK residents are taken by 15% of the population—the so-called frequent fliers. That group probably includes many people in this room. Only 1% of the general population fly more than seven times a year, but the richest 5% of households fly 13 times a year. Growth in demand for air travel is likewise being driven by the UK's wealthiest residents. Perhaps the Minister can share any official figures the Government hold.

In any event, to avoid catastrophic global warming, we must collectively limit carbon emissions from aviation. Ordinary people taking occasional family holidays or visiting relatives abroad should not be the priority for any policy designed to curb demand growth.

2.15 pm

Kirsty Blackman: The hon. Gentleman makes a strong case for the amendments. Given that more information is better, we are happy to support them. For the avoidance of doubt, I would love to stop flying every week. An independent Scotland would mean we could do that, and it would reduce our carbon footprint.

Clive Lewis: The hon. Lady makes a good point—

Anneliese Dodds (Oxford East) (Lab/Co-op): It is not that good a point.

Clive Lewis: It is a very good point in the sense that the hon. Lady cannot not come down here—I understand that. It is not such a good point about breaking away from the United Kingdom, and independence. However, we understand that she has to make the journey for work purposes.

It is a small minority of people who have to work in the way that the hon. Lady does, but many people now talk about the use of new technologies, and there may come a time, in the near future, when a holographic image of her could be here to represent her constituents. That may soon be upon us—who knows? We have been talking about the impact of technology.

The Chair: Order. I should tell the hon. Gentleman that no hologram form will be recognised in this Committee.

Clive Lewis: Thank you, Mr Howarth, for that clarification, which was clearly needed.

As I was saying, it would be neither socially fair nor environmentally effective if ordinary people taking occasional family holidays or visiting relatives abroad were made the priority for any policy designed to curb demand growth. Therefore, as amendments 120 and 121 would provide, the Government need to make an assessment of the distributional impact of increasing aviation tax rates on specific groups who could be disproportionately affected.

The Opposition fully accept that, ultimately, APD may not be the right instrument to bring aviation growth into line with the planning assumption of the Committee on Climate Change. However, without the reviews we are calling for in amendments 120 and 121, it will be all but impossible to know whether it can play a role, or whether there are better alternatives. There have, for instance, been proposals for a per-plane tax, which

would more closely link taxation to carbon emissions, and be a better incentive for more efficient use of passenger capacity in planes. Alternatively, there could be a frequent flyer levy designed to protect access to a reasonable amount of flying for low-income households, while targeting the most frequent flyers with an incrementally rising tax, thus addressing the elasticity of demand for air travel in relation to low prices or high income—or the fact that the key determinant of the propensity to fly is income, not ticket price.

I take no view of those options today, because we simply need to understand more about how they would work; but that is precisely why we need the Government to undertake formal assessments that allow us to compare the impact of potential options on the factors set out in the amendment. Small changes in price have little impact on demand for flights, so increasing the cost of flights to a level that exerts significant downward pressure on demand is difficult to do fairly via the taxes that the clause deals with, and could mean pricing the poor out of the skies when the richest air travellers cause most of the environmental damage. In any event, without the Government carrying out the necessary assessments, which our amendments would require, we cannot know what APD rates are required to meet the planning assumption of the Committee on Climate Change, or the relative efficacy of APD and alternative fiscal approaches, such as a per-plane tax or a frequent flyer levy, for achieving this policy goal.

Let me end with a sobering fact. As the widely respected naturalist David Attenborough warns the world at COP 24 that the collapse of our civilisation is on the horizon, the two largest aircraft manufacturers in the world—Boeing and Airbus—have more than 13,000 new fossil fuel-powered planes on order. Given the long operational lifespan of passenger jets, most of those planes will still be in the air in 2050, as will many of the 23,000 already in use. Given what is at stake, can the Minister, hand on heart, genuinely say that the Government's policies, future techno-fixes aside, are really up to the existential challenge that we all face?

The Exchequer Secretary to the Treasury (Robert Jenrick): I will respond to as many comments as I can. I will come to the amendment tabled by the hon. Member for Aberdeen North, but we agreed and legislated to devolve air passenger duty to the Scottish Government. The delay in so doing is unfortunate—it is not what we wished to happen—but it is a result of the Scottish Government's asking us to postpone the implementation of devolution. They did so for the perfectly understandable reason that they wished to pursue the measure with respect to the highlands and islands, but it was essentially their decision, which we respected in agreeing to postpone the turning on of devolution, if that is the right phrase, at their suggestion.

Kirsty Blackman: Yes, but the UK Government were trying to hand APD over in such a way that the highlands and islands exemption would no longer exist, so it would have been completely deficient and would not have operated in the way we hoped or, presumably, the way it was intended to work when its devolution was first mooted.

Robert Jenrick: As I understand it, we handed it over in accordance with EU law. Negotiation has subsequently taken place between the Scottish Government and the EU, with the support of the UK Government, to try to find a satisfactory resolution. I assure the hon. Lady—I do not think she implied otherwise—that we are working as hard as we can to support the Scottish Government in that respect. In fact, my officials at the Treasury were in Edinburgh in the past couple of weeks to continue working with the Scottish Government in that regard. I hope she takes our assurance that we will continue to work productively together.

Because APD is essentially a devolved matter—although, as a result of the request, we have not yet turned it off—the Scottish Government could of course choose to carry out the review that the hon. Lady requests themselves. Alternatively, they could choose not to pursue the measure with respect to the highlands and islands and to continue with their plans for their own version of air passenger duty. I appreciate that they do not wish to do that. However, I hope that I can allay the hon. Lady's concerns by saying we are going to work as closely as possible. I do not think a review by the United Kingdom Government is necessary when the Scottish Government could proceed with one if they wished.

The hon. Lady and the hon. Member for Norwich South asked what evidence and reports we had, and what studies we had done, on the impact of reducing air passenger duty on Treasury receipts or its wider benefits to the economy and society. We reviewed the 2016 PwC report, which the hon. Lady may be aware of. We did not agree with all its conclusions in terms of cutting or abolishing APD. Its principal claim was that that would pay for itself, and we did not agree with that. APD raises £3.4 billion a year, so it is a significant revenue raiser for the Exchequer. Cutting it would put pressure on other public finances, although I appreciate that it would have some benefits in different parts of the country. Recently, our limited study on devolving air passenger duty for long-haul flights in Northern Ireland acknowledged that there could be some benefits, but it also raised a number of further questions and concerns that require further study.

The Department for Transport will publish its aviation strategy shortly. That will, I hope, answer some of the broader questions that the hon. Member for Norwich South asked about our long-term strategy and plan for this country, whether it is in technology, aviation and airport capacity or the environmental concerns he expressed.

Air passenger duty was never designed to be an environmental tax. One might argue that it could be used as an environmental tax, but that was never its primary purpose; it was a tax designed to raise revenue for the Exchequer to pay for public services. It is already the highest tax of its kind in Europe, and one of the highest in the world, so it is not clear whether increasing it substantially would make any significant difference, and doing so would, of course, come at significant cost to our competitiveness as a country. Many would like us to reduce the tax substantially, rather than to increase it materially, as the hon. Gentleman seems to suggest. I will come on to his point about the international perspective and the Chicago convention, and what progress the Government are making.

To summarise the clause, it makes changes to ensure that long-haul rates of air passenger duty for the tax year 2020-21 increase in line with the retail prices index.

[Robert Jenrick]

The change will ensure that the aviation sector continues to play its part in contributing towards funding public services. APD, as I have described, raises £3.4 billion in revenue annually, so it is an important part of our public finances. Aviation plays a crucial role in keeping Britain open for business, and the UK Government are keen to support its ongoing success. Passenger numbers travelling via UK airports have grown by more than 15% over the past five years, and the UK has the highest direct connectivity score in Europe, according to an Airports Council International Europe report. Of course, we continue to measure our competitiveness, and we want the UK to continue to have hub airports and to be as well connected to emerging markets as it can be.

The clause increases the long-haul reduced rate—economy class—by just £2; and it increases the standard rate, which is for all classes above economy, by £4. The rounding of APD rates to the nearest £1 means that short-haul rates will remain frozen for the eighth year in a row, which benefits about 80% of all airline passengers, including many of those whom the hon. Gentleman mentioned, who are on lower incomes and trying to enjoy cheaper holidays and less expensive business travel. The changes made by clause 60 will increase the long-haul APD rates for the tax year 2020-21 by RPI.

On amendments 120 and 121, which were tabled by the hon. Member for Norwich South for the Labour party, the Government recognise the importance of understanding the impact of changes to tax policy on the aviation industry. I reassure the Committee that that is done as a matter of course by the Government as we consider carefully how to proceed at every Budget. Furthermore, isolating the impact of APD on the areas highlighted in the amendments is challenging. It is better to consider such issues in a more holistic way.

As I have said, the upcoming aviation strategy to be published by the Department for Transport will be the opportunity to consider the aviation industry's impact on and role in addressing issues in such areas. I encourage the hon. Gentleman and others who take an interest in those matters to pay careful attention to that. They will have the opportunity to scrutinise the Secretary of State for Transport and other Ministers following that.

On the issue of those at the higher end of the distributional scale, in Government we have tackled that through the introduction of the additional rate for private jets. The Government are confident that those flying in that way will now pay a fairer share of tax. We were the first Government to introduce the private jet rate, and the rate for individuals flying by private jet is six times that of someone flying in economy on a commercial jet.

2.30pm

In terms of how we can use the tax system to tackle aviation emissions, APD is not designed to be an environmental tax. One could use it for that purpose, but it has already been set at a very high rate internationally. I am not clear that there is evidence that further material increases would make a difference. Because of international conventions—the Chicago convention and others, as I described earlier—we are unable to tax aviation fuel or any proxies for fuel. The Government remain committed to engaging actively on this agenda. I can see that the hon. Member for Oxford East is eager to intervene—she and I have discussed this previously.

Anneliese Dodds: I am grateful to the Minister for being willing to give way. He will probably remember that I asked for the concrete ways in which Government are engaging with international partners around that convention. I have not received any concrete details aside from the general aspiration to change things. Can he provide some details now?

Robert Jenrick: The hon. Lady and I discussed this in a Westminster Hall debate earlier in the year. I believe I wrote to her afterwards to set this out, but perhaps she was not satisfied with the response. I am happy to revert to her with more information, but I made the point in that letter that the UK Government are committed to this, and we play a leading role internationally in discussing the future of the Chicago convention. As I also set out in the letter, several of the leading aviation nations—including the United States and Australia—have limited interest in changing the current regime, which makes it rather difficult to make the kind of progress that I suspect she would like us to make.

Anneliese Dodds: The Minister is being generous in giving way. It might help the Committee to know what meetings the Government have called, which Governments they have contacted to discuss the matter and what public pronouncements they have made on the subject. I have been unable to find evidence of any.

Robert Jenrick: I will write to the hon. Lady again to set out some of the information. I discussed the matter with my officials in preparing for this Committee, and they listed some of the international meetings they have attended, where they represented the United Kingdom exactly as she would like us to have done.

I hope I have addressed amendment 104 in my earlier comments. This is a matter that the Scottish Government could take forward themselves, given that we have already legislated for the devolution of APD. The impacts of any future reductions in Scotland are a matter for the Scottish Government, and they will clearly become more so once we proceed to the long-term arrangement that the hon. Lady wishes for.

The changes being made by clause 60 ensure that the aviation sector continues to play its part in contributing towards the funding of our vital public services, raising £3.4 billion a year. I therefore commend the clause to the Committee.

Clive Lewis: I want to raise a couple of things before we vote on amendments 120 and 121. The Committee on Climate Change has clearly stated that we are heading towards a substantial breach of the generous headroom that has been provided for aviation in the UK. The Government are going to overshoot that, to use a pun. There is a pressing climate emergency on this planet. As we speak, millions of people—many of them in the world's poorest countries—are already being affected by climate change. My dad is from Grenada, and he has retired there. People there, and in the West Indies generally, cannot get insurance as a result of the hurricanes that

destroy vast swathes of the islands year in, year out, because of climate change. I feel as though we are hearing once again from the Government about business as usual, even though a climate emergency is taking place.

I understand the APD. It is not designed as an environmental tax or a demand management tool; it is a revenue raiser. Given that we find ourselves heading towards a breach of the headroom that the Committee on Climate Change has provided, surely the Government should be looking at ways to control and push down demand for flights, so that we can begin to make a real impact on our commitments to tackling climate change. Will the Minister tell the Committee whether he plans to join our French counterparts in lobbying for tax reform on kerosene, as they will shortly talk about with the EU Commission? It seems to me that the aviation industry has enjoyed these 70-year-old tax perks and is now an established sector, but one that has yet to fully play its part in tackling climate change. This country can show leadership on that, starting with the Treasury.

Kirsty Blackman: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment proposed: 120, in clause 60, page 44, line 17, at end insert—

"(3) The Chancellor of the Exchequer must review the effects of the changes made in subsection (1) and related matters specified in subsections (4) and (5) and lay a report of that review before the House of Commons within six months of the coming into force of the changes.

(4) The matter specified in this subsection is the revenue effects of the changes.

(5) The matter specified in this subsection is the effects of the changes on—

(a) CO_2 emissions,

(b) the United Kingdom's ability to comply with its third, fourth and fifth carbon budgets,

(c) air quality standards,

(d) air travel demand, and

(e) air traffic movements.".—*(Clive Lewis.)*

This amendment would require the Chancellor of the Exchequer to review the revenue, environmental and certain other impacts of the changes made by Clause 60.

The Committee divided: Ayes 8, Noes 9.

Division No. 32]

AYES

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

NOES

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

Question accordingly negatived.

Amendment proposed: 121, in clause 60, page 44, line 17, at end insert—

"(3) The Chancellor of the Exchequer must review the effects of the changes made in subsection (1) together with the matter specified in subsection (4) and lay a report of that review before the House of Commons within six months of the coming into force of the changes.

(4) The matter specified in this subsection is to assess whether the rate for privately-owned and privately-chartered jets is reflective of environmental costs relative to the other rates and bands of air passenger duty.".—*(Clive Lewis.)*

This amendment would require the Government to review the extent to which rates of air passenger duty for privately-chartered and privately-owned aircraft reflect environmental costs.

The Committee divided: Ayes 8, Noes 9.

Division No. 33]

AYES

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

NOES

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

Question accordingly negatived.

Clause 60 ordered to stand part of the Bill.

Clause 63

CLIMATE CHANGE LEVY: EXEMPTION FOR MINERALOGICAL AND METALLURGICAL PROCESSES

Clive Lewis: I beg to move amendment 124, in clause 63, page 45, line 13, at end insert—

"(6) The Chancellor of the Exchequer must review the expected effect of the changes made by this section to paragraph 12A of Schedule 6 to the Finance Act 2000 on companies with up to 250 employees 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 63 on SMEs.

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

Amendment 125, in clause 63, page 45, line 13, at end insert—

"(6) The Chancellor of the Exchequer must review the expected effect of the changes made by this section to paragraph 12A of Schedule 6 to the Finance Act 2000 in the event that—

(a) the UK leaves the European Union without a negotiated withdrawal agreement,

(b) the UK leaves the European Union following a negotiated withdrawal agreement.

(7) The Chancellor of the Exchequer must lay a report of the review under subsection (6) before the House of Commons within two months of the passing of this Act.".

This amendment would review the impact of Clause 63 in the event the UK leaves the EU under (a) no deal or (b) a withdrawal agreement.

Amendment 126, in clause 63, page 45, line 13, at end insert—

"(6) The Chancellor of the Exchequer must review the expected effect of the changes made by this section to paragraph 12A of Schedule 6 to the Finance Act 2000 on divergence between the regime that applies to mineralogical and metallurgical processes in the United Kingdom after it has left the European Union and that which applies in the European Union.

(7) The Chancellor of the Exchequer must lay a report of the review under subsection (6) before the House of Commons within two months of the passing of this Act.".

This amendment would require the Chancellor of the Exchequer to review the effect of Clause 63 on divergence between the UK's regime for mineralogical and metallurgical processes and the EU's, after the UK has left the EU.

Amendment 127, in clause 63, page 45, line 13, at end insert—

"(6) The Chancellor of the Exchequer must publish a statement annually listing the companies to which the exemption for mineralogical and metallurgical processes under paragraph 12A of Schedule 6 to the Finance Act 2000, as amended by this section, applies.".

This amendment would require the Chancellor of the Exchequer to publish an annual statement listing the businesses to which the exemption for mineralogical and metallurgical processes applies.

Amendment 128, in clause 63, page 45, line 13, at end insert—

"(6) The Chancellor of the Exchequer must carry out an impact assessment of the exemption for mineralogical and metallurgical processes under paragraph 12A of Schedule 6 to the Finance Act 2000, as amended by this section, considering the impact on—

(a) tenanted businesses that carry out mineralogical and metallurgical processes,

(b) revenue effects,

(c) the UK's ability to meet its third, fourth and fifth carbon budgets,

(d) the UK's ability to meet its greenhouse gas emission targets.

(7) The Chancellor of the Exchequer must lay the impact assessment under subsection (6) before the House of Commons within two months of the passing of this Act.".

This amendment would require the Chancellor of the Exchequer to carry out an impact assessment of the changes made by Clause 63 and their impact on tenants, HMRC revenues, the UK's national carbon budgets, and carbon and other greenhouse gas emission reduction targets.

Clause stand part.

Clive Lewis: I am particularly pleased to have the opportunity to speak to our amendments to clause 63, which relate to the climate change levy exemption for mineralogical and metallurgical processes. I hope that I do not have to say that too often—it is a bit of a tongue-twister—and that the Minister will answer some questions on the Government's proposed measures.

The clause may seem technical, but the overall issue could scarcely be more important, as I hope I illustrated earlier. As the Minister no doubt will outline, business do not have to pay the climate change levy on the energy they use for some specified purposes, including mineralogical and metallurgical processes. The clause amends the definition of mineralogical processes so the exemption for energy used in those processes will remain operable following the UK's departure from the EU. In addition, it clarifies that a landlord can claim the exemption for both mineralogical and metallurgical processes on behalf of a tenant.

Although it is estimated that the measure will have a minor impact on the Exchequer, we have a number of concerns. We appear to be lacking assessments of the market impact of the clause, its effect on our leaving the European Union and its consequences for the UK's carbon budgets and other greenhouse gas emissions reduction targets, as well as for tenanted businesses covered by it.

Amendment 124 would require the Chancellor to review the impact of the clause on small and medium-sized enterprises. We are surprised by the Government's lack of consideration of this matter, as SMEs, which lack the staff and financial resources of large companies, often struggle to cope with the impact of new financial regulation. As SMEs are important to maintaining existing jobs and creating new jobs and apprenticeships, will the Minister support our proposed review and help that critical part of our economy, which is already hard pressed?

Amendments 125 and 126 would require the Chancellor to review the impact of the clause in the event that the UK leaves the EU either in a no-deal scenario or under a withdrawal agreement, and its effect on divergence between the UK and EU regimes for these processes if the UK leaves the EU. Again, we are surprised that the Government have not seen fit to carry out such assessments. Does the Minister intend to do so? If not, why not?

Amendment 127 would require the Chancellor to publish annually a list of the businesses to which the exemption for mineralogical and metallurgical processes applies. As the Government are only too aware, there is nothing like keeping on top of matters to ensure that legislation has the desired outcome and markets respond appropriately to the necessary signals. Will the Minister support our amendment so we can all follow the unfolding impact of the climate change levy and its exemptions in this sub-sector?

Given the stark realities of the latest scientific findings submitted to the conference of the parties under the UN framework convention on climate change, which is meeting this week in Poland, the Minister surely agrees that nothing is more important than continuously monitoring, with an eagle eye, the greenhouse gas emissions of every sector in the UK. Monitoring leads to measurement, which leads to management. We must carry out official assessments if we are most effectively to support British industry and companies to reduce their carbon and other greenhouse gas emissions. That means embracing opportunities to modernise our industrial processes as we rapidly move along the path to a zero-carbon economy and help the world stay within the boundaries of the 1.5° warming target of the Intergovernmental Panel on Climate Change.

Amendment 128 would require the Chancellor to carry out an impact assessment of the effects of the changes made by the clause on tenants, the revenues of Her Majesty's Revenue and Customs, the UK's national carbon budgets, and carbon and other greenhouse gas emission targets. The guidance notes to the clause state that its impact on the Exchequer is negligible, but will the Minister please explain how, unless it investigates, HMRC will know how many heavy industry or fossil

fuel use tenants will be affected? Without a confident quantification, that assertion is meaningless, as I am sure he agrees.

Moreover, by extending relief, the clause in effect encourages those tenants, alongside existing owners and plant operators, to continue emitting carbon and other greenhouse gases rather than switching to alternative generation methods with lower emissions. Will he please explain why the Government would want that, and what complementary measures they are taking to support businesses that want to convert to lower-emission modes of generation?

2.45 pm

Given the imperative to reduce greenhouse gas emissions following the latest IPCC report and to contribute to stabilising the average annual temperature increase to no more than 1.5°C, the Government should take all possible measures to help industry to adapt and to retrain and re-skill workers so that they can secure well-paid jobs in the emergent low to zero-carbon economy—the so-called just transition. In that vein, it is also necessary to calculate a new greenhouse gas emissions budget for any policy change likely to encourage more intense fossil fuel use and therefore higher greenhouse gas emissions. Will the Minister tell us whether that calculation has been undertaken and inform the Committee of its results? If it has not been, will he agree to look into the matter and inform the House of any further findings?

This is a small but important change to the Government's levy. Taken as it stands, it is, sadly, in tune with their refusal to use the levy in the way it was intended—to reduce greenhouse gas emissions. However, like the former Chancellor's irresponsible and perverse decision to impose the levy on lower-carbon, renewable forms of generating electricity, such as solar and wind power, the clause exempts industries that should be incentivised to use less-polluting alternatives.

We deeply regret Government decisions over the last few years, including axing the fund to support work on carbon capture and storage, which could have helped to make us a world leader in a growing new industry, as well as in tackling climate change. However, similar objectives can be achieved through the Bill by offering clear incentives, through the tax system, to clean up these sectors, and not by offering tax breaks like this levy exemption to continue down the high-emission path. For that reason, we must question the wisdom of this measure. Unless the Minister gives a clear assurance that the measure is in the context of other steps to reduce climate change emissions, we will not be able to support the clause.

Robert Jenrick: Clause 63 makes changes to the definition of mineralogical processes in the climate change levy exemption for energy used in mineralogical and metallurgical processes, to ensure that the exemption remains operable following the UK's departure from the EU. In response to representations, it also clarifies that tenants can benefit from the exemption where they are supplied with energy via a landlord.

The changes will come into effect following Royal Assent to the Bill. They are minor, technical changes designed to maintain the status quo and to provide continuity for businesses. Overall, we judge that they will have a negligible impact, as we set out in the relevant tax information impact note published in July.

The clause does two things. First, it removes "by a person" and "to a person" from the current wording of the exemption, to clarify that it is the energy used in mineralogical and metallurgical processes that qualifies for exemption, rather than the person carrying out the process, as the current drafting suggests. This means that all firms using energy to carry out these processes can claim the exemption. I believe this will be widely welcomed by those who have approached us previously.

Secondly, the clause replaces the reference to the energy taxation directive in the definition of mineralogical processes with a reference to the appropriate NACE code. These codes are an internationally recognised system for classifying economic activity and are of UN origin. This aligns the definition with the way metallurgical processes are defined, which already refers to NACE codes. I hope that is clear.

Amendments 124 and 128 would require the Government to assess the impact of these changes on small and medium-sized enterprises, tenants, revenue, carbon budgets and greenhouse gas emissions reduction targets. Amendment 127 would require the Government to publish an annual statement listing the companies that have benefitted from these changes.

While the first change that the clause makes will have a negligible impact, as set out in the relevant tax information impact note earlier this year, the second change will have no impact on these businesses and sectors. Indeed, if we did not make these changes, there would be an impact as we leave the European Union.

Amendment 125 would require the Government to review the effect of these changes in both a no-deal and a negotiated exit from the EU. Amendment 126 would require the Government to review the effect of those changes on any divergence between the exemption in the UK and similar exemptions in the rest of the European Union. Both changes made by the clause will ensure the exemption continues to operate exactly as intended now and after the UK leaves the EU.

The changes introduced by the clause do not affect how the exemption works in the UK compared with other European countries; they apply equally while we remain in the EU, if we were to leave the EU with a negotiated deal or in the event that we leave with no deal. I therefore urge hon. Members to reject the amendments. The information required to fulfil the requests made in the amendments is either already in the published impact assessment or, for the reasons I have just described, unnecessary.

There was a question from the hon. Member for Norwich South about how the Government know that the impact on revenue from landlords and tenants is negligible. We do not have data in terms of specific numbers, because the tax is paid to HMRC by energy suppliers, not tenants and landlords, but this issue has not resulted in any lobbying or representations to us, which suggests that the numbers are extremely low, if not negligible.

This clause maintains the current scope of the exemption processes following the UK's departure from the EU and, in response to representations from stakeholders, ensures that businesses entitled to the exemption are

[Robert Jenrick]

not precluded from benefiting, purely because they are tenants. I therefore move that the clause stand part of the Bill.

Clive Lewis: I thank the Minister for that response. All I will say is that, if I understand it correctly, the reason he is confident of those numbers is that no one is complaining. That is an interesting statistical analysis on which to base it, but I will accept it for now. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment proposed: 128, in clause 63, page 45, line 13, at end insert—

"(6) The Chancellor of the Exchequer must carry out an impact assessment of the exemption for mineralogical and metallurgical processes under paragraph 12A of Schedule 6 to the Finance Act 2000, as amended by this section, considering the impact on—

(a) tenanted businesses that carry out mineralogical and metallurgical processes,

(b) revenue effects,

(c) the UK's ability to meet its third, fourth and fifth carbon budgets,

(d) the UK's ability to meet its greenhouse gas emission targets.

(7) The Chancellor of the Exchequer must lay the impact assessment under subsection (6) before the House of Commons within two months of the passing of this Act."*—(Clive Lewis.)*

This amendment would require the Chancellor of the Exchequer to carry out an impact assessment of the changes made by Clause 63 and their impact on tenants, HMRC revenues, the UK's national carbon budgets, and carbon and other greenhouse gas emission reduction targets.

Question put, That the amendment be made.

The Committee divided: Ayes 8, Noes 9.

Division No. 34]

AYES

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

NOES

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

Question accordingly negatived.

Clause 63 ordered to stand part of the Bill.

Clause 64

LANDFILL TAX RATES

Clive Lewis: I beg to move amendment 130, in clause 64, page 45, line 22, at end insert—

"(5) The Chancellor of the Exchequer must review the revenue effects of the changes made by this section to section 42 of the Finance Act 1996 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 Clause 64.

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

Amendment 131, in clause 64, page 45, line 22, at end insert—

"(5) The Chancellor of the Exchequer must review the expected effect of the changes made by this section to section 42 of the Finance Act 1996 on the UK's ability to meet the Waste Framework Directive target of recycling 50% of waste by 2020, 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 64 on the UK's ability to meet the target of recycling 50% of waste by 2020.

Amendment 132, in clause 64, page 45, line 22, at end insert—

"(5) The Chancellor of the Exchequer must review the expected effect of the changes made by this section to section 42 of the Finance Act 1996 on the quantity of waste from the United Kingdom that is exported abroad."

This amendment would require the Chancellor of the Exchequer to review the impact of Clause 64 of the amount of UK waste that is exported abroad.

Amendment 133, in clause 64, page 45, line 22, at end insert—

"(5) The Chancellor of the Exchequer must review the expected effect of the changes made by this section to section 42 of the Finance Act 1996 on the quantity of waste that is sent to landfill in the year after the increased rates come into effect and compare it with the quantity of waste that has been sent to landfill before that coming into effect.

(6) The Chancellor of the Exchequer must lay the review under subsection (5) before the House of Commons within two months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the impact of this measure on the amount of waste being sent to landfill and to compare it with the amount that had been sent previously.

Amendment 134, in clause 64, page 45, line 22, at end insert—

"(5) The Chancellor of the Exchequer must review the expected impact on the environment of increasing the difference between the standard and reduced rates of landfill tax and lay a report of that review before the House of Commons within two months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the anticipated environmental impact of increasing the difference between the standard and lower rates of landfill tax.

Amendment 135, in clause 64, page 45, line 22, at end insert—

"(5) The Chancellor of the Exchequer must review the expected effect of the changes made by this section to section 42 of the Finance Act 1996 on the cost of collecting landfill tax and lay a report of that review before the House of Commons within two months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to effects on the costs of collecting landfill tax of the changes made by Clause 64.

Amendment 136, in clause 64, page 45, line 22, at end insert—

"(5) The Chancellor of the Exchequer must review the expected effect of the changes made by this section to section 42 of the Finance Act 1996 on waste disposal practice by waste disposal operators and lay a report of that review before the House of Commons within two months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the behavioural impacts on waste disposal operators of the changes made by Clause 64.

Clause stand part.

Clive Lewis: I am not quite sure how I have displeased the shadow Chancellor so that I have to do yet another speech, this time on rubbish—or landfill—but it has fallen to me. I will speak to our amendments to clause 64, and I hope the Minister can answer some of the questions on it. As will become clear, we have some serious doubts about the clause as it stands, which I will explain in greater detail. It might be that the Minister resists our amendments, but in any event I hope he will have some answers to the serious questions we have.

As the Minister will no doubt outline, the clause sets the rates of landfill tax for 2019-20, increasing the standard and the lower rates in line with RPI rounded to the nearest 5p. The Exchequer impact is estimated to be nil. That change was announced in the autumn 2017 Budget and follows the pattern of increasing duty rates in line with inflation, which applied for both 2017 and 2018. In the 2018 Budget, the Government announced that duty rates will be increased in the same way for 2020.

The measure, although it widens the differential between the lower and the standard rates of the tax, is estimated by the Government to have no overall impact on Exchequer revenue, but we are concerned about a number of points to which I will draw the Minister's attention. As has become something of a theme in our debates today, a number of assessments seem to be lacking: the market and revenue impacts of the clause, its effect on recycling rates and meeting Government targets, its impact on UK waste exports and the amount sent to landfill, the costs of tax collection, its environmental impact, and its impact on the behaviour of waste disposal operators.

Labour Members find it remarkable that the Government should seek to adjust such an important levy on all forms of waste—it is one of the few fiscal tools in the Government's policy bag to encourage recycling and reuse rates, and to dampen waste streams—without apparently carrying out any assessments in the first instance. Will the Minister explain why the measure is being introduced without such basic information being available to him, let alone the Committee? If such data are available, why have they not been published alongside the Bill with the accompanying Budget documents?

That is especially so given that those types of assessment would surely guide any reasonable adjustment to the tax rates in order first to ensure the most beneficial outcomes for the environment and the Exchequer; secondly to accelerate the roll-out of a functioning, closed-loop, circular resource economy in the UK; and thirdly to do the most we can to stop the illegal dumping of wastes that have such an adverse impact on local communities and environments. Will the Minister confirm that those are indeed objectives of public policy and expand on how he believes that landfill tax and the changes contained in the clause will contribute to achieving them? What is the evidential basis for the Government's belief that they will do so?

In that vein, the amendment simply requires the Chancellor to review the anticipated impact of the measure on revenue and to publish it for scrutiny. Will the Minister explain precisely why the Government assume no impact at all on revenue given that tax increases on goods and services invariably lead to increases in successful avoidance by some taxpayers? What kind of modelling and analysis has been conducted internally? Has expert opinion been taken? Was there any consultation or was a broad assumption made without detailed consideration behind it?

Similarly, amendment 131 requires the Chancellor to review and publish the analysis of and any findings on the impact of the clause on our ability to meet the EU-mandated target of recycling 50% of our waste by 2020. As the Minister is aware, our low recycling target is unambitious by comparison with that of our northern European neighbours such as Sweden, which has developed highly effective closed-loop resource, recycling and reuse systems for a number of household waste items.

Those more successful countries have achieved that change in significant part through tax changes, such as the decision to cut VAT on repairing bicycles, clothes, household linen, leather goods and shoes from 25% to 12%. Will the Minister tell us whether the Government have given any consideration to such steps given their potential interrelationship with total quantities of landfill waste?

Sweden also allows people to claim back from income tax 30% annually—up to 50,000 Swedish kroner, or some £5,000 per person—of the labour cost of repairs to white goods appliances such as fridges, ovens, dishwashers and washing machines, as well as purchases of data and IT services, and of some social activities such as babysitting, household cleaning and gardening. Will the Minister explain why the Government have not taken similarly innovative steps to tackle throwaway consumption and boost the market for repair and reuse, enhance the economy through the jobs and small businesses that go with it, and enhance social living?

3 pm

Amendment 132 would require the Chancellor to review the impact of the clause on the amount of UK waste exported overseas. Earlier this year, the Minister's colleagues at the Department for Environment, Food and Rural Affairs announced an overhaul of UK waste recycling policies because countries such as China were sensibly refusing to take in UK waste exports—the raw materials regularly used in a closed-loop economy. British household and commercial plastics waste was being illegally dumped in countries such as Malaysia. Will the Minister explain the UK's feeble waste recovery and reuse policies—the rates set out are inadequate—and acknowledge that the effectiveness of the tax is made worse by the lack of relevant data?

Amendment 133 would require the Chancellor to review the impact of the clause on the amount of waste being sent to landfill, to compare that with historical disposals to the same type of site, and to publish the results and findings of that review. I hope the Minister recognises that even marginal changes to tax rates can affect the behaviour of both scrupulous and unscrupulous waste operators.

According to DEFRA's collated statistics on waste published on 9 October this year, recycling rates from household waste, biodegradable municipal waste and packaging waste have not been updated since 2016. Moreover, data on the recovery rate for construction and demolition waste; commercial and industrial activity waste; total waste generation and final treatment of all waste; and waste infrastructure have not been updated since 2014. Will the Minister commit both to writing to

his ministerial colleagues at DEFRA asking them to urgently update those statistics, and to sending that data to all members of the Committee? In the light of such appalling monitoring, can he explain how the Government could oversee any type of effective management regime, or ensure that different waste streams are not ending up at landfill sites or being dumped elsewhere, illegally, to the detriment of local communities and urban, suburban and natural environments?

Similarly, amendment 134 would require the Chancellor to undertake a review—publishing the analysis and findings—of the environmental impact of increasing the difference between the standard and the lower rates of tax. As the Minister will be aware, the disposal of waste can give rise to a range of adverse environmental impacts. Those include, but are not limited to, the unsightly and illegal dumping of household and business goods, such electrical appliances, machinery and vehicles, clothing, mattresses and soft and hard furnishings; leachates polluted into the ground, water courses and atmosphere; and rotting organic and bio-degradable materials, which add methane and other greenhouse gas contributions to global warming and climate change. They also look and smell bad.

Badly managed legal and illegal waste disposal can attract vermin such as rats, and make life extremely unpleasant for people in the vicinity. Will the Minister explain why the likely adverse environmental impacts of those changes to the tax rates, not least their potential to encourage more illegal dumping, have not yet been assessed? Will he agree to make such an assessment and will the results published as our amendment calls for?

Amendment 135 is in a similar vein, and would require the Chancellor to properly assess, with full publication, the effects on the costs of collecting the landfill tax as a result of the changes to the applied rates. It is perhaps surprising that the Treasury has not seen fit to carry out such a simple cost-benefit analysis of adjusting the applied rates. Surely it goes without saying that without such a cost-benefit analysis, the Government cannot possibly anticipate the impact on the public purse. Will the Minister tell us why such an elementary assessment of the costs of implementation has not been carried out, and will he commit to carrying out that assessment and publishing the results?

Amendment 136 would require an assessment of the impact of the tax changes in the clause on the behavioural impacts on waste disposal operators of all types. The clause represents a series of missed opportunities by the Government to adjust and strengthen landfill tax in ways that would help to address a number of environmental and disposal problems and would drive forward the roll-out of a closed-loop resource economy across the UK by increasing recycling and reuse of goods and materials that any responsible society should not be throwing away.

Kirsty Blackman: The hon. Gentleman is making an excellent speech in which he is talking about a lot of sensible measures to reduce waste. I just want to say that the matter covered in this aspect of the Bill is devolved, so if he presses the amendment to a vote, the Scottish National party will not take part in it.

Clive Lewis: I thank the hon. Lady—her point is taken on board.

Such a beneficial undertaking would help both businesses and households to reduce drastically their waste streams and so cut their work-related and living costs. It would also go a very long way to helping the UK to meet its energy and greenhouse gas emission targets on the way to becoming a zero-waste, zero-carbon economy. As well as securing existing jobs and helping to create many new ones in the reuse, repair and recycling sectors, adopting the amendments that we are calling for would undoubtedly help to protect urban, suburban and natural environments where illegal waste dumping continues.

Will the Minister tell us how he means to address the very serious concerns of the Environmental Industries Commission and its members about the growing gap between the lower rate and the higher rate of this tax? The existing gap is already causing significant problems in the industry, with some operators presenting for the lower rate inert waste that actually contains asbestos fibres and therefore should be subject to the higher rate. How does the Minister intend to address that imbalance? In the EIC's view, which is shared by Labour and a number of prominent environmental and countryside non-governmental organisations, the gap should be closed and not made wider, so that the tax acts as a deterrent to illegal waste disposal of all types and so benefits the public purse and society at large in significant environmental ways.

That being the case, in the absence of significant assurances from the Minister, we will struggle to support the clause as it stands. However, I would like to give the Minister the opportunity to provide us both with those assurances and some answers to the questions that we have posed. I look forward to his response.

Robert Jenrick: Like the hon. Gentleman, I get all the glamorous jobs, so I will endeavour to answer all his questions about landfill.

Clause 64 increases the standard and lower rates of landfill tax in line with inflation from April 2019, as announced in Budget 2017. Landfill tax has been immensely successful. Since its introduction, the amount of waste disposed of at landfill sites has fallen by more than 70%—of course, we would like to go further—and the benefits of that reduction are twofold. The first is to the economy: we have made better use of scarce resources rather than simply tipping them into holes in the ground across the country. Secondly, greenhouse gas emissions from decomposing waste are reduced. When waste is diverted from landfill, we promote more sustainable waste treatment, such as recycling. We are committed to moving towards a more circular economy, and we are working together with business, industry, civil society and the public to achieve that valuable aim. Landfill tax is an important fiscal lever that we can use to achieve it.

The hon. Gentleman asked why the Government are not doing more to meet their recycling target. The Government are very committed to meeting the target of recycling 50% of household waste by 2020. Through the Waste and Resources Action Programme, we are providing guidance and support to local government to help it to improve recycling services and to communicate with householders so that they recycle more. The next milestone in our campaign is the upcoming resources and waste strategy, on which we at the Treasury have been working closely with the Environment Secretary

and the Department for Environment, Food and Rural Affairs. That will outline a number of further measures to increase recycling across the UK.

The hon. Gentleman and others will have noticed other important measures in this regard, including the announcement of a forthcoming consultation with respect to a deposit return scheme and other measures in the Budget—for example, a plastic packaging tax, which is to be consulted on, with the aim of increasing the amount of recycled content in all the plastic packaging that we use in our daily lives.

Landfill tax continues to provide an incentive to reduce waste from landfill and ensure it is recycled and reduced: as landfill is the most expensive form of waste disposal, that makes perfect sense. We have also noted in the Budget that we would be willing to consider a future incineration tax once further infrastructure has been put in place to reduce, for example, the amount of plastics that are incinerated, further improving the environment and reducing the amount of throwaway single-use plastics.

The waste infrastructure delivery programme is providing some £3 billion in grant funding over its lifetime to a number of long-term local authority waste management projects, which has helped to increase recycling rates from 36% in 2008 to 45% in 2017. I hope the hon. Member for Norwich South will await the future resources and waste strategy, which will provide a number of important measures. Those will include further information on the reform of the producer responsibility system, which will play a crucial role in improving recycling capacity and infrastructure in all parts of the country.

The clause also changes the tax on disposal at landfill sites. Each tonne of standard-rated material is currently taxed at £88.95, and lower-rated material draws a tax of £2.80. Those rates per tonne will change to £91.35 and £2.90 respectively from 1 April 2019, which maintains the strong current signal to move waste away from landfill.

Amendment 130 would require a review of the revenue effects of the proposed changes. HMRC published tax information impact notes when the rates were announced at the autumn 2017 Budget.

Anneliese Dodds: As far as I understand it, that note did not look into the impact of differential tax rates on waste crime. The picture is very worrying: the number of illegal waste sites that the Environment Agency is dealing with had risen to 1,485 at the end of 2017-18, compared with 1,425 the previous year. The number of those illegal waste sites that were active had also risen—to 673—and there were eight fires at those sites last year, so why is the Minister not considering those factors? Surely a broader review is necessary.

Robert Jenrick: The hon. Lady raises an important question about waste crime, which affects many constituents across the country, including my own. We have taken a number of significant steps. The Secretary of State for Environment, Food and Rural Affairs has conducted with the Home Secretary a review of waste crime, which looked at many of these questions—I believe that review was published recently. We also included a measure in the Budget whereby local authorities, or those responsible for clearing up illegal waste sites, could receive support from the Treasury to enable them to do so if the site met certain criteria, essentially providing support equivalent to the cost of the landfill tax itself. A number of hon. Members from across the House approached us to ask for that support, and we have delivered it as a £10 million pilot.

Anneliese Dodds: I am very grateful to the Minister for giving way. However, in the previous Budget, landfill tax was applied to illegal waste sites, so surely that measure is more than a pilot. As I understand it, it came into practice in April this year, because I have been trying to find out whether or not it has been applied to any sites. Surely that money should already be coming into the Exchequer?

Robert Jenrick: Perhaps I did not explain myself correctly to the hon. Lady. The measure that she speaks to was in the Budget last year, and has since been implemented via a statutory instrument that went through the House. That measure ensures that the landfill tax is payable on illegal waste sites. The measure that we have included in the Budget enables innocent parties—local authorities that take on, and wish to clean up, a site that has been left by criminals—to apply through the Environment Agency as part of the pilot for a sum of Treasury funding equivalent to the landfill tax, instead of having to pay that tax in addition to all the other costs involved in cleaning up the site. We hope that that will help local authorities with sites that are among the worst and most dangerous to public health to meet the costs of doing so. That measure was requested by a number of Members from across the House.

3.15 pm

Anneliese Dodds: I am very grateful to the Minister for giving way yet again. Surely Committee members are scratching their heads and thinking, "Would it not be more efficient and effective just to fund the Environment Agency properly so it can actually do some prosecutions, rather than going through this very complex system?"

Robert Jenrick: We do fund the Environment Agency correctly, and it is stepping up its enforcement of these sites. We urged it to do so—that was part of the purpose of the waste crime review. We have also increased the powers available to local authorities. For example, since May 2016, they have been able to issue fixed penalty notices for smaller scale fly-tipping. Fly-tipping is a criminal offence punishable by a fine of up to £50,000 or 12 months' imprisonment. We wish to see more successful prosecutions, because this is a significant area of criminality that is linked to serious organised crime and other important types of criminality, such as the drug trade and human trafficking, against which we wish to take serious action. That is why fly-tipping was included in the Government's review of serious organised crime in the waste sector, to which I have already referred.

Amendment 131 seeks to review the effect of these changes on the Government's ability to meet the waste framework directive target of recycling 50% of waste by 2020, and amendment 132 seeks to review their impact on the amount of waste exported for treatment abroad. As the clause maintains the rates of landfill tax in real

[Robert Jenrick]

terms, we do not expect significant changes to the strong behavioural incentives the tax already provides. Landfill tax continues to play an important role in our meeting our targets for recycling and encouraging alternative forms of waste treatment, and the clause will ensure that landfill remains the most expensive form of waste treatment. Furthermore, I assure the Committee that the Government are committed to meeting the 50% household waste recycling target through the Waste and Resources Action Programme and the upcoming resources and waste strategy, on which we at the Treasury worked extremely closely with the Department for Environment, Food and Rural Affairs. I hope the Committee sees that amendments 131 and 132 are therefore unnecessary.

Amendment 133 would require a review of the expected effect of these changes on the quantity of waste that is sent to landfill. The uprating of landfill tax rates in line with the retail prices index ensures that those rates remain stable in real terms, and means that the tax can continue to help the Government meet their objective. Figures published regularly—annually, I think—by Her Majesty's Revenue and Customs show a consistent decrease in the amount of waste sent to landfill as a result of increases the capacity of alternative waste treatment, such as recycling, which is encouraged by our policy on landfill tax rates. As the clause will keep the rates the same in real terms, that decrease is expected to continue. I trust that provides the Committee with sufficient information, and I ask that amendment 133 not be pressed to a vote.

Amendment 134 would require a review of the expected impact on the environment of increasing the difference between the standard and lower rates of landfill tax. The clause seeks to increase landfill tax rates in line with inflation. That is the equivalent of maintaining the rates in real terms, which means there will be no real-terms change to the difference between the standard and lower rates. Although we appreciate there may be concerns about illegal dumping or breaking of the rules, we do not anticipate the clause making any material difference to those. The issues the hon. Member for Norwich South legitimately raised about individuals or companies dumping waste on which the higher rate should be paid, and seeking to pay the lower rate, are exactly the kinds of matters that were considered in the waste crime strategy. I hope that reassures the Committee, and I ask that amendment 134 not be pressed to a vote.

Clive Lewis: I thank the Minister for his answers. I also thank my hon. Friend the Member for Oxford East for her timely and useful interventions, which shed light on this issue.

Waste management is often the poor relation when it comes to policy making. It is not sexy, but it is critical. We have spoken about the environment and climate change today. Scientists say that it is entirely possible that we could save ourselves from climate change and its effects, only to destroy ourselves by breaching other planetary boundaries. Recycling and waste management are critical, if we are really to reap the benefits of improved recycling and technological processes that ensure we use resources as efficiently as possible. As we move through the 21st century, and population increases, that will become critical.

I will withdraw amendment 130, and will not press amendments 132, 133 and 135, but will press the remaining amendments to a vote. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment proposed: 131, in clause 64, page 45, line 22, at end insert—

"(5) The Chancellor of the Exchequer must review the expected effect of the changes made by this section to section 42 of the Finance Act 1996 on the UK's ability to meet the Waste Framework Directive target of recycling 50% of waste by 2020, and lay a report of that review before the House of Commons within six months of the passing of this Act."*—(Clive Lewis.)*

This amendment would require the Chancellor of the Exchequer to review the impact of Clause 64 on the UK's ability to meet the target of recycling 50% of waste by 2020.

Question put, That the amendment be made.

The Committee divided: Ayes 5, Noes 8.

Division No. 35]

AYES

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

NOES

Afolami, Bim	Stride, rh Mel
Jenrick, Robert	Syms, Sir Robert
Keegan, Gillian	Whately, Helen
Lamont, John	Whittaker, Craig

Question accordingly negatived.

Amendment proposed: 134, in clause 64, page 45, line 22, at end insert—

"(5) The Chancellor of the Exchequer must review the expected impact on the environment of increasing the difference between the standard and reduced rates of landfill tax and lay a report of that review before the House of Commons within two months of the passing of this Act."*—(Clive Lewis.)*

This amendment would require the Chancellor of the Exchequer to review the anticipated environmental impact of increasing the difference between the standard and lower rates of landfill tax.

Question put, That the amendment be made.

The Committee divided: Ayes 5, Noes 8.

Division No. 36]

AYES

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

NOES

Afolami, Bim	Stride, rh Mel
Jenrick, Robert	Syms, Sir Robert
Keegan, Gillian	Whately, Helen
Lamont, John	Whittaker, Craig

Question accordingly negatived.

Amendment proposed: 136, in clause 64, page 45, line 22, at end insert—

"(5) The Chancellor of the Exchequer must review the expected effect of the changes made by this section to section 42 of the Finance Act 1996 on waste disposal practice by waste disposal operators and lay a report of that review before the House of Commons within two months of the passing of this Act."*—(Clive Lewis.)*

This amendment would require the Chancellor of the Exchequer to review the behavioural impacts on waste disposal operators of the changes made by Clause 64.

Question put, That the amendment be made.

The Committee divided: Ayes 5, Noes 8.

Division No. 37]

AYES

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

NOES

Afolami, Bim	Stride, rh Mel
Jenrick, Robert	Syms, Sir Robert
Keegan, Gillian	Whately, Helen
Lamont, John	Whittaker, Craig

Question accordingly negatived.

Clause 64 ordered to stand part of the Bill.

Clause 65

RESIDENCE NIL-RATE BAND

Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op): I beg to move amendment 122, in clause 65, page 46, line 6, at end insert—

"(7) The Chancellor of the Exchequer must review the revenue effects of the changes made in 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 effects of the changes made by Clause 65.

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

Jonathan Reynolds: It is lovely to be able to give my hon. Friend the Member for Norwich South some well earned respite before he leaves the Committee briefly.

Opposition amendment 122 would require the Chancellor to publish a review of the impact on inheritance tax revenue of clause 65's changes to the residence nil-rate band, six months after they are adopted. As we have stated in debates on previous clauses, the lack of an amendment of the law resolution has significantly hindered our ability to properly amend such clauses, beyond requesting a general review.

The nil-rate band, also known as the inheritance tax threshold, is the amount up to which an estate does not have to pay inheritance tax. Everyone has their own nil-rate band, which is currently £325,000, or £625,000 for a married couple. Any part of the estate up to the nil-rate band threshold is chargeable to inheritance tax at a rate of 0%. Any part of the estate that exceeds the nil-rate band threshold is usually chargeable to inheritance tax on death at 40%. The nil-rate band applies to non-exempt property passing on death, together with any taxable gifts made within seven years of death.

Clause 65 focuses specifically on the residence nil-rate band—an additional nil-rate amount available on top of the nil-rate band when the deceased has left a residence, or the proceeds of the sale of a residence, to his or her direct descendants. In its current form, the residence nil-rate band is particularly complicated when the individual in question has downsized before their death by selling their residence and either buying a less valuable property or going into residential care. Given the crisis in social care and the growing pressure on elderly people to sell large homes and downsize, that is sure to be fairly common. A recent survey by McCarthy and Stone, one of the UK's leading retirement house builders, found that 48% of pensioners—nearly 6 million people—are considering moving to smaller homes, or would be encouraged to do so if there were a stamp duty exemption. The attraction of downsizing is clearly growing.

The Opposition understand the logic behind the Government's proposed change, which aims to simplify the residence nil-rate band in cases where homes are downsized. However, we remain concerned about the rate at which the residence nil-rate band is set, particularly since the Government plan to increase it from £125,000 to £150,000 in 2019-20, and to £175,000 in 2020-21. For estates with a net value of more than £2 million, there is a tapered withdrawal of the residence nil-rate band at a rate of £1 for every £2 over the threshold.

Like many colleagues in the Opposition and some on the Government Benches, I have profound concerns about the impact of inherited wealth on social mobility, inequality and social cohesion in the UK, but I think there is a consensus that people should be able to pass properties and family homes—or, if they have sold that home and downsized, the equivalent material value—to their direct descendants. However, we believe that inheritance tax on the whole is simply not fit for purpose. It is not only a universally unpopular tax, but one that fails to raise significant revenue.

According to the Government's own figures in this year's Budget Red Book, the Treasury is set to raise just £5.5 billion in inheritance tax receipts—substantially less than it raises from tobacco duties, alcohol duties, environmental levies, vehicle excise duties and even the insurance premium tax. It is therefore no surprise that there is a growing surge of public opinion in favour of reforming inheritance tax and replacing it with something better. The Institute for Public Policy Research's commission on economic justice, which brought together economists, academics, the business community and members of civil society, recommended scrapping the tax and replacing it with a new gift tax.

The commission's report identified that the inheritance tax system is easy to avoid and favours the wealthy, healthy and well advised. It concluded that wealth transfers confer an unearned advantage on the recipient, and should be taxed more effectively to promote equality of opportunity. I would go further and say that the principle of taxing income from work more heavily than income from wealth heavily distorts the UK tax system.

3.30 pm

A similar critique of inheritance tax was made by Paul Johnson from the Institute for Fiscal Studies, who pointed out:

"Higher income people—those in the top 20 per cent of lifetime income—are ten times as likely to have received an inheritance of more than £250,000 as those in the bottom half of lifetime incomes."

The Resolution Foundation has called for inheritance tax to be abolished and replaced with a new system that commands greater public support by being fairer to families and harder to avoid. Its intergenerational commission also found that the state does a poor job of collecting revenue from inheritance tax.

Under the current system, individuals can and do minimise their inheritance tax liabilities in all manner of ways, including by buying agricultural land or investing in woodlands, which I first became aware of in the House of Commons Tea Room. Members might remember the coalition Government's plans to privatise the forests in 2011. They did not last very long, but it was at that time that a Conservative MP told me about the practice. Basically, people buy up commercial woodlands, which, once they have been owned for more than two years, become eligible for 100% business property relief. This reduces the value of a qualifying business asset to nil in the inheritance tax account, and as a result, no inheritance tax is payable on the asset in question.

Alternatively, 100% agricultural property relief can apply in certain situations. A special inheritance tax relief is also available for commercial or amenity woodlands that are owned for more than five years and to which neither business rates nor agricultural property relief apply. These abuses of inheritance tax relief limit our revenue-raising ability, yet it is still usually regarded as one of Britain's least fair taxes. The Resolution Foundation's intergenerational commission, like the IFS and the IPPR, recommends replacing it, favouring a lifetime receipts tax with a personal allowance of £125,000, followed by a 20p rate up to £500,000 and a 30p rate after that. It states that this will significantly reduce the marginal rate of tax on wealth transfers, while still raising up to £11 billion in 2020-21, compared with the £6 billion that the current system is projected to raise.

The lack of an amendment of the law resolution makes it impossible for the Opposition to table an amendment asking for a wider review. However, amendment 122 would force the Government to publish a review of their changes to the residence nil-rate band, factoring in the amount of revenue that the changes will raise and their impact on the Exchequer's total inheritance tax receipts.

I will raise one final point on inheritance tax. I particularly enjoy, when discussing the different parts of a Finance Bill, references to the origins of some of the taxes in question. Inheritance tax has existed in the UK in some form or other since 1694, when probate duty became payable on estates. However, it was not until 1796 that a tax on estates was first introduced by the Chancellor and Prime Minister, William Pitt the Younger. It was deliberately introduced at the height of the French revolution to deter a similar revolt from taking place in the UK. I think it is fair to say that the Government needed the revenue to fight the subsequent war against Napoleon.

The Government then recognised the need to prevent wealth being simply handed down to the already wealthy. At a time of continued austerity and hardship for many communities across the UK, we should not forget that the top 10% of UK households hold half the wealth of the entire country, while the bottom 50% of households hold less than 10%. In that environment, those with the broadest shoulders should always be asked to pay a fair and reasonable share. We can begin that process today by voting for amendment 122.

The Chair: I hope that the Minister is not anticipating the tumbrels rolling at the end of his speech, as in the French revolution.

The Financial Secretary to the Treasury (Mel Stride): Very good. There will be no singing of "The Red Flag" on this side, Mr Howarth.

Bim Afolami (Hitchin and Harpenden) (Con): "La Marseillaise"?

Mel Stride: Maybe. It is a pleasure to serve under your chairmanship, Mr Howarth. I will turn briefly to points raised by the hon. Member for Stalybridge and Hyde.

Sir Robert Syms (Poole) (Con): Will my hon. Friend give way?

The Chair: Robespierre. Sorry; Robert Syms.

Sir Robert Syms: There is a sort of revolution going on in Paris as a result of high fuel duties, which of course the Opposition want.

Mel Stride: As my hon. Friend pointed out in his remarks on earlier clauses, we have frozen fuel duty for nine successive years—but perhaps we had better get back to the matter in hand, revolutions and fuel not featuring particularly in clause 65.

First, the hon. Member for Stalybridge and Hyde feels that this tax is seen as one of the least fair. It is certainly true that it is one of the least popular taxes; I would accept that. However, it only typically applies to about 4% or 5% of estates, although the public generally assume that it applies much more widely. That, of course, is a consequence of the policies we brought in to extend the thresholds, which we have been discussing. As the hon. Gentleman suggests, it brings in about £5 billion a year and, in terms of its fairness across the range of different wealth levels, I can inform him that 70% of inheritance tax is raised from those with estates valued at over £2 million, so the vast bulk of it comes from those who are significantly wealthy.

The hon. Gentleman quite rightly raises the general question of keeping taxes under review and looking at inheritance tax. He gave various examples of the work of others in that respect and made various suggestions. He will be aware that the Office of Tax Simplification is reviewing inheritance tax, and has already reported on the administration and guidance relating to it, with which there are various issues. In the spring of next year, it will also report on the policy area itself, and we will look with great interest at the report when it comes out. *[Interruption.]* May I correct something I have just said? Perhaps I am bad at reading handwriting here. The 70% relates to those with an estate of over £1 million, rather than £2 million.

The hon. Gentleman raises perfectly legitimate questions that we should be asking about the reliefs associated with agricultural land and woodlands, and the different

approaches that those who can afford advisers and so on may seek to take to lower their inheritance tax. All those things will make for interesting debate and consideration when the OTS reports back in spring.

The Government are introducing these changes to clarify the working of the downsizing rules, and to provide certainty about when a person is treated as inheriting property. The residence nil-rate band reduces the burden of inheritance tax for families by making it easier to pass on the family home to children or grandchildren, and the band is an additional threshold available when a residence is being passed to a direct descendant. As the hon. Gentleman set out, the value in 2018-19 is £125,000. That will rise to £175,000 by 2020-21. Any unused threshold can be transferred to a surviving spouse or civil partner. The unused threshold is also available when a person has downsized to a less valuable property and passes on the proceeds from selling their home, instead of the property itself, to their children or grandchildren.

The Government announced those reforms in 2015 to ensure there would be an inheritance tax threshold of up to £1 million for married couples and civil partners by the end of this Parliament. That was a manifesto commitment, which I am pleased we have delivered, but it is right that we make changes to the legislation where necessary to ensure that the policy works as intended.

The changes made by clause 65 will correct two areas of the residence nil-rate band. First, the downsizing provisions were introduced to ensure that people would not lose access to this additional nil-rate band by, for example, moving house to meet their long-term care needs. However, the wording in the current legislation means that these provisions could apply in an upsizing scenario. That was never the intention and the changes will correct it.

Secondly, we believe that the additional threshold should be available only when the family home passes directly from an individual to their direct descendant on death. The changes will correct an anomaly in the legislation whereby the threshold could be available for a family home passed into a trust, where the direct descendants do not inherit the property. While the changes are important for revenue protection, we expect them to affect very few estates.

There has been one amendment proposed to this clause, which proposes reviewing and laying a report on the revenue effects of the changes. Amendment 122, however, is not necessary. The clause corrects the working of the residence nil-rate band and has no impact on wider inheritance tax policy. Consequently, there will be no revenue effects as a result of the clause. I therefore ask that the amendment be withdrawn and commend the clause to the Committee.

Jonathan Reynolds: I wish to press the amendment to the vote.

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 8.

Division No. 38]

AYES

Black, Mhairi	Reynolds, Jonathan
Blackman, Kirsty	Smith, Jeff
Dodds, Anneliese	Sobel, Alex
Lewis, Clive	

NOES

Afolami, Bim	Stride, rh Mel
Jenrick, Robert	Syms, Sir Robert
Keegan, Gillian	Whately, Helen
Lamont, John	Whittaker, Craig

Question accordingly negatived.

Clause 65 ordered to stand part of the Bill.

Clause 66

APPLICATION OF PENALTY PROVISIONS

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

The Chair: With this it will be convenient to consider clause 67 stand part.

Robert Jenrick: The clause makes changes to ensure that penalties may be raised against businesses registered for the soft drinks industry levy that do not submit a quarterly return or fail to submit a quarterly return on time. The changes ensure that a penalty can still be raised for non-payment of the soft drinks industry levy in the event that certain provisions in the Bill are enacted.

The soft drinks industry levy was announced at Budget 2016. The levy commenced on 6 April 2018 and has been successful in its stated objective of driving reformulation, to such an extent that over half of all drinks by volume that would have been in scope of the levy have now been reformulated, and in fact were reformulated even before the tax came into effect. This measure will support that success by allowing penalties to be issued for late returns and non-submission of returns for accounting periods ending after 1 April 2019, should they be required.

Kirsty Blackman: I appreciate what the Minister says about the effects of the soft drinks industry levy, but it still does not apply to milk-based drinks. Will the Government consider extending the levy to milk-based drinks, given that it has been so successful?

Robert Jenrick: The hon. Lady makes a valid point. When we announced the policy, we said that we would consider milk-based sugary drinks in 2020, which is when more information, including Public Health England data, will be available to inform that decision. We have reiterated that commitment, so there will be a review in just over a year, which could lead to such a decision, although we have no plans to extend the levy at this moment.

The changes made by the clause will help to provide a proportionate and fair penalty regime and to drive compliance. The changes will affect only soft drinks industry levy-registered businesses that do not submit a quarterly return and payment by the due date. Furthermore, although the clause gives us the powers to act, at present there is no evidence of fraud or non-compliance with the soft drinks industry levy on any material scale.

Clause 67 makes changes to amend section 1 of the Isle of Man Act 1979, to add the soft drinks industry levy to the list of common duties. It will ensure that the

[Robert Jenrick]

movement of liable soft drinks between the UK and the Isle of Man will not be seen as either an import or an export under the levy, as long as the levy rates of the UK and the Isle of Man remain aligned. This change will have effect from 1 April next year.

3.45 pm

The changes made by clause 67 will implement a change to the soft drinks industry levy legislation, meaning that the movement of liable soft drinks will not be seen as an import or export. Businesses liable to pay the levy on liable soft drinks packaged in the UK will no longer be able to claim an export credit when those drinks are moved to the Isle of Man. The changes will also help to reduce the administrative burden on businesses that wish to move their liable drinks from the Isle of Man to the UK mainland, by removing the requirement to register for the levy as importers. The clause is necessary as it ensures that movements of liable soft drinks between the UK and the Isle of Man under the levy are treated in the same way as movements of goods in other taxes and duties. I commend clauses 66 and 67 to the Committee.

Clive Lewis: It is a pleasure to address the Committee on behalf of the Opposition for the final time today—I am sure to the great disappointment of all. The two clauses both address the soft drinks industry levy, often known colloquially as the sugar tax, which came into force in the current tax year. Given the scope of the two clauses, you will be relieved to hear, Mr Howarth, that I will not attempt to have a general debate on the basic principle of the tax—as tempted as I was. Nor do the Opposition disagree in principle with the Government's broad intention in the clauses.

As the Minister said, clause 66 allows penalties to be imposed on businesses eligible to pay the soft drinks industry levy where they fail to submit the required quarterly return by the due date. It also ensures that similar penalties can be imposed for non-payment of the levy, contingent on certain provisions in the Finance (No. 3) Act 2010 being enacted. For context, will the Minister clarify the Government's plans in relation to the enactment of these provisions? Will he explain why they have come to be made now, rather than during the passage of previous legislation?

On the substantive point, let me start by asking the Minister for some clarity about the number and types of business that might be affected. How many companies are now registered for the soft drinks industry levy, and what analysis can he give us of their size and scale? How does that compare with the number and composition originally anticipated? Will he outline for the Committee what kind of penalties a business might face, first, for failing to submit a quarterly return and, secondly, for non-payment? Is he convinced that the penalties are sufficient to deter tax evasion, while not being so high that genuine errors are disproportionately punished?

To put this in context, will the Minister tell us what level of evasion, late or non-payment, and failure to submit quarterly returns has been recorded to date? What estimate has the Treasury undertaken of any revenues lost to tax evasion? Has HMRC been able to give him any idea of the scale of the failure to submit returns? Is that related to evading payment, or is it simply down to administrative failures? How many returns are submitted late, and how many are not submitted at all?

On a related question, will the Minister tell us how much he expects to be raised through the imposition of these penalties and—perhaps more significantly—through any deterrent effect on tax evaders? Will the penalties, particularly for non-payment, form part of the revenue take for the tax, or will they be considered separately for purposes such as the intended link to funding for child health?

The Minister will be aware that the projected tax take from the levy has declined precipitously since the former Chancellor's original estimates when he announced the levy. The original forecast was for £520 million in the current fiscal year. The latest "Economic and fiscal outlook" from the Office for Budget Responsibility, produced for last month's Budget, anticipated that just £240 million will be raised. I assume the Minister stands by that figure, unless it has declined even further in the past few weeks. How much of that difference is down to the kind of deliberate evasion that clause 66 addresses, and how much is simply down to error in Treasury forecasts or—being generous—to changing economic circumstances and the impact of behavioural change? I should say for the record that, in the case of this tax, behavioural change is welcome, because it effectively means less sugar in soft drinks, with consequent benefits for public health. As I will touch on later, the dramatic shortfall in tax receipts has had some less desirable consequences.

I note that this measure comes into force at Royal Assent, rather than in the next tax year. We do not object to that, as measures to tackle tax evasion and avoidance should not be delayed. However, what steps have the Treasury and HMRC taken to ensure that businesses are alerted and that tax collectors can take full advantage? When does the Minister expect the first quarterly returns to be due under this measure?

Perhaps the Minister can explain what will happen should Royal Assent occur around the due date for a quarterly returns. If, for example, a quarterly return is due on 1 February—let us say, for argument's sake, for the final quarter of the current financial year—and Royal Assent was achieved on 2 February, would the penalties be enforceable on a company that failed to submit, or would they not be retrospectively enforceable? Indeed, it would be helpful if the Minister could tell us what the due dates are for quarterly returns over the next year, what returns are required at the end of the financial year, and whether this measure applies to those or simply to returns at the end of each quarter.

Of course, the Minister is not responsible for the allocation of parliamentary time, so he may not be able to predict when Royal Assent is likely. When it comes to this Government, things are, to put it mildly, a bit unpredictable. Given the apparent trouble with their supply and confidence agreement, in which confidence seems to be somewhat lacking, the passage even of the Finance Bill may be a bit choppy when we go back downstairs to the main Chamber. *[Interruption.]* I apologise if I am keeping the Government Whip awake. Perhaps the Minister can tell us what the impact of different dates might be, and what consideration the Treasury has given to that in its assumptions and planning?

Clause 67 is designed to facilitate the movement between the UK and Isle of Man of soft drinks on which the industry levy has been paid, without that being designated as an import or export respectively for the purposes of the levy. It also adds the levy, and the Manx equivalent proposed by the Isle of Man Government, to the list of common duties in the Isle of Man Act 1979. After the introduction of the levy in April, eligible soft drinks that were brought into the UK from the Isle of Man were chargeable under section 33 of the Finance Act 2017, and those removed from the UK can attract an export credit. The Isle of Man, however, is introducing Manx SDIL from the next tax year, which is equivalent.

As the UK and Manx Governments have now agreed, in principle, to treat soft drinks that have been levy-paid in the one as being levy-paid in the other, and to share revenue, administration and enforcement of the respective levies, I understand from the Minister that the Government's view is that those arrangements are, in effect, being superseded. The levy will therefore be treated as a common duty under the 1979 Act, with a commencement date to coincide with the introduction of the levy in the Isle of Man—in other words, at the start of the next tax year in April 2019. The Opposition have no objection to those arrangements, but I would ask the Minister to clarify a few points—before we lose the light completely.

First, the Manx SDIL is described in the Government's accompanying notes as "modelled" on the UK version. Can the Minister clarify what that means? Is it identical or are there significant differences? The rates are presumably the same, but are there any variations in design? Have the Manx Government made any improvements in the structure or implementation, from which we could learn? Are we confident that they will be able to enforce the levy in a consistent way that does not create any incentives for producers to relocate from one jurisdiction to the other?

In the meantime, can the Minister assure us that we are not missing out on revenue that should be owed, due to failures of collection and enforcement at the point of import? Does he have any figures on the total revenue raised from charges on imported soft drinks from the Isle of Man?

I must confess that my knowledge of the Manx soft drinks industry is sadly limited, so perhaps the Minister can give us a sense of its scale and tell us whether there is a revenue impact. I would hazard a guess that it is unlikely that our import and export of soft drinks to and from the Isle of Man are not of identical value, but perhaps he can confirm that to the Committee either way.

Before I conclude, I want to return to the point about the overall revenue impacts of the two clauses in the context of the soft drinks industry levy. This is important, because when the levy was created, it was linked directly to investment in projects that would improve the health of our children. A ring-fenced sum was put aside for the healthy pupils capital fund, which would fund schools to create facilities for better physical and mental health, or for disability access. At the time that was announced by the then Secretary of State for Education, the right hon. Member for Putney (Justine Greening), the Government

"pledged to ensure that the amount schools receive will not fall below £415 million regardless of the funds generated by the levy."

That solemn pledge, still available on the Department for Education website, did not last the year. Instead, the fund was cut by more than three quarters, to just £100 million for the year, when the Government desperately tried to plug their own gap in the main schools' budget for one year only, by raiding the money that was meant to be ring-fenced for children's health.

As a constituency MP, I know just how desperate schools in Norwich South are for funding. Schools have had to fire teaching assistants because of the budget constraints they find themselves in, and that money could have been very useful to them in helping our children and their educational attainment. I also know the impact that austerity has had on the health of our children.

When I represented the Opposition in February this year on the Delegated Legislation Committee implementing the levy, I pressed the Minister, and he assured us that

"regardless of how much is raised, the Government remain committed to funding the Department for Education with the £1 billion that we originally expected, and providing the devolved Administrations with the full amount that we promised at the time."

He went on to say:

"Every penny of England's share of the spending raised by the levy will go towards improving children's health".—[*Official Report, Sixth Delegated Legislation Committee,* 7 February 2018; c. 3.]

Perhaps he can confirm today whether that remains the case, and that the Government are not counting the £350 million that was cut from the healthy pupils fund towards the latter commitment. Secondly, I hope he can clarify that that applies to any additional revenue raised by the two clauses before us. If he can give us an expected amount, will he indicate how that will be allocated?

Robert Jenrick: I will respond to as many of those questions as I can; if I omit any answers, I will write to the hon. Gentleman.

With respect to the Isle of Man's SDIL in clause 67, I am sorry to disappoint the hon. Gentleman, but no one currently produces soft drinks on the Isle of Man—so there is a business opportunity, should any of us need one in the near future. The Manx soft drinks industry levy is expected to be identical to the existing one in the rest of the United Kingdom. We do not expect that there will be any issues on enforcement, although we will of course continue to monitor that closely.

On the number of registered businesses, 450 have already registered. The top four of those by volume pay 90% of receipts, as one would perhaps expect.

In terms of publicising the changes to businesses, we have not specifically publicised those—we have taken a light touch in the first year of operation—but we do not anticipate any difficulties, given that there is only a small number of registered businesses.

The hon. Gentleman had a particular interest in the duty periods. The duty period runs from April to June, and that is due on 1 August. The July to September duty period is due on 1 November.

In terms of why we are taking this action now, we always intended to be as light touch as possible, but it is sensible to proceed with this housekeeping on behalf of HMRC to ensure the full range of compliance and penalty powers are available to combat non-compliance.

[Robert Jenrick]

We do not have evidence to date of any material degree of fraud or non-compliance, and certainly nothing that should make the hon. Gentleman or any other hon. Member concerned, but it is sensible and prudent for us to take this action, should circumstances change in the future.

The hon. Gentleman asked about some specific details, including how much the penalty will be for late returns. It will be £100 in the first instance, rising to £400 for four or more offences. The first late return will incur that fixed amount of £100. The penalty will then rise to £200 for a second late return within a 12-month period, to £300 thereafter, and eventually to £400. We think that is proportionate given that there has not been a significant problem to date, and that gives HMRC the powers it requires.

Where a return for a particular period is still not filed within 12 months, a further penalty will be issued, in the amount of 5%, 70% or 100% of the liability for the return period, depending on whether HMRC believes there has been a deliberate and concealed effort to withhold information, or £300—whichever is greater. Those are not excessive sums, but they give HMRC the powers it requires.

4 pm

The hon. Gentleman asked about the important issue of schools funding. The objective of the policy was never to raise revenue for the Exchequer; it was always to ensure that manufacturers did the right thing and reformulated where appropriate and where they felt they were able to. As I said, the majority of them have done so. Some took significant risks. Manufacturers with loyal customer bases—Irn-Bru and Lucozade, for example—had to make major reformulations, which were not always popular with their customers but none the less significantly reduced the sugar in their products. We are grateful to them for taking the policy so seriously.

The amounts we promised to fund school sports are being honoured. The Department for Education will receive £575 million during the current spending review period. That funding has been allocated to a number of programmes to support pupil health and wellbeing, and includes doubling the funding for the primary physical education sport premium to £320 million a year from 2017. The Department for Education and the Department of Health and Social Care contribute £100 million and £60 million to that premium respectively, with the soft drinks industry levy contributing £415 million over the remainder of the current spending review period. We have provided £100 million in 2018-19 for the healthy pupils capital fund, and £26 million to kick-start or improve breakfast club provision in more than 1,700 schools. Although the Treasury forecasts in this case were not correct, there has been a happy ending.

Clive Lewis: Does the Minister think a £400 fine is really a deterrent for a major international soft drinks manufacturer?

Robert Jenrick: That is a fair challenge, but given that we have no evidence of non-compliance or fraud, it is sensible to proceed on a relatively light-touch basis. If there were evidence of larger manufacturers being fraudulent or non-compliant, we might change things, but at the moment there is no such evidence. With those reassurances, I commend the clause to the Committee.

Question put and agreed to.

Clause 66 accordingly ordered to stand part of the Bill.

Clause 67 ordered to stand part of the Bill.

The Chair: I hope everyone has a wonderful weekend studying the terms of the withdrawal agreement.

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

4.3 pm

Adjourned till Tuesday 11 December at twenty-five past Nine o'clock.

Written evidence reported to the House

FB02e Chartered Institute of Taxation (clauses 79 to 80 – offshore time limits)

FB03 Low Incomes Tax Reform Group of the Chartered Institute of Taxation (clauses 79 and 80: Time limits for assessments, etc)

FB04a ICAEW (Clause 7)

FB04b ICAEW (Clause 10)

FB04c ICAEW (Clause 52 and schedule 17)