

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

First Sitting

Thursday 4 June 2020

(Morning)

CONTENTS

Programme motion agreed to.

Written evidence (Reporting to the House) motion agreed to.

CLAUSES 1 to 12 agreed to.

Adjourned till this day at Two o'clock.

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor’s Room, House of Commons,

not later than

Monday 8 June 2020

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The Committee consisted of the following Members:

Chairs: † SIOBHAIN McDONAGH, ANDREW ROSINDELL

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|---|--|
| † Badenoch, Kemi (<i>Exchequer Secretary to the Treasury</i>) | † Phillipson, Bridget (<i>Houghton and Sunderland South</i>) (Lab) |
| † Baldwin, Harriett (<i>West Worcestershire</i>) (Con) | † Ribeiro-Addy, Bell (<i>Streatham</i>) (Lab) |
| † Browne, Anthony (<i>South Cambridgeshire</i>) (Con) | † Rutley, David (<i>Lord Commissioner of Her Majesty's Treasury</i>) |
| † Buchan, Felicity (<i>Kensington</i>) (Con) | † Smith, Jeff (<i>Manchester, Withington</i>) (Lab) |
| † Cates, Miriam (<i>Penistone and Stocksbridge</i>) (Con) | † Streeing, Wes (<i>Ilford North</i>) (Lab) |
| Flynn, Stephen (<i>Aberdeen South</i>) (SNP) | † Thewliss, Alison (<i>Glasgow Central</i>) (SNP) |
| † Jones, Andrew (<i>Harrogate and Knaresborough</i>) (Con) | † Williams, Craig (<i>Montgomeryshire</i>) (Con) |
| † Millar, Robin (<i>Aberconwy</i>) (Con) | |
| † Norman, Jesse (<i>Financial Secretary to the Treasury</i>) | Kenneth Fox, Chris Stanton, <i>Committee Clerks</i> |
| † Oppong-Asare, Abena (<i>Erith and Thamesmead</i>) (Lab) | † attended the Committee |

Public Bill Committee

Thursday 4 June 2020

(Morning)

[SIOBHAIN McDONAGH in the Chair]

Finance Bill

11.30 am

The Chair: Before we begin, I have a few preliminary announcements. I do not mind how you refer to me, but if you want me to call you, make sure I know that you wish to speak.

This is the first meeting of a Public Bill Committee since March. Members will understand that we need to respect social distancing guidance. I shall intervene, if necessary, to remind everyone.

Members may remove their jackets if they wish. I remind Members that tea and coffee are not permitted in Committee sittings. Please will all Members ensure that their mobile phones are turned off or switched to silent running during our meetings? The selection list, which is on the desks, shows how the amendments selected for debate have been grouped together. Please note that decisions on amendments are taken not in the order in which they are debated, but in the order in which they appear on the amendment paper. The *Hansard* reporters would be very grateful if Members emailed their speaking notes to hansardnotes@parliament.uk.

I ask the Minister to move the programme motion in the terms agreed by the Programming Sub-Committee.

Ordered,

That—

- (1) the Committee shall (in addition to its first meeting at 11.30am on Thursday 4 June) meet—
 - (a) at 2.00pm on Thursday 4 June;
 - (b) at 9.25am and 2.00pm on Tuesday 9 June;
 - (c) at 1.30 and 2.00pm on Thursday 11 June;
 - (d) at 9.25am and 2.00pm on Tuesday 16 June;
 - (e) at 11.30 and 2.00pm on Thursday 18 June;
 - (f) at 9.25am and 2.00pm on Tuesday 23 June;
 - (g) at 11.30 and 2.00pm on Thursday 25 June;
- (2) the proceedings shall be taken in the following order: Clauses 1 to 15; Schedule 1; Clauses 16 to 22; Schedule 2; Clauses 23 and 24; Schedule 3; Clauses 25 to 29; Schedule 4; Clauses 30 and 31; Schedule 5; Clauses 32 and 33; Schedule 6; Clauses 34 to 55; Schedule 7; Clauses 56 to 65; Schedule 8; Clauses 66 to 69; Schedule 9; Clauses 70 to 86; Schedule 10; Clauses 87 to 92; Schedule 11; Clauses 93 to 97; Schedule 12; Clause 98; Schedule 13; Clause 99; Schedule 14; Clauses 100 to 105; new Clauses; new Schedules; remaining proceedings on the Bill;
- (3) the proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00pm on Thursday 25 June.—(*Jesse Norman.*)

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—(*Jesse Norman.*)

Clause 1

INCOME TAX CHARGE FOR TAX YEAR 2020-21

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

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

Amendment 5, in clause 2, page 1, line 10, at end insert—

“(2) The Government must lay before Parliament a review of the impact of the rates of income tax for 2020-21 within six months of Royal Assent, which must consider the following issues—

- (a) the effect on taxation revenue of maintaining income tax rates for 2020-2021; and
- (b) the effect of income tax rates for 2020-2021 on annual income for the following:
 - (i) Households below average income, and
 - (ii) High-net worth individuals as defined by HMRC.”

This amendment would require the Government to assess the impact of the income tax rates in the Bill on tax revenues and on households and individuals of different income levels.

Clauses 2 to 4 stand part.

The Financial Secretary to the Treasury (Jesse Norman):

I am delighted to see you in the Chair, Ms McDonagh. I welcome all colleagues and thank them very much for their commitment to this important Bill and this important process. Ms McDonagh, you and our colleagues will be aware that we are scheduled to have seven sets of sittings to give every aspect of the Bill thorough examination. It will be a pleasure to serve on this Bill Committee with colleagues under your chairmanship. It is my first Bill as Financial Secretary to the Treasury, and I hope it will not be my last.

Let me begin by speaking to clauses 1 to 4, which legislate for income tax—the main default and savings rates of income tax, and the starting rate for savings for 2020-21. I shall also speak to amendment 5 to clause 2, tabled by the Labour party.

Clause 1 legislates for the income tax charge for this year, 2020-21. Income tax, as the Committee knows, is one of the most important streams of revenue for the Government, raising more than £190 billion in 2018-19. The clause is put into legislation annually in the Finance Bill. It is essential, because it allows income tax to be collected, so that it can fund the vital public services on which we all rely.

Clauses 2 and 3 set the main default and savings rates of income tax for 2020-21. These clauses, too, are put into legislation annually in the Finance Bill. Clause 2 ensures that for England and Northern Ireland, the main rates of income tax continue to be 20% for the basic rate, 40% for the higher rate and 45% for the additional rate. Clause 3 sets the basic, higher and additional rates of default and savings rates of income tax at 20%, 40% and 45% respectively for the whole of the UK.

I want to consider Labour’s amendment 5 to clause 2, which is in the name of the hon. Member for Houghton and Sunderland South. It would require the Government to review the impact of 2020-21 income tax rates on tax revenues, and both on households with below average incomes, and on high net worth individuals, as defined by Her Majesty’s Revenue and Customs. As the Committee

will be aware, the Government already publish comprehensive assessments of income tax rates. In our judgment, the proposed additional review is therefore not necessary.

On revenue impacts, the Office for Budget Responsibility publishes tax revenue forecasts at every fiscal event, and did so most recently at Budget 2020. The Government's tax information and impact note published in October 2018 provides a clear explanation of the tax impact on the Exchequer and the economy of maintaining the personal allowance and higher rate threshold for 2020-21. On distributional impacts, the Government publish a distributional analysis of the cumulative impact of Government policy at each fiscal event, and did so most recently at Budget 2020. HMRC's annual income tax liabilities statistics publication provides breakdowns of the number of income tax payers and income tax liabilities across multiple characteristics, including by income source and by tax band. All those publications are in the public domain on gov.uk. Amendment 5 would do little to provide meaningful additional analysis that goes beyond the Government's existing comprehensive publications, and I ask the Committee to reject it if it is brought to a vote.

Clause 4 maintains the starting rate limit for savings income at its current level of £5,000 for the 2020-21 tax year. As members of the Committee will be aware, the starting rate for savings applies to the taxable savings income of individuals with low earned incomes. The Government made significant changes to the starting rate for savings in 2015, lowering the rate from 10% to 0%, and also extended the band to which the rate applies from £2,880 to £5,000. The changes made by clause 4 will maintain the starting rate limit for savings at its current level of £5,000 for the 2020-21 tax year. The limit is being maintained at that level to reflect the significant reforms made to support savers over the last few years. That support is provided by the Government across the UK, for those at all stages of life and at all income levels. As a result of the support, about 95% of savers pay no tax at all on their savings income.

The decision in 2015 to increase the starting rate for savings by more than 75% has done much to support savers on low incomes. Since then, savers have been further supported by the introduction of the personal savings allowance, which offers up to £1,000 of tax-free savings income for basic rate taxpayers. This will remove an estimated 18 million taxpayers from paying tax on their savings income in 2020-21. In April 2017, the annual ISA—individual savings account—allowance was increased by the largest ever amount, to £20,000.

As a result of the combination of the personal savings allowance and the starting rate for savings, some savers can receive up to £6,000 of savings income outside an ISA completely tax-free. Most savers will of course also benefit from the tax-free personal allowance, which is set at £12,500.

The Government also support our nation's youngest savers. To encourage those with children and grandchildren to save, the junior ISA and child trust fund allowance increased by more than double, to £9,000, from April 2020. Child trust funds will start to mature from September of this year, and the increase will provide an opportunity to boost the amount that children will have when their accounts mature.

Finally, I should mention the support that the Government offer those on the lowest incomes who wish to save through the Help to Save scheme. Help to Save provides savers with a 50% bonus on their savings—a perfect example of what the Government's commitment to levelling up opportunity across the whole country can offer. I encourage Committee members to do what they can to promote the scheme to their constituents.

The Government remain committed to supporting savers of all incomes at all stages of life. Recent reforms, coupled with a significant increase in the starting rate limit in 2015, mean that the taxation arrangements for savings income are very generous. Around 95% of people with savings income, as I have mentioned, will continue to pay no tax on that income next year. The Government therefore do not believe that a further increase in the starting rate for savings is appropriate at this time.

Clauses 1 to 3 ensure that the Government can collect income tax, and set the main default and savings rates for the tax year 2020-21. Clause 4 maintains the starting rate for savings income at its current level of £5,000 for this tax year. I commend the clauses to the Committee, and ask it to reject amendment 5.

Bridget Phillipson (Houghton and Sunderland South) (Lab): It is a pleasure to serve under your chairmanship, Ms McDonagh, and to welcome other Members to the Committee. I thank the Clerk and all the team in the Public Bill Office for the support that they have provided in recent weeks and will continue to provide as we debate the Bill. Circumstances have been very challenging for staff who have adapted to working remotely. I am grateful for all the discussions and advice that they have been able to offer us. I also extend, via the Minister, our thanks to all the officials in the Treasury who have been working very hard to respond to the crisis that we face. I want to put on the record our thanks for their work, which is often not recognised. Our country's response to the crisis depends on the work that they undertake on behalf of us all.

I am sure we all accept the importance and necessity of scrutinising the Bill. However, the Opposition find it regrettable that it was not possible to find an alternative arrangement for the Committee stage of the Bill. We hope that the House can resolve the wider issues around protecting those who have shielding responsibilities and making sure that we can all be kept safe at this time. Our proceedings obviously place a great deal of pressure on the staff who are vital to the House's functioning. Again, I reiterate my thanks to them. We will want to consider certain aspects of the Bill in much greater detail over the coming weeks. I can assure the Minister that we appreciate the pressure that officials are under in responding to the crisis, and that we intend to be responsible in our approach, and will remain focused on our key priorities in the Bill.

Our amendment 5 would require the Government to assess the impact of income taxes in the Bill on tax revenues, and on households and individuals of different income levels. The Government like to tell us that we live in unprecedented times, which is of course true. As such, we need greater scrutiny of policies that may need to be revised in what is clearly becoming an unprecedented economic downturn. The Resolution Foundation estimates that GDP will contract between 10% and 24% owing to the outbreak of covid-19: an economic shock of a kind

[Bridget Phillipson]

that has not been seen since the 18th century. Very much is at stake. It is crucial that the Government assess the means by which they generate revenue, given the huge demands facing our public services and economy.

First, we need to know how much revenue we are generating from maintaining income tax rates, in order to determine whether it is enough to meet the demands on our economy and the pressures on public services, as well as the Chancellor's income support packages. Secondly, we need to better understand its distributional income. Over the past 10 years we have seen large cuts to working age benefits against reductions in direct tax, including a large rise in the tax-free personal allowance. Unsurprisingly, the winners in all this have not been low-income households. According to the Institute for Fiscal Studies, the poor have been disproportionately hit by tax and benefit changes since the Conservatives came to power 10 years ago. The worst-off 10% of households have lost 11% of their income since 2010. When we factor in households with children, that rises to 20%. In contrast, the highest-earning 10% of the population have seen their incomes fall by only 2% in the same period.

In its 2020 Budget analysis, the Resolution Foundation makes it clear that nothing has been done to offset the considerable welfare cuts made by previous Chancellors since 2015. Households in the second net income decile, for example, will eventually be £2,900 a year worse off on average, thanks to the tax and benefit changes announced since 2015, and £900 of that is yet to come; it will result from welfare policies that are still being rolled out. These cuts mean that the incomes of the poorest families have fallen over the last two years, and there is a real risk that child poverty rates will reach record highs by 2024.

11.45 am

We understand that welfare cuts have been offset in some ways by aggregate tax cuts, but those changes have been of most benefit in cash terms to those in the top half of income distribution. That has been tempered by some changes, but we have real concerns about the impact that this situation is having on low and middle-income families. Overall, tax and benefit policy over the last five years has been regressive, with the poorest losing the most, both in proportional terms and cash terms, and already welfare cuts have resulted in the incomes of the poorest families falling. Child poverty is rising, and we have real concerns about that. The Government must take action to address this searing inequality.

We know from research conducted by the Equality and Human Rights Commission that the overall impact of policy decisions taken between 2010 and 2017 is regressive. Looking at some of the outcomes that the commission discovered, we see that ethnic minority households will be more adversely affected than white households; the average loss for black households is above 5% of net income, which is more than double the average loss for white households. Households with one or more disabled members will be significantly more adversely impacted than those with no disabled members, and on average, tax and benefit changes will reduce the income for families with a disabled adult by about

£2,500 a year. If that family also has a disabled child, the income reduction will be over £5,000 a year, which compares with a reduction of about £1,000 for non-disabled families.

Lone parents will lose around 15% of their net income on average, which is almost £1 in every £6. By contrast, the losses for all the family groups are much smaller, especially for those who are relatively well-off; they are between nothing and 8%. Women lose more than men from reforms at every income level. Overall, women lose about £950 a year on average, which is more than double the losses of men.

In its report, "The shifting shape of UK tax", the Resolution Foundation has found, when considering marginal rates of tax, including the crucial role played by the benefit system, that the highest rates are concentrated in the bottom half of income distribution, with very high marginal deduction rates of 63% or even 75% being common. I am sure that Members will agree that our tax system cannot be called progressive if the poorest households and average earners continue to experience the greatest proportional loss. We must consider the distributional impact and revenue effects of current rates of income tax as we consider the most pressing issues arising from coronavirus and the impact it has had on our society and economy. It has crippled the job market and risks putting thousands of people—even millions—out of work.

The Resolution Foundation anticipates that in the event of widespread unemployment and closures of firms once the furlough scheme is phased out, a 10% structural unemployment rate, such as the one we sadly saw during the 1980s, could lead to £175 billion being lost in taxes. Alongside that, there will be need for more social security benefits to be paid out. Such a reduction in tax receipts would add to an already higher proportion of working-age adults not paying income tax at all, and given that tax receipts make up so much of Government revenue, it is vital that the Government consider the impact of maintaining rates of employment.

Labour Members believe that we need a tax policy that looks to the economy of the future, and considers the challenges that we must face during this pandemic. It is vital that those individuals who are best placed to contribute do so, and that those who need Government support are able to access it, including the most vulnerable people in our society. Our amendment would allow the Government to reflect on their policy and to measure how much, if at all, it needs to change to fund support during this crisis, together with their other spending plans presented at the Budget earlier this year.

Turning to the question of whether this amendment is necessary, and to respond to the points made by the Minister, I refer to a joint report of the Institute for Fiscal Studies, the Chartered Institute of Taxation and the Institute for Government, which was published back in 2016, and which considered the issue of the absence of post-legislative scrutiny. That report said that post-legislative scrutiny should focus on whether a measure raises the revenue it is expected to raise, whether it is achieving its policy objectives, and whether it is operating as intended—so, whether the measure is still needed, and its impact. Clearly, this is a much broader point, but it is worth the Government considering the impact in this area, where we require clarity up front about what measures will achieve.

The report also pointed out that when Parliament does engage on tax issues, most scrutiny is focused on new proposals, and there is very little capacity or appetite to look at the effectiveness of past measures, or the coherence of the system as a whole. We intend to return to this question later, and particularly to the work that the National Audit Office has been doing in this area. It argues that there is a role for other institutions in considering more effective systematic scrutiny, and suggests that it could perhaps do that, and that there could be a greater role for the Office of Tax Simplification, or perhaps the Office for Budget Responsibility. It also considers what role Parliament might play in all this, perhaps through its Select Committees, and what scope there is for boosting academic evaluations of tax policy.

We had a wide debate on Second Reading about the fact that our public services are overstretched; they have faced a decade of real challenge, and were left ill prepared for the crisis we face. We also face an important challenge in the months and years ahead in recognising the important role that key workers have played during this crisis. Their contribution has been undervalued and not recognised for far too long, and that must change. The measures the Government will adopt in their approach to taxation and social security will play an important role in shaping that. That is why we tabled amendment 5: so that we can have that scrutiny and greater consideration. We want to avoid the mistakes made in the past. The amendment will help the Government to tread carefully, to recognise the challenges we face in responding to the current crisis, and to make evidence-based revisions to policy, both in the here and now in responding to this crisis, and in the future. We hope to push the amendment to a vote.

Alison Thewliss (Glasgow Central) (SNP): It is a pleasure to see you in the Chair, Ms McDonagh, and to join all the members of the Finance Bill Committee.

I echo the thanks that other hon. Members have given to the Clerks and staff who have made this possible, but I share the concerns about having to meet physically, and about the fact that there is no option for hon. Members to participate remotely or to vote digitally.

Given that the Secretary of State for Business, Energy and Industrial Strategy was taken ill yesterday at the Dispatch Box, we should think more carefully about how we spend our time in this place and how close together we are. I know discussions were had about how far apart we should sit and how that would work, but the reality is that the highest risk factor is people being in a room together and talking for hours on end, which sounds very much like the Finance Bill to me.

I agree with many of the comments made by the hon. Member for Houghton and Sunderland South, and I congratulate her on her position and her lead on this Bill. It is clear that for many people there is a fundamental unfairness in the economy. There are issues that are longstanding and intractable, and the Government have not shown great interest in trying to deal with those inequalities or in addressing the situation, particularly for women, ethnic minorities and disabled people, who still, after so many years, remain the worst off in society. The Government need to take far more and firmer action to address that.

The Government need to take further action to address the climate emergency. We should be seeing a lot more on that in the Bill, and should take our responsibilities

on this issue far more seriously. If there ever was a time to do that, it is now. We have the opportunity. We have shut down huge chunks of the economy, and we can think, in this small time that we have, about how we want to reopen the economy, and how we could make changes that could otherwise pass us by. The amendments that the SNP will table to this Bill are in that vein. We want to look at equality and the environment. We want to look at how we can instil fairness in the system, if indeed that can be done.

I will also mention an issue that my hon. Friend the Member for Aberdeen North (Kirsty Blackman) has spoken about on many occasions: the need for this Committee to take evidence. The Domestic Abuse Bill Committee is also meeting today and is taking evidence from a range of experts. The Finance Bill does not do that. It will take written evidence—a lot of that has arrived, and I thank all those who have sent it—but we do not get the opportunity to take oral evidence and interrogate the people who have the most knowledge on the implications of the Bill. If we took that evidence, we would make better, wiser decisions and more fully understand the implications of the Bill, and the Government could avoid making mistakes and having to come back and change things retrospectively in the next Finance Bill. It would be incredibly helpful if people such as the Chartered Institute of Taxation and the Institute of Chartered Accountants in England and Wales could come before the Committee and we could hear from them. I urge the Government to consider why that could be helpful to all of us in this Room, rather than just passing it over as not necessary.

The amendment tabled by the official Opposition is worthy, but I would caution them, slightly, with respect to its implications for Scotland. They have not considered fully how it would affect Scottish income tax rates. What we do in this Parliament has that impact. Scotland has a progressive taxation system, and we are proud of it. We have taken the measures we can within the restrictions we have. However, if that system is not considered within the amendment, that will miss out a huge chunk of the impact on the Scottish budget and mechanisms within it for funding the Scottish budget and all the things we want in Scotland. I would not, at this stage, be willing to support the amendment, because it does not encompass that aspect, and it should. Scotland should be kept in mind in many of the measures or suggested changes. I will conclude my remarks with that reasonable point.

Clause 1 accordingly ordered to stand part of the Bill.

Clause 2

MAIN RATES OF INCOME TAX FOR TAX YEAR 2020-21

Amendment proposed: 5, in clause 2, page 1, line 10, at end insert—

‘(2) The Government must lay before Parliament a review of the impact of the rates of income tax for 2020-21 within six months of Royal Assent, which must consider the following issues—

- (a) the effect on taxation revenue of maintaining income tax rates for 2020-2021; and
- (b) the effect of income tax rates for 2020-2021 on annual income for the following:

- (i) Households below average income, and
- (ii) High-net worth individuals as defined by HMRC.
—(*Bridget Phillipson.*)

This amendment would require the Government to assess the impact of the income tax rates in the Bill on tax revenues and on households and individuals of different income levels.

Question put, That the amendment be made.

The Committee divided: Ayes 5, Noes 10.

Division No. 1]

AYES

Oppong-Asare, Abena	Smith, Jeff
Phillipson, Bridget	
Ribeiro-Addy, Bell	Streeting, Wes

NOES

Badenoch, Kemi	Jones, Andrew
Baldwin, Harriett	Millar, Robin
Browne, Anthony	Norman, rh Jesse
Buchan, Felicity	Rutley, David
Cates, Miriam	Williams, Craig

Question accordingly negated.

Clause 2 ordered to stand part of the Bill.

Clauses 3 and 4 ordered to stand part of the Bill.

Clause 5

MAIN RATE OF CORPORATION TAX FOR FINANCIAL YEAR 2020

12 noon

Wes Streeting (Ilford North) (Lab): I beg to move amendment 6, in clause 5, page 2, line 18, at end insert—

“(3) The Government must lay before Parliament within six months of Royal Assent a review of current corporation tax rates which must contain an assessment of the following—

- (a) the effect on taxation revenue of maintaining the level of corporation tax rates for 2020-2021; and
- (b) the impact of the corporation tax rate structure on businesses of different sizes.”

This amendment would require the Government to assess the impact of the corporation tax rates in the Bill on businesses of different sizes and on tax revenues.

The Chair: With this it will be convenient to discuss clauses 5 and 6 stand part.

Wes Streeting: It is a pleasure to serve under your chairmanship, Ms McDonagh. These clauses, which maintain the corporation tax rate at 19%, represent the culmination of a five-year U-turn, painfully drawn out over three successive Conservative Governments and, by my count, at least four Conservative Chancellors.

Over the last decade, successive Conservative-led Governments have cut the headline rate of corporation tax from 28% to 19%, giving the UK the lowest headline rate in the G20. In the 2015 Budget, the Government announced a reduction in the corporation tax rate, from 20% to 19%, for the financial years beginning 1 April 2017, 1 April 2018 and 1 April 2019, with a further reduction, from 19% to 18%, for the financial year beginning 1 April 2020. In the 2016 Budget, the

Government announced an additional 1% reduction to 17% for the financial year beginning 1 April 2020. By November of last year, the Prime Minister had backtracked on that reduction, claiming that doing so would provide another £6 billion for our NHS. Here we are, debating clauses 5 and 6 to give effect to the Prime Minister’s commitment.

Circumstances have obviously changed significantly since the Prime Minister made that commitment to freezing corporation tax to make sure that funding was available for the NHS. What impact does the Minister believe that maintaining the corporation tax rate at 19% will have on Treasury revenues, in the light of the immediate impact of covid-19? We know that many businesses are already struggling to pay their taxes and that the tax burden they face is one of many considerations, which may include the viability of jobs, of commercial activity or even of the businesses themselves. Will the Financial Secretary tell us whether the Government plan to produce corporation tax revenue forecasts that factor in this new reality and that subsequently re-evaluate the projected tax revenues for the period covered by the Bill?

The anxiety is that, without sufficient forecasts and projections in the light of the circumstances through which we are living, revenues generated by those decisions will not necessarily deliver the funding that the Prime Minister intended for the national health service. Given that he has drawn a clear link between that policy decision on corporation tax and funding for the NHS, we want to ensure that he stays good to his word and commits to funding the NHS to the extent that was promised. All of us living through this miserable period in our history and our national life are particularly grateful to the national health service for the support it provides to all our constituents in the best of times, let alone the worst. I am sure that the Financial Secretary will agree that it is absolutely necessary to maintain NHS funding at the level required to see us through the pandemic and into brighter times, and that he would like to give us a commitment to ensuring that the forecast evidence base is made available.

In any event, building a stronger evidence base for corporation taxation rates is long overdue. We do not believe that the 19% tax rate goes far enough to ensure that corporations in this country pay their fair share of tax, particularly as the responsibilities on us all will increase throughout this crisis. Although there are significant pressures on the Treasury as a result of the immediate response to covid-19, we know that the long-tail effect—the recession that we are in and will be living through—will have a significant impact on decisions taken in the Treasury.

We have just endured a decade of cuts to our public services and, as we heard from my hon. Friend the Member for Houghton and Sunderland South, we know that the broader shoulders have not borne the greatest burden. Poverty in our country, particularly child poverty, has increased, and those who have felt the pain in their pockets have noticed the significant reduction in the provision of the public services upon which we all rely. Therefore, as we think about how to balance the books and take the country forward beyond this crisis, it is important that we get back to the principle that those with the broadest shoulders should bear the greatest

burden, and business, which has benefited enormously from Government support during the crisis, should pay its fair share.

The Association of Accounting Technicians notes that while a 19% rate may put us slightly ahead of the likes of Albania, Andorra, Bermuda and Kyrgyzstan, those nations are not our international competitors. Will the Financial Secretary tell us why the Government insist on maintaining a corporation tax rate that, as the Resolution Foundation highlights, sits well below the European average and that of our equivalent advanced economies? Does that show the Government's lack of faith in the UK's ability to attract business to this country while maintaining a robust and fair tax system?

We all value the contribution that business makes to our society. As this is a fairly early opportunity for me to speak to this issue since my appointment to the shadow Treasury team, let me say on behalf of me and my colleagues that we think business has a contribution to make to our country beyond that which it makes to the ability of Labour Governments to raise revenues for spending on public services—important though that is. During the lockdown we have seen how people are missing not just their friends and family, but many of the businesses that are currently shut down. Businesses provide not just tax receipts for Labour Governments to spend, or even jobs and opportunities, which are really important; they innovate, create and provide products and services that enhance everyone's quality of life. I am proud that this country remains an attractive destination for businesses to locate themselves and have their global operations, and that many people feel able to take the plunge and start up their own businesses.

Businesses are the lifeblood of our communities and high streets, and we value them and their contribution. That is not in doubt. However, the Government could easily increase the rate of corporation tax and raise additional revenues from those corporations without making us uncompetitive. Ministers ought to bear that in mind not just as they make unenviable decisions throughout the current crisis but as they look ahead to future fiscal events.

There is also the issue of equity. The Institute for Public Policy Research noted in its excellent work through its commission on economic justice that cuts in the principal rate of corporation tax over the last decade have occurred alongside an increase in national insurance contribution rates. That has resulted in a system whereby the burden of taxation is placed on businesses with lower profits that happen to have more staff, while more profitable businesses that employ fewer staff pay less. The Government's policy of maintaining the present rates is therefore fundamentally a commitment to inaction and does not address some of the disparities in how the business taxation burden falls. That is the point that our amendment fundamentally seeks to address, and I hope the Financial Secretary will address it.

The Opposition want to establish a stronger evidence base not just for the Treasury but for Parliament, looking at corporation tax rates and the impact of decisions taken in the Bill on the revenues generated. I hope that would prompt a more wide-ranging review of corporation tax and business taxation, looking at how the burden is felt by businesses of different sizes and types, and with different levels of profitability. I look forward to hearing the Minister's reply.

Jesse Norman: I will speak to the amendment and the clause. I would also like to touch on some of the themes raised by the Opposition Front Bench team and by the Scottish National Party, because those important issues need a proper interrogation.

Clause 5 sets the corporation tax main rate for this financial year beginning on 1 April 2020. Clause 6 sets the corporation tax main rate and the annual power to charge corporation tax for the financial year beginning on 1 April 2021. The Government support a competitive corporate tax system that allows UK businesses to flourish, boosts the economy and supports further inward investment in the country. For that reason, the Government have made successive cuts to the headline rate of corporation tax, with the main rate falling from 28% in 2010 to its current rate of 19% in April 2017.

At Spring Budget 2016, the Government announced that they were going to cut the rate further to 17% in April 2020 and legislated to deliver that in the Finance Act 2016. It is important that cuts to the corporation tax rate, and the benefits that they can provide to business growth and investment, are balanced against wider objectives. The Government's commitment to sustainability in public finances reflects that.

With that balance in mind, the Government announced at the Budget that the corporation tax main rate would remain at 19% in April 2020, rather than being reduced to 17%, and clauses 5 and 6 legislate for that change in rate for this tax year and the next. At the Budget, the Office for Budget Responsibility forecast that that would raise about £33 billion in additional tax receipts across the forecast period. That will enable the Government to further support the vital public services on which we all rely, including the NHS.

The Government remain committed to supporting investment in innovation through the business tax system. While the corporation tax main rate remains at 19%, the UK continues to offer the lowest headline rate of corporation tax in the G20. The Government also announced a series of generous capital release for business at the Budget, which are being legislated for in the Bill, including an increase in the R&D expenditure credit from 12% to 13% and an increase in the rate of relief for business investment in non-residential structures and buildings from 2% to 3%. The Government have also provided an unprecedented package of support for businesses in response to covid-19, as has been recognised.

Before I turn to amendment 6, I will pick up some of the helpful and interesting themes that the Opposition Front-Bench spokespeople have raised. The hon. Member for Houghton and Sunderland South thanked Treasury officials and the hon. Member for Glasgow Central thanked the Clerks. I echo those thanks. I am sure that they would also join me in thanking the officials at Her Majesty's Revenue and Customs, who have done an astonishing job in the last few months, especially in response to covid-19.

The hon. Member for Houghton and Sunderland South said that her key priority will be a focus on accountability with an emphasis on responsibility. The hon. Member for Ilford North highlighted that the Labour party is pro-business in a more generous and inclusive sense than had perhaps been understood by regarding business as merely a source of revenue to support public services, which I welcome. I encourage the scrutiny, which I think increases the authority of the

[*Jesse Norman*]

power that is being scrutinised, so it is a good thing in general. I welcome them both to what is an evidently responsible and highly competent shadow Front-Bench team.

I have a couple of further points. In relation to equity, hon. Members on both sides of the Committee know that many of those distribution analyses do not include the full welfare and benefit changes but focus on tax changes, which is one reason why it is hard to model them. It is important to be aware, however, that spending on public services was significantly increased in the spending round last summer. On the tax side, something like 29% of income tax is paid by the top 1% of earners.

On the question raised by the hon. Member for Glasgow Central about the status of women and equalities, which is an issue extremely near the hearts of Government Ministers—[*Interruption.*] I am delighted to hear the Exchequer Secretary behind me, fresh from her triumph in the urgent question, echo that. I am sure that hon. Members on both sides of the Committee know that 15.8 million women are in work at the moment, which is a record high that I am delighted about. The wages of the lowest earners have risen by 11% more than inflation over the four years from 2015 to 2019. The poorest 60% of households receive more in public spending than they pay in tax, and the lowest income decile will get more than £4 in benefits and public services for every £1 they pay in tax. It is important to see that those norms of equity and fairness that the Opposition rightly highlight are reflected in policy and shared by Government.

12.15 pm

Bridget Phillipson: When Ministers are considering these issues in response to the pandemic, may I ask that they look at evidence as it emerges? While the Opposition welcome and have supported the creation of, for example, the furlough scheme, our concern is that we know women are more likely to be furloughed than men and women risk losing their jobs in bigger numbers during the crisis. I welcome the Minister's comments about understanding the impact on the economy and within different groups, but I urge him to consider this issue as a Treasury priority.

Jesse Norman: The hon. Lady is absolutely right that as we work through this crisis and, as we all hope, come out the other side, there will need to be a more detailed understanding of the implications in data terms, how it has affected different groups and its distributional impacts. We have well-established procedures within existing frameworks, as she will know.

The question was touched on more generally by the hon. Member for Ilford North in relation to corporation tax, but we have a whole procedure of making updates to Parliament and a procedure for forecasting that is now independent, thanks to the decision taken in 2010 to create the Office for Budget Responsibility. That includes a fiscal sustainability report on the overall benefit of measures, which goes to his question about corporation tax revenues. Needless to say, the Government's support for the NHS is not contingent on the revenues from corporation tax; it goes much deeper than that.

The hon. Member for Glasgow Central raised many of these issues. She touched on a question in relation to the Scottish tax system. Of course, it is for the Scottish Government to review the effects of their decisions on income tax and the benefits for which they are responsible. At the same time, they can review their own progress on equality and inequality.

Turning to the hon. Member for Ilford North, I noted with support his inclusive approach towards business. That is very important. He asked about the impact of maintaining the tax rate at 19%. I have indicated that that is estimated to raise several tens of billions over the course of the spending round. What the effect of covid-19 will be on that we do not know, but, as I say, we have processes for evaluating and forecasting on that basis.

Amendment 6 would require the Government to conduct a review of current corporation tax rates, including the effect on tax revenue and the impact of the corporation tax rate structure on businesses of different sizes within six months of the Bill receiving Royal Assent. As I have mentioned, the OBR-certified Exchequer impact for this measure was published in table 2.1 of the Budget Red Book.

We recognise that the economic disruption created by the pandemic will have an effect on the tax revenue forecast at Budget. That will be monitored and changes will be made through the OBR principle and process to the forecast and reflected at the next Budget. HMRC also publishes corporation tax statistics annually, alongside a report that includes a breakdown of the amount and proportion of total corporation tax receipts paid by businesses at different levels of profitability. Therefore, the Government already publish the information called for in the amendment and the separate review legislated for in amendment 6 is, in our judgment, not necessary. I ask the Committee to reject amendment 6 and move separately that clauses 5 and 6 stand part of the Bill.

Alison Thewliss: Corporate taxation is not within the power of the Scottish Parliament. We have to live with the decisions that Westminster makes on this, but I am glad the Government have realised the error their ways in originally aiming to cut corporation tax. Given the money that would have been lost to the economy, that is wise.

The Minister mentioned the impact on women in work. Findings from various women's organisations suggest that coronavirus will have an impact on women's employment, and that employment will not recover unless there is significant investment in childcare to redress that as we come out of this crisis. If we were to take evidence from groups such as the Women's Budget Group, we would have a lot more detailed evidence on the impact of the proposed measures on women. I encourage him to look at that evidence and engage with the Women's Budget Group to consider how better we can have evidence brought from groups who have expertise in this area. Such groups have pointed out that women are more likely to be furloughed and more likely to lose their jobs. As the furlough scheme is wound up, they will face unemployment sooner than they would have anticipated as employers look at the scheme and say, "I can't afford to pay these wages. I'm just going to sack my staff." None of that necessarily relates to the amendment on corporation tax, but I want to make sure those points are on the record.

Jesse Norman: May I respond briefly, Ms McDonagh? The hon. Lady talks about the Government recognising the error of their ways, but there is a misunderstanding encoded in that view. The Government's goal had always been to set out a direction of travel because forward guidance has economic value in guiding private investment decisions, but of course all tax rates are constantly kept under review by the Treasury. As has been recognised and discussed in Committee, many considerations go into the decisions on what rate to charge, so I do not think it is fair to describe it as she has done.

Wes Streeting: We may well return to this issue in later stages of the Bill, so I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 5 ordered to stand part of the Bill.

Clause 6 ordered to stand part of the Bill.

Clause 7

DETERMINING THE APPROPRIATE PERCENTAGE FOR A
CAR: TAX YEAR 2020-21 ONWARDS

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

The Chair: With this it will be convenient to discuss clauses 8 and 9 stand part.

The Exchequer Secretary to the Treasury (Kemi Badenoch): It is a pleasure to serve under your chairmanship, Ms McDonagh. Clauses 7 to 9 make changes to set company car tax—CCT—appropriate percentages that favour zero and ultra-low emission cars until April 2023. As confirmed at Budget, these rates will be extended until April 2025. The clause also confirms that that the CO₂ emissions figure for the purposes of the CCT will be based on the worldwide harmonised light vehicle test procedure—WLTP—for all new cars first registered on or after 6 April 2020.

CCT is a benefit in kind for employer-provided cars that are available for private use. Although part of the income system, the appropriate percentages that determine the rate of tax paid by individuals are based on CO₂ emissions. There are currently around 900,000 company car drivers in the UK, and the benefit raises approximately £2.3 billion per annum. In July 2019, the Government announced that, for CCT, new cars first registered on or after 6 April 2020 will report CO₂ emissions using the WLTP, which is an improved emissions testing regime that aims to reduce the 40% gap that exists between current emissions reporting and real world driving. The Government announced that to smooth the transition to the WLTP, for cars first registered on or after 6 April 2020, CCT rates will be reduced by 2 percentage points in 2020-21 before returning to planned rates over the following two years.

To support decarbonisation, the Government also announced that all zero-emission company cars would attract a reduced CCT rate of 0% in 2020-21 and 1% in 2021-22, before returning to the planned 2% rate in 2022-23. To give certainty to company car drivers,

leasing companies and manufacturers, the recent Budget announced the extension of 2022-23 rates for an additional two years until April 2025.

The changes made by clauses 7 to 9 will confirm that all new cars provided to employees and available for private use that are first registered on or after 6 April 2020 will be taxed according to the CO₂ emissions figure measured under the WLTP. It is also clarified that cars first registered before 6 April 2020 will continue to be taxed on the basis of the CO₂ emissions figure measured under the new European driving cycle—NEDC—procedure.

The clauses also introduce reductions in the appropriate percentages for 2020-21 and 2021-22 for zero-emission cars and all cars registered on or after 6 April 2020. In addition, they make a number of minor technical amendments—for example, by clarifying that where the electric range figure is converted from kilometres to miles, the value should be rounded up to the nearest whole mile.

I urge that the clauses stand part of the Bill. The changes they introduce will aid decarbonisation by confirming the introduction of the WLTP and beneficial CCT rates for ultra-low and zero-emission cars. They will also provide welcome certainty to company car drivers, leasing companies and manufacturers on the future taxation of company cars until April 2025.

Wes Streeting: As this is our first exchange across a chamber, may I say how much I look forward to working with the Exchequer Secretary—and occasionally giving her the runaround—during our time together in these roles?

Let me begin with an overall observation, which is that this Parliament has declared a climate emergency. The country understands the extent to which irreversible, catastrophic climate breakdown is an existential threat to life on Earth and means serious disruption to our way of life. Actually, given the disruption that the pandemic is inflicting on all of us at the moment, lots of people are reflecting on the serious longer term disruption were we to allow such a catastrophic climate breakdown to take place. But here we are with this Finance Bill, dealing with one of the few areas in which the Bill tries to make any progress at all towards tackling the climate emergency by talking about car tax percentages. This is entirely reasonable and entirely straightforward, but it falls way short of meeting the challenge facing our country.

When Greta Thunberg addressed parliamentarians here in our own Parliament, she said:

“Avoiding climate breakdown will require cathedral thinking. We must lay the foundation while we may not know exactly how to build the ceiling.”

I am pretty sure that when Greta Thunberg talked about foundational measures, she did not have car tax at the forefront of her mind. Yet here we are with a Bill that, as we have already heard from the hon. Member for Glasgow Central, falls way short of meeting the challenge.

It is disappointing because the Treasury has a crucial role to play in promoting efforts to tackle destructive climate change. This ought to be a national mission for our country. As one of the largest financial centres in the world economy, the UK has a clear responsibility to

[*Wes Streeting*]

provide international leadership through the greening of our financial system. But we also know that the tentacles of the Treasury reach into every Department and can compel all sorts of behavioural change, can incentivise and disincentivise all sorts of policy change, right across the breadth of Government. I would like to see Her Majesty's Treasury showing far stronger leadership in that regard.

It is also the case that through taxation, either tax incentives or disincentives, created through punitive tax measures, we can effect behavioural change across the country. I therefore hope that the scope and ambit and the ambition of future Finance Bills live up to the challenge.

If Ministers are not persuaded by the exhortations of Greta Thunberg, perhaps they will tune in to the interview given by His Royal Highness the Prince of Wales just this morning. As someone who has been committed for decades to tackling climate change and to supporting biodiversity and the natural environment, he too makes a compelling case. I hope Ministers will take that on board.

12.30 pm

The provision is straightforward and there is nothing here for us to oppose, but I will point out the concerns highlighted by the Chartered Institute of Taxation about the complexity of the rules set out in the Bill. For example, we heard about WLTP emissions testing for cars registered from 6 April. The percentage on which the benefit is calculated is based on both emissions and electric range and varies from 0% for zero-emission cars to 37%. NEDC emissions testing for cars registered between 1 October 1999 and 5 April 2020 also calculates the percentage based on emissions and electric range, but is slightly different from that for cars registered from 6 April 2020, at least for the 2020-21 and 2021-22 tax years.

There are also special rules for bi-fuel cars registered from 1 January 2000, and separate rules for cars registered between 1 January 1998 and 30 September 1999, depending on whether the car has a CO₂ emissions figure. There are other, separate rules for cars registered before 1 January 1998. If Government Members have followed all that detail to the extent that I have outlined it, I am sure a bright future awaits them in a career at the Chartered Institute of Taxation after the next general election, when the results are flashed up as a Labour gain.

As I said, nothing here for us to oppose, but I hope that when the Minister replies, she addresses that point about complexity.

Alison Thewliss: There is indeed not terribly much to oppose here, but this is about the ambition of the Government to make a change, to make something different out of this Bill and to do something different. I draw the attention of Government Members to what Norway has done to increase the use of electric vehicles, so that 42% of its cars are now electric vehicles. The Norwegians did that with incentives such as no annual road tax for electric vehicles, company car tax reduction to 40% on electric vehicles, changes to purchase and import taxes, and an exemption from 25% VAT on purchase. They had an ambitious programme, and they

needed the infrastructure, but they took those actions and they saw a dramatic change in the number of electric vehicles as a result.

I encourage the Government to look at what can be done. If cars are to be around for some time to come, how can we make them better? In many parts of Scotland, for example, people need a car to get around. In large parts of rural Scotland it would be impossible to do anything other than have a car, but if we can make those cars electric vehicles, providing the plug-in infrastructure for them and the tax incentives to reduce their cost, we could make that change achievable. I ask the Government to be more ambitious.

Kemi Badenoch: I thank both hon. Members for the points that they have made and the good questions they asked. I reiterate that tackling climate change and improving the environment are top priorities of the Government. The UK is a world leader on climate change. The reason why we are doing this is to address several things at once.

Let us remind ourselves what the WLTP is. It is designed to ensure that we are reflecting real world driving conditions more accurately by including a longer test time. The aim is to reduce the 40% gap between lab tests and real world driving. We have put many other levers in place to address the broader issue of climate change.

I accept the point about complexity—I recognise the need to ensure that this does not have an overall impact on the consumer. One of the reasons why we are phasing it in this way is to better protect the automotive sector. I thank both Members for the points they made.

Question put and agreed to.

Clause 7 accordingly ordered to stand part of the Bill.

Clauses 8 and 9 ordered to stand part of the Bill.

Clause 10

APPRENTICESHIP BURSARIES PAID TO PERSONS LEAVING
LOCAL AUTHORITY CARE

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

Jesse Norman: Clause 10 exempts care leavers' apprenticeship bursary payments from income tax. This Bill contains areas on which there will be disagreements across the Committee, and areas that the Opposition Front-Bench team has noted that it wants to prioritise in scrutinising the Government, but there are other clauses that are essentially technical in nature on which I doubt there is any serious disagreement about their importance or intent. This, I suggest, is one of those clauses.

Young people who are in care or have left care who choose to start an apprenticeship receive a £1,000 bursary to help them to make the transition to the workplace for their practical studies. The extra financial support is for those aged 16 to 24 and living in England. Payments such as the care leavers' apprenticeship bursary would normally be subject to income tax, as such payments relate to employment. Changes made by clause 10 mean that bursary payments made to care leavers who start an apprenticeship are exempt from income tax.

The changes affirm the Government's commitment to support care leavers and ensure that those in receipt of the bursary can benefit by the full amount. The clause ensures that care leavers starting an apprenticeship will benefit from 100% of the bursary value. It is the right thing to do and I commend the clause to the Committee.

Wes Streeting: The Financial Secretary is right that he will not get much by way of argument from us. The bursary is obviously a laudable policy designed to support people in our society who lived in care as children and who far too often face serious disadvantages in terms of educational outcomes, employment opportunities and life chances.

It is a source of deep regret to me, as the son of a parent who spent time in care—care leavers are a big part of my family—that we have not done more as a country to narrow the attainment and opportunity gap for care leavers. Of course it is right that individuals who are in or have left local authority care who subsequently join an apprenticeship scheme should not be subject to income tax and national insurance contributions. We will certainly not oppose a clause designed to give effect to that.

I have some questions for the Financial Secretary about how the Bill deals with that, as much out of curiosity as anything else. There is an existing exemption in section 776 of the Income Tax (Trading and Other Income) Act 2005 for income from scholarships, which includes bursaries held by an individual in full-time education. Section 776 could have been amended to include the bursary payment, instead of introducing a new section to the Income Tax (Earnings and Pensions) Act 2003. I would be grateful if he could clarify why the Government have chosen to enact the provision by amending legislation in that way, rather than using section 776 of the 2005 Act.

I understand that it is the Government's view that the bursary is employment income rather than other income, but other bursaries are classed as other income, and care leavers could be entitled to bursaries outside an apprenticeship. I would be grateful if the Minister explained why the Government consider this bursary to be employment income. If it is employment income, legislation will be required to exempt the payment from national insurance contributions; if it is not, additional legislation might not be needed. Some understanding of that, for our interest and the interest of all those who follow proceedings such as these closely, would be welcome.

Alison Thewliss: Again, I am not looking to oppose the clause. The aim is laudable, but I want to highlight a couple of things about apprenticeships. Coronavirus could significantly affect the number of apprenticeships that will be available to young people this year and perhaps even into next year as well. What do the Government intend to do to make sure that those opportunities are not lost to a generation of young people who are leaving school as well as leaving care?

As you will appreciate, Ms McDonagh, if those young people do not have the opportunities that they should, the impact on them will be devastating—as it will be on society as a whole if their skills and talents do not go into the workplace. I implore Ministers to look carefully at that, to make sure that they do not miss those young people, and that those concerns are high on their agenda.

Apprenticeships can be transformational for young people. They can give them new opportunities and a chance to do something that they would never have anticipated through their family background or their ambitions growing up. It is vital to protect them in the months ahead.

I would also highlight the fact that the minimum wage rate for apprenticeships remains staggeringly low. The Government should look carefully at apprentices more generally. The bursary in the clause is fine and laudable, but apprenticeships for all young people need to be properly remunerated. Some of those young people will have families themselves and will be unable to take up those opportunities if they cannot afford to put food on the table because the apprenticeship rate is so low.

Not all young people live with their families, as the bursary recognises; but all young people who want them should have access to apprenticeships. I urge the Government to reconsider minimum wage rates more generally. There should be a living wage for everyone, but apprenticeship rates in particular are incredibly low in this country and they need to be addressed urgently so that all young people who want to can take up those places.

The Government could also look at the work done in the care review in Scotland. We appreciate that not all the things that could have been done to help young people have been done. The care review took an in-depth look at that. I urge the Minister to look at that and at what more can be done to support young carers in society.

Jesse Norman: Those were two useful, helpful contributions from the Opposition. The broad answer to the technical question raised by the hon. Member for Ilford North is that this is a cleaner and more direct way of addressing the problem; but I should be delighted to write to him and set out the reasoning in more detail.

The hon. Gentleman raised the question of other exemptions. As he will be aware, we are absolutely amenable to considering these things on a case-by-case basis, and if there are others that he thinks deserve further consideration, he is again welcome to write to me and we will give that a review.

The hon. Member for Glasgow Central raised a point about apprenticeship opportunities more widely, and she is absolutely right. The Government have already been leaning into the issue of apprenticeships, as she will know, through the levy. There is much more work to be done in this area, and it is well understood, certainly from the Prime Minister down, that the response to the coronavirus may well cause the Government to want to look at the whole area in more detail.

I cannot pass from this topic without drawing the hon. Lady's attention to a personal interest that I have, which is the New Model Institute for Technology and Engineering, in Hereford. That is the new university we are setting up precisely to integrate the academic and the vocational in a way that gives scope for very high value-added learning, using apprenticeships but also actual project work, in a way that is integrated into the engineering curriculum in many ways.

Question put and agreed to.

Clause 10 accordingly ordered to stand part of the Bill.

Clause 11

TAX TREATMENT OF CERTAIN SCOTTISH SOCIAL SECURITY BENEFITS

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

12.45 pm

Jesse Norman: I had hoped that we might be able to debate clauses 11 and 12 together, because in some respects they sit better together, but let me pick up clause 11 in its own right and we can then take clause 12 separately. The clause confirms that three new specifically Scottish social security benefits are not subject to income tax. The income tax treatment of social security benefits is legislated for in part 10 of the Income Tax (Earnings and Pensions) Act 2003. That Act provides certainty on existing benefits and needs to be updated when new benefits are introduced.

The Scottish Government are introducing three new benefit payments: the job start payment, disability assistance for children and young people, and the Scottish child payment. The tax treatment of those benefits is governed by the fiscal framework agreement between the Scottish Government and the UK Government, which sets out that any new benefits introduced by the Scottish Government will not be deemed to be income for tax purposes unless they top up or replace benefits deemed to be taxable already. The UK Government currently choose to clarify the treatment agreed in the fiscal framework through Finance Bill legislation, which is why we have the clause before us today.

The changes made by the clause ensure that these three new benefits are not liable to income tax, in line with the fiscal framework agreement between the UK Government and the Scottish Government. The clause is straightforward, clarifying and confirming the tax treatment of several welfare payments and introducing a new power to ensure that a simpler process may be used to effect future changes as may be needed. I commend the clause to the Committee.

Bridget Phillipson: The Minister made reference to the discussions we will have on clause 12, but the Opposition do not object to the principle behind this clause, which appears straightforward and to achieve its aim.

Alison Thewliss: I am happy to support the clause and the actions of the Scottish Government in bringing in these new social security measures, which will be of great benefit to the people of Scotland. My only regret is that we have to come asking the UK Government to put these measures into force—we would rather take care of all these things ourselves.

Question put and agreed to.

Clause 11 accordingly ordered to stand part of the Bill.

Clause 12

POWER TO EXEMPT SOCIAL SECURITY BENEFITS FROM INCOME TAX

Alison Thewliss: I beg to move amendment 8, in clause 12, page 7, line 2, leave out ‘may’ and insert ‘must’.

This amendment seeks to exempt all social security benefits from income tax.

The Chair: With this it will be convenient to discuss amendment 9, in clause 12, page 7, line 4, leave out from ‘benefits’ to end of line 5.

This amendment seeks to exempt all social security benefits from income tax.

Alison Thewliss: I am happy to move the amendment and speak to amendment 9, which The Scottish National party tabled just as a query. When we were looking at the Scottish social security system and the opportunity not to have income tax levied on social security benefits, it got us thinking about what the logic is of taxation on social security, because it is the Government giving with one hand and clawing back with another, resulting in an incredibly complex system where some benefits—indeed, some parts of benefits, some types of benefits and some subsets of benefits—end up liable for income tax whereas others are not. We end up with a cumbersome system that is difficult to navigate.

Our thought process in looking at the benefits was to ask why it should be that bereavement allowance, carer’s allowance, contributory and youth ESA, income-based ESA, some but not all incapacity benefit, industrial death benefit pensions, state pension, widowed mother’s allowance, widowed parent’s allowance and the widow’s pension are all taxable, whereas others such as personal independence payment, war widow’s pension and universal credit are not.

The young carer grant is not, but carer’s allowance is. There are a huge number of inconsistencies in the social security and income tax system, and our amendment seeks to ask: why should that be? Should we not look for a much simpler system, which would give people the money in their own hands without having to negotiate backwards and forwards with the Government? That would save the Government a job in clawing back that taxation and allow people to get on with their lives, rather than having to worry about what the taxman will take from their benefits. The SNP thought it was worthwhile exploring this issue with the Committee.

Bridget Phillipson: As with clause 11, the Opposition have no objection to what the Government seek to achieve in this clause. On the substance of the amendments put forward by the hon. Member for Glasgow Central, there are a few issues that I hope she will be able to clarify. She will be aware that the general principle is that a benefit is taxable if it is an earnings replacement benefit. As the Treasury’s tax benefit reference manual notes, the reason behind that is to avoid creating an incentive whereby an individual receiving social security benefits is better off than someone on a comparable income whose earnings are liable to tax. What consideration has she given to that potential outcome of her amendments?

My second observation is about the cost of the measure. I am grateful to the House of Commons Library, which has sought to estimate the cost. The cost of exempting all taxable social security benefits from income tax would be around £5.9 billion in 2020-21. Of that amount, 95%, or £5.6 billion, is attributable to the state pension. The Library’s analysis identifies that those in the top decile of income distribution would benefit the most, while those in the lowest would gain the least. I know that the hon. Lady cares very much about those issues, and I would be grateful if she addressed that point, because it strikes me that such an approach

would usually be regressive, and I would like to understand a bit more about the assessment of the distributional impact of such a policy.

Alison Thewliss: I thank the hon. Lady for her comments, which she is quite right to make—the Library analysis is really important. I am moving the amendments to point out just how complex the system is that there is of course a cost to having and administering such a system. People have difficulty navigating that system, because it makes it more difficult to claim what they are entitled to, particularly if they are moving from one benefit to another. Although I appreciate the points that she has made and understand why she made them, these are probing amendments to see what the point is and what the Government are doing to make an ongoing assessment of the logic of that complexity, for which there is a cost and a difficulty. Although I in no way deny the cost—I know the amendments have no prospect of being passed by the Committee—I would like the Government to consider carefully the impact of that complexity on individuals, and whether they can simplify the system, which is ludicrously complicated.

Jesse Norman: I thank colleagues for their contributions. As they have recognised, the amendments are very technical in nature. I will keep my remarks brief because, if we can, I would like to discuss clause 13 before we break, which will leave us a clear run at the afternoon. Clause 12 introduces a power that commits the Government to clarifying tax exempt status for future new social security benefits introduced by the UK Government or devolved Administrations using a statutory instrument. That power has a more general applicability and creates an additional flexibility that will be of value to Government in making changes to address needs more rapidly than at the moment.

The hon. Member for Glasgow Central tabled her amendments in an interrogatory—or probing—spirit, for which I thank her. My response has been very well articulated by the hon. Member for Houghton and Sunderland South. Scottish benefits are treated in line with the fiscal framework and, under that framework, which exists between the UK Government and the Scottish Government, only new benefits that top up or

replace an existing taxable benefit will be liable to tax. That is an established principle of taxation exactly to avoid the perverse incentives that might otherwise be created.

In addition to the questions raised by the shadow Minister about cost and equity, it is worth mentioning that the effect of entertaining the amendments would be to undermine the fiscal framework agreement and that longstanding principle of taxation. I ask the hon. Member for Glasgow Central, in a rhetorical spirit, whether she really means to overturn the fiscal framework that was hammered out over a number of years between those two sides. If she does, is it her intention to throw out other settled agreements between the Scottish Government and the UK Government within that framework? I suggest that that is not her intent and, because the meaning and purpose of the clause is clear, I commend it to the Committee and invite her to withdraw the amendment.

Alison Thewliss: I am indeed content to withdraw the amendment, but the point stands that there is an inconsistency within the system, in which a war widow's pension is not taxable but a widow's pension is. There are huge inconsistencies about which I have questions. The Minister is being mischievous when he suggests that I would want to undermine the fiscal framework, but he knows fine well that I long for the day when the fiscal framework is not necessary because Scotland is an independent country that makes for ourselves the full range of decisions about what is best for our people. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 12 ordered to stand part of the Bill.

The Chair: We now have four minutes to go. Does the Committee wish to move on to clause 13?

Jeff Smith (Manchester, Withington) (Lab): Let's take a break.

Ordered, That further consideration be now adjourned.
—(David Rutley.)

12.57 pm

Adjourned till this day at Two o'clock.

