PARLIAMENTARY DEBATES

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GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

Sixth Sitting

Thursday 11 June 2020

(Afternoon)

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Monday 15 June 2020

The Committee consisted of the following Members:

Chairs: † Siobhain McDonagh, Andrew Rosindell

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

Chris Stanton, Kenneth Fox, Johanna Sallberg, *Committee Clerks*

† attended the Committee

Public Bill Committee

Thursday 11 June 2020

(Afternoon)

[Siobhain McDonagh *in the Chair*]

Finance Bill

Clause 51

Meaning of "the responsible member"

2 pm

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

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

Clauses 52 to 55 stand part.

That schedule 7 be the Seventh schedule to the Bill.

The Financial Secretary to the Treasury (Jesse Norman): Clauses 51 to 55 come under the broad heading of a duty to submit returns in relation to the digital services tax. Having established that a group has DST revenues above the thresholds, it is appropriate for a group member, the responsible member, to provide Her Majesty's Revenue and Customs with the necessary information to assess the tax. That is a sensible way of requiring groups to administer the tax. They need to submit a return to Her Majesty's Revenue and Customs only when there is a potential liability, and they can stop doing so when it is clear that there will not be a future liability.

The group will be required to continue to submit a single return for each accounting period until an officer of HMRC provides a direction for the group to stop. The direction to stop will be given only when it appears that the threshold conditions will not be met. Put simply, the responsible member will be the point of contact between HMRC and the rest of the group. The effect is to make administering the new tax easier for the groups that will be liable for DST and for HMRC. It means that only a single return for HMRC will need to be produced when a group assesses its DST liability.

Clause 51 sets out which members of the group can be the responsible member and what can prevent a company from being a responsible member. Those are sensible precautions to reduce the burden of the tax as much as possible, recognising that it is intended to be a temporary tax. As we have already noted in Committee, groups are dynamic with members joining and leaving all the time. The best choice as the responsible member for a group at one stage may no longer be the best choice later. It is therefore necessary for groups to have the ability to change the responsible member, but where that happens, it is important that nothing is lost by the change of company, which is achieved by clause 52.

Clause 53 sets out the duty for a group to notify HMRC when it has met the DST threshold conditions set out in clause 45. Groups will have 90 days from the end of the accounting period in which they meet the threshold conditions to make the notification. It is important to say that we have listened to businesses in requiring notification after the period to which the notification relates, which gives groups the opportunity to collect the fullest information possible before making contact with HMRC to notify it of any liability.

As I have mentioned, groups are organic and details will change. Clause 54 sets out the duty for a group to notify HMRC when there is a change to the details registered under clause 53. Finally, clause 55 sets out the obligation of the responsible member to submit a return of information to HMRC.

The clause also introduces schedule 7, which provides further details about the obligations of the group and HMRC in relation to the return and ensures by that means that the figures and the return are complete and accurate. As the tax is new, a new set of rules is required to ensure that HMRC has the powers necessary to ensure that the correct amount of tax is paid by those from whom it is due. The new rules borrow and draw from existing concepts that will be familiar to many tax practitioners. The schedule does not grant HMRC any further powers in relation to the tax that do not already apply to other existing taxes. It grants companies the protections from those powers that they would expect from a fair and balanced tax administration. With that in mind, I commend the clauses and the schedule to the Committee.

Bridget Phillipson (Houghton and Sunderland South) (Lab): We have no real issue with the clauses, as they are understandable in the context of the overall measures proposed.

I will draw the Minister's attention to some technical concerns raised by the Institute of Chartered Accountants in England and Wales, which I hope he can address. In September 2019, it wrote:

> "Given the complexities which a business could encounter in identifying and quantifying DST revenues, we are concerned that notification within 90 days of the accounting period is unhelpful. It would make sense to tie this notification into the deadline for filing accounts—6 months for a plc or 9 months otherwise".

The institute also states that there should not be a need to notify HMRC in advance of the payment deadline, as

> "businesses will require more time to review their accounting records, analyse and quantify revenues to decide whether they are"

required to pay under the tax. It recognises that such obligations would not pose a problem for larger digital companies, but would be more problematic for marginal cases requiring "advice and review", so

> "the notification deadline should be aligned with the payment date."

Regardless of whether we believe that the measures go far enough, or whether the tax is set at an appropriate rate, we believe that its implementation and administration should be fair, to give businesses—in particular those that fall on the margins of the scope of the measure—adequate time to provide accurate calculations of what they should be paying. I invite the Minister to respond to those points to provide some clarification.

Robin Millar (Aberconwy) (Con): As much as we have heard excellent contributions on matters of delivery and on technical matters, which are far beyond my

knowledge of accounting and such, it strikes me that, as we are talking about the introduction of a new tax, this is the moment at which we should reflect on its meaning and on the purposes behind it.

The phrase that caught my eye is in clauses 53 and 54 —"Duty to". My sense is that tax should not be, or should not only be, a catch-up exercise—chasing after developments in industry and the disruption brought to different sectors. Nor should it be about how much money we gather, although that is clearly of keen and close interest to us. It is also about the privilege of membership of a community and of participation in the UK economy. I find it interesting that it falls to a Conservative Government to introduce a tax such as this, which I consider to be progressive in its nature and intent.

In support of that, I pray in aid consideration of the principle of permanent residence, for example. Permanent residence was traditionally attached to the ability to trade in a nation, and tax therefore followed. If not trading in—that is, without that permanent residence—someone would be trading with, so coming under a different regime. Now, we have disruption in the digital economy, which means that we are trading in even though there is no permanent residence.

I also point to the development in the understanding of value over the years. At one point, value was measured in amounts of gold, so the question was one of setting a price, or offering gold in return for something; that was in essence a measurement of weight. The free trade argument slugged that one out with the mercantilist over many years, but the free trade argument won because it made the case effectively that the value of gold could be expressed in terms of the labour required to extract it. Discussions of value therefore moved from a physical object to the notion of labour.

As the Financial Secretary to the Treasury mentioned earlier, we are now talking about user-generated value. The notion of value itself has changed, and there are many debates about what value is and how it is best measured and captured. I suggest that they are extremely relevant to a discussion of tax, especially the introduction of a new one.

To look at tax solely in terms of being punitive, a "fair share" or a certain quantum, is to miss the point. Returning to the issue of leadership that was mentioned this morning, tax properly administered is surely more than a statement of how much money we can collect. It is more a statement of what we are trying to become—tax used as an instrument of government. What kind of society do we wish to become? It is not even, as might be suggested, a statement of how well we can co-ordinate with other nations. For this Government—I am interested in whether the Minister agrees with me—it is a statement of leadership, of what we are trying to become as a nation and, in particular, how we are trying to capture value through the proper encouragement of those industries as they participate in our economy.

Jesse Norman: Let me start with the interesting remarks made by my hon. Friend the Member for Aberconwy. I think he is absolutely right to notice and bring to public attention the question of the basis of tax. He is absolutely correct to call upon an idea of tax as a privilege and obligation associated with membership of a community, and to highlight that that notion of tax, which in some sense has always been implicit in the idea of tax, is being drawn upon in this wider sense of a UK user contribution. He is absolutely right about that.

All government derives from the consent of the governed, as the cliché goes; but in order to give that consent, the governed must feel not merely that the tax is fair and equitable in its own right, but that it springs from a conception of government that fundamentally puts the wellbeing of society at its heart. In that sense, it is about not just an economic or fiscal change, nor necessarily who we want to become, but, as my hon. Friend said, who we are. It will come to no surprise to members of the Committee that I think Edmund Burke—one of my great heroes—put this well when he spoke about a nation as a moral idea. That is why the nation has historically been the basis of taxation: the nation provides the consent and, therefore, the guarantee of future taxation, which can underlie effective long-term public spending.

Going slightly beyond that point, it is notable that when crisis hits a country, that country and its Government must draw on that moral capital in pulling the alarm cable and using the power of taxation to secure future borrowing or future public spending that may be required to address the crisis. There is a very deep way in which my hon. Friend is getting to the centre of a very important fact about human life in democratic society, so I thank him for that.

On the more mundane and practical, but none the less vital points that the hon. Member for Houghton and Sunderland South made about notification periods, I will simply say this: these are businesses that keep this data in real time. Of course, it is by no means only UK companies that are caught by this tax. The whole point of a UK user contribution is to capture companies' revenue sources that might be derived from UK users and from that sense of community my hon. Friend the Member for Aberconwy mentioned, but without being resident as such in a formal tax sense in this country.

The data is immediate. The tax does not merely apply to UK companies. It does apply from the end of an accounting period—90 days after the end of an accounting period. We think that is a proportionate, appropriate and internationally recognised way of levying this tax.

Question put and agreed to.

Clause 51 accordingly ordered to stand part of the Bill.

Clauses 52 to 55 ordered to stand part of the Bill.

Schedule 7 agreed to.

Clause 56

MEANING OF "GROUP", "PARENT" ETC

2.15 pm

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

The Chair: With this it will be convenient to discuss clauses 57 to 59 stand part.

Jesse Norman: This group of clauses is again of a rather technical character and deals with some of the more detailed technical requirements of the new tax.

[Jesse Norman]

Clause 56 sets out the definitions of the terms "group" and "parent", which are used to define the companies and revenues that will be taxable for the purposes of the digital services tax. It should be read along with clause 57, which makes it clear that the definition of "group" will be the same as that used for accountancy purposes. The choice of using accountancy definitions to define the group is, again, to reduce the burden of this new tax and to make it as straightforward and comprehensible as possible. Wherever possible, the Government are seeking to minimise the burden of administering the tax by using concepts that already exist and are in common use, if for other purposes.

Clause 58 sets out the conditions that determine if a group has remained the same in different time periods. That will be relevant when members of a group change through acquisition, disposal or otherwise over time. Like the changes to the responsible member, these everyday business transactions of companies joining and leaving groups should not prevent the tax operating correctly and this clause ensures that these changes do not prevent the tax from applying.

Finally, clause 59 sets out the treatment of two or more entities that are treated as stapled to each other and are subsidiaries of a "deemed parent". This is a technical measure designed to enable the tax to work as intended in the widest possible circumstances. I therefore commend these clauses to the Committee.

Bridget Phillipson: These clauses are technical in nature and we have no questions to ask of the Minister.

The Chair: I cannot imagine that the Minister wants to sum up.

Jesse Norman: No, I am entirely content with the summary that has been given by the hon. Lady.

Question put and agreed to.

Clause 56 accordingly ordered to stand part of the Bill.

Clauses 57 to 59 ordered to stand part of the Bill.

Clause 60

ACCOUNTING PERIODS AND MEANING OF "A GROUP'S ACCOUNTS"

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

The Chair: With this it will be convenient to discuss clauses 61 to 63 stand part.

Jesse Norman: These clauses, which are again of a thoroughly technical nature, provide more details on some of the aspects we have been discussing already in relation to the digital services tax.

Clause 60 sets the time period over which a group will account for revenues from relevant business activities for DST. This will usually be the period of account of the parent company of the group, which reduces the administrative burden as far as possible for these groups. They will be able to use figures they collect for other purposes wherever possible.

Clause 61 sets out how revenues and expenditure will be apportioned when a group's period of account does not coincide with an accounting period. For example, many groups make up their accounts to 31 December each year. For 2020, their accounts will be for the 12 months to 31 December. However, for DST, their accounting period will only be nine months, from 1 April 2020 to 31 December. There is a mismatch in periods, and this clause enables the accounting figures to be used for DST by taking the correct proportion of those accounting figures.

Clause 62 sets out what is meant by

"revenues arising, or expenses recognised, in a period"

for the purposes of the DST legislation. Both of those terms mean the figures recognised in accordance with the applicable accounting standards for that period. Again, this demonstrates that the Government are seeking to minimise the burden of administration as much as possible by using figures that already exist for other purposes. Finally for this group, clause 63 sets out the definition of various terms relating to accounting standards for the purposes of the legislation. I commend these clauses to the Committee.

Bridget Phillipson: Once again, these clauses are technical in nature, and we have no further comments for the Minister in this area.

Question put and agreed to.

Clause 60 accordingly ordered to stand part of the Bill.

Clauses 61 to 63 ordered to stand part of the Bill.

Clause 64

ANTI-AVOIDANCE

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

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

Clause 65 stand part.

That schedule 8 be the Eighth schedule to the Bill.

Clauses 66 to 69 stand part.

That schedule 9 be the Ninth schedule to the Bill.

Clause 71 stand part.

Jesse Norman: These clauses and schedules, again technical in nature, are also essential to the effective working of the digital services tax. Clause 64 sets out anti-avoidance provisions for the tax, and I make clear that the digital services tax has not been introduced to counteract avoidance of other taxes by digital groups. It is not about targeting particular businesses; it is a temporary measure designed to address failings in international tax rules. This clause provides HMRC with the power to counteract arrangements that may be designed or used to reduce the amount of DST that a group may have to pay. There are also safeguards within the clause that ensure the counteraction provisions do not apply when the tax advantage obtained was within the spirit of the rules.

Clause 65 sets out the process by which HMRC can collect unpaid DST liabilities from other members of the same group. This is particularly relevant to DST, as the companies liable to the tax may not be resident in the UK. Therefore, to assist HMRC in collecting unpaid debts, it will be possible for it to issue a notice to other members within a group it intends to collect the debt from.

Schedule 8 is introduced by clause 65, and provides further detail about how the notices operate. The combined effect of clause 65 and schedule 8 is to ensure that unpaid debts are collected wherever possible.

Clauses 66 and 67 set out at which rate, and when, interest will be due or required on DST payments that are made early or late, as the case may be. This will mirror the rates and timings found in corporation tax, and will therefore be familiar to many practitioners.

Clause 68 sets out that any DST liability is recoverable as a debt due to the Crown, the effect of which is to ensure that HMRC can collect any amount of DST that goes unpaid.

Clause 69 simply introduces schedule 9, which sets out provisions for minor consequential amendments in other enactments that are required as a result of the introduction of the DST. Primarily, these relate to interest rates, penalties and other tax administration processes.

Clause 71 sets out the meaning of various key terms used in the Bill relating to DST, and I commend the clauses and schedules to the Committee.

Bridget Phillipson: We have no substantial issue with these clauses, and obviously we welcome the inclusion of an anti-avoidance provision. As has been evident throughout the course of the discussions in Committee on this section of the Bill, it is a complex area, and we know that many large digital companies use intricate methods with considerable skill in order to reduce their tax liability. I mentioned earlier that some stakeholders have referred to the need for extra capacity at HMRC to make sure that this tax is properly administered and its impact properly accounted for. How confident is the Minister that anti-avoidance strategies will be adequately detected when the overall difficulties in administering the tax are taken into consideration?

Moreover, the Government's website states that HMRC must counteract such arrangements by making such adjustments as are just and reasonable. The Minister touched on this in some of our earlier discussions, but I would be grateful if he could elaborate on exactly what a just and reasonable adjustment for tax avoidance arrangements entails. As I have already set out earlier today and in other debates we have had, the scale of tax avoidance practices by digital multinational enterprises is large and the methods that they adopt are intricate. The Government's record so far in this area does not inspire a great deal of confidence on the Opposition Benches, and I would be grateful if the Minister could allay some of our concerns in this area.

Jesse Norman: I am grateful to the hon. Lady for raising those questions.

The first question she raised was about extra capacity. I think we touched on this already, but it is worth just saying that HMRC already has a digital services team in place. The tax requires, in the first instance, companies to come forward with a process of self-assessment, which HMRC can then assess and view. From that point of view, this is a tax that is designed to minimise administrative burdens, not merely on the groups being taxed but on HMRC itself.

It is also worth saying that one of the extraordinary aspects of the past few months has been that HMRC has been able to show itself remarkably flexible in the way it has operated, and this might be a moment to pay due tribute in respect of that. Although it is an enormous organisation, it has been very flexible in several different areas. The first was in reconfiguring its business to be able to deal with staff absence in the face of coronavirus, which has been extremely effective. The second has been in being able to configure its services in order to match the evolving demand. A classic example would be that many services that were being handled by telephone interactions are increasingly being handled by text interactions or chats. Many services that were being handled through office phone interactions are being handled through phone interactions at home.

HMRC has been very flexible in that regard. Almost the most salient aspect is that it has been able to bring a succession of schemes into play, such as the furlough scheme, the self-employment scheme and the statutory sickness pay scheme. That flexibility of organisation has allowed it to move incredibly quickly to put those schemes in place and thereby support the lives and livelihoods of millions of people. If someone had asked me at the beginning of year whether I would be publicly accountable for an organisation that would end up supporting the lives and livelihoods of some 10 million to 11 million people, I would have been very surprised indeed, but that is what has happened. I pay great tribute to the officials and staff at HMRC, and of course the Treasury, for their public spirit and service.

The hon. Lady asked how confident I am about anti-avoidance. Of course, anti-avoidance is an ever shifting and evolving pattern, and it is right to raise that question. If the past is any guide to the future, there will prove to be aspects of avoidance that are not contemplated at the moment and against which we may have to take future care, but the Bill provides a very broad capacity for HMRC to counteract arrangements that are designed to reduce the amount of tax that the group may have to pay through the digital services tax.

2.30 pm

This can apply to any type of arrangement that appears to have, or in fact has, a main purpose of achieving a tax advantage. An example might be that a group could attempt to reduce its DST liability by arranging with willing customers to provide valuable digital services for free and instead charge very high fees for an item of trivial value that the customer does not need. The effect of that would be, pretty plainly, only to reduce the amount of DST to be paid, and of course the group might argue that that revenue was unconnected to the digital service. The clause prevents such behaviour. Were such an arrangement to exist, the taxable revenue figure would be adjusted accordingly, to ensure that no tax was avoided. There are also safeguards, as we have discussed.

The tax, in general, is hard to avoid because it is based on a group's revenues and on the location of the user, so although one cannot predict the future in any great capacity, the breadth of the legislation allows it to head off a lot of putative tax avoidance in advance.

There is a "just and reasonable" rule. Where it can be argued that an arrangement does not have the main purpose of avoiding the DST, it gives scope for HMRC to recognise that, and therefore not to catch it within enforcement proceedings. That is a fair and equitable adjustment process that respects the natural justice that we would always associate with a well-levied tax.

Question put and agreed to.

Clause 64 accordingly ordered to stand part of the Bill.

Clause 65 ordered to stand part of the Bill.

Schedule 8 agreed to.

Clauses 66 to 69 ordered to stand part of the Bill.

Schedule 9 agreed to.

Clause 70

REVIEW OF DST

Bridget Phillipson: I beg to move amendment 7, in clause 70, page 53, line 8, leave out "before the end of 2025" and insert "within a year of Royal Assent and annually thereafter"

This amendment would require the Government to report on the DST annually.

The Chair: With this it will be convenient to discuss new clause 11—*Digital Services Tax: review of effect on tax revenues*—

(1) The Chancellor of the Exchequer must make an assessment of the net effect on tax revenues of the introduction of the Digital Services Tax and lay a report of that assessment before the House of Commons within six months of the passing of this Act.

(2) This review must also include an assessment of the revenue effect of the Digital Services Tax on tax payable by the owners and employees of Scottish Limited Partnerships.

This new clause would require a Government assessment of the effect on tax revenues of the DST, and in particular the change in revenues associated with Scottish Limited Partnerships.

Bridget Phillipson: Clause 70 would require the Treasury to conduct a review of the digital services tax before the end of 2025. Our amendment 7 would require a report to be provided annually. It has become clear from our debates in Committee today that the tax poses a number of different challenges to businesses and Government alike. That is why we have tabled an amendment that calls for a yearly report on the tax.

Earlier in our discussions, I highlighted that there is a substantial gap between the revenues of multinational digital companies and their tax liabilities, and that they are ultimately estimated to be underpaying on what is required. Even the Government's modest predictions of what the tax will generate are in question. I appreciate that, as we discussed earlier and this morning, it can be difficult to arrive at such estimates with any degree of certainty. That said, the figures for the amounts that the Government intend the digital services tax to generate are quite modest.

I refer again to the OBR's assessment of the Government's costings methodology in 2018. It said:

"Every stage of this costing is uncertain. We have assigned uncertainty around data as 'high', uncertainty around behaviour as 'medium-high' and, given the complex multi-stage costing methodology, uncertainty around modelling as 'very high'."

Part of that is due, the OBR states, to behavioural responses, which could include

"reclassifying revenue currently in scope as being out of scope, particularly for groups with mixed business models; altering business models to generate new revenue streams that are out of scope; and profit shifting. The costing allows for attrition rising to 30 per cent by 2023-24."

It is clear that the already limited takings of this tax could be reduced further by the practices of digital companies to reduce their liabilities. Yearly reporting would confirm whether such concerns are justified and would highlight what more the Government need to do to ensure that such companies pay a fair and appropriate amount of tax. A detailed yearly report would also help us to understand the distributional impact of this tax—whether, as the Chartered Institute of Taxation notes, it under-taxes businesses with high profit margins and over-taxes those with low profit margins.

The merits for regular reporting are also made clear in the Government's response to their consultation in July of last year. They noted that respondents to the consultation believed that thresholds for the tax should be reviewed and potentially increased over time, given that the digital sector is characterised by rapid growth. Again, as we heard from Government Members, the pace of change in technology requires us to be fleet of foot in our response. Does the Minister not agree that the arguments put forward in his own Government's consultation make the case for more regular reporting, and even a review of these measures?

Despite the strong justification for regular and transparent reporting, the Government have committed only to a review by 2025. We find it strange that they are unwilling to consider a more regular review of what is, to put it quite lightly, a contentious tax, even if one accepts the principles underlying it, as Opposition Members do.

As I have said throughout the debate, the times we are living through demand much more ambitious action. It is imperative that those with the broadest shoulders—including the digital giants, who are doing pretty well out of this crisis—bear a responsible amount of the burden. I am sure that the Minister would acknowledge that that reflects public sentiment on this issue, which has shifted over time; that is why the Government felt capable and confident about bringing forward this tax in the first place.

Perhaps the Government's unwillingness to report regularly on the tax is a case of managing expectations, as highlighted by the Chartered Institute of Taxation, which says that the measure is not

"aimed at stopping profits arising in the UK being shifted by multinationals out of the UK to tax havens",

adding that

"it is unlikely to raise amounts that materially affect the country's finances, particularly in the context of the amounts being spent on COVID-19 measures."

Therein lies the importance of yearly reporting, so that we can see how much these companies pay in tax, and whether more needs to be done.

That brings us to some wider issues around tax transparency and the Government's approach to supporting companies during this crisis. We appreciate that the Government had to respond with real speed in making sure that people stayed in work and that our companies

remained afloat in order to emerge from this period. However, at the same time, there can be no excuse for the level of tax avoidance in the UK in recent years. The vast majority of businesses do the right thing, including the many on our high streets that are so well respected and are very much regarded as part of the community, providing a much broader service to the public. I think there will be a growing public expectation that businesses should see that there is fairness within the system.

That is why we have also been urging the Government, in the measures brought forward both here and more broadly, to consider issues around fair tax practices, environmental standards and preventing share buy-backs where pandemic-specific Government and public support is offered to particular industries. One need only look at the action taken by the Labour Government in Wales to understand that it is possible for the Government to bring forward additional measures to safeguard public money, so that we do not see abuse in this area and that we see fair and just tax practices.

We discussed international co-operation and the need for a multilateral response. The Minister will be aware that my hon. Friend the Member for Liverpool, Walton (Dan Carden), who is also a member of our Front-Bench team, has raised with him in parliamentary questions some issues around building support at an international level for comprehensive and effective reform of the taxation of multinationals, instead of advocating partial patch-up measures targeting only the very large, highly digitalised companies, while continuing to adopt unilateral measures such as the diverted profits tax.

The issue around tax transparency specifically is that the UK will not allow the OECD to publish aggregate country-by-country data. I am aware that the Minister said in response to my hon. Friend that that was because of technical deficiencies within the system. I would be grateful if he said more about that. We all want to understand any efforts being made by some of these multinationals to avoid paying their fair share, and we all want to make sure, at this time of national crisis, that our public services can rely on the funding they need to get through this time.

If the takings of the tax turn out to be as limited as some might fear, it would of course further the argument that we need to implement more wholesale and ambitious measures to tax multinational digital enterprises. That is the approach that the Opposition will continue to call for.

I also want to highlight a concern raised by many stakeholders, including the Chartered Institute of Taxation, that there is no sunset clause in the legislation. Does the lack of such a clause suggest that the Government are willing to maintain this measure indefinitely, despite its imperfections; or will they continue to keep it under review? If the latter is the case, it strengthens the argument for annual reporting.

Finally, the new clause tabled by the SNP appears constructive. In many ways, it is similar to our amendment on assessing the effect of the tax, although perhaps within a timeframe within which its impact will not have been fully felt. Although we are sympathetic to the proposal, I should be grateful to hear a bit more about the aspect of the new clause that relates to Scottish limited partnerships.

Jesse Norman: I very much appreciate the hon. Lady's comments. I will speak to the amendment and to clause 70, as well as to the SNP's new clause 11.

Clause 70 requires the Government to review the DST and submit such a review to Parliament in 2025. It is a Government priority to secure an appropriate global solution to the corporate tax challenges posed by the digital economy, as we have discussed. As we have also said, once such a solution is in place, the DST will be removed.

Should the DST remain in place in 2025, the review will consider whether it continues to meet its objectives and whether international reform means that it is no longer required. However, it remains our strong preference to agree and implement an appropriate global solution, and to remove the DST as soon as possible.

The hon. Lady raised a point about the absence of a sunset clause. The 2025 review allows a context in which the Government can have an in-the-round consideration of whether this tax—were it, unexpectedly, still on the statute book—was doing its job and if it is, how it could be improved, and if it is not, where it could be tweaked to further advantage.

The amendment would require the Government to produce a review of DST annually rather than in 2025. It is not clear what the hon. Lady means by a review, but there are already very substantial processes in place. HMRC regularly reports on the taxes that it is responsible for collecting and DST will be no exception to that. It will be possible for parliamentarians and the public to scrutinise what tax has been collected by this measure. It is a new tax, so there may be some variety or it may come in higher or lower than expectation.

A review in 2025 as a backstop ensures that, should the DST remain in place at that point, its continuing relevance can be considered against the relevant circumstances at the time. However, the Government keep tax policy under continuous review through the annual budget process and, as I have said, it is our strong preference to agree and implement an appropriate global solution.

Bell Ribeiro-Addy (Streatham) (Lab): The Minister said that tax policy was constantly under review and that if things changed, so would the legislation. What is the logic against an annual review? Is that not more flexible than waiting until 2025?

2.45 pm

Jesse Norman: A review in the formal sense is a substantial undertaking. It is something that is done periodically to assess the viability or effectiveness of taxes. Given the amount of scrutiny that exists on existing tax, and given the fact that this is a new tax, that scrutiny will be carefully exercised. No doubt it will be scrutinised in Parliament as well, through the usual channels.

The case for a review comes when there has been a period of time in which one can establish and look at the track record and effectiveness of the tax. As I have said, however, we do not expect it to be on the statute book, because processes are under way internationally through the OECD that we expect to bring about a global solution that will be satisfactory to us and to the other countries involved.

Bell Ribeiro-Addy: I am trying to understand what the Government's understanding of temporary is. How long is temporary—five years? The Minister has said that it is a temporary measure. I understand what he is saying about a review being a substantial undertaking, but if the measure is meant to be temporary, do the Government have set guidelines about what they think temporary is?

Jesse Norman: It is not often that I am invited to engage in philosophical speculation on the nature of time. Temporary, as far as I am aware, does not have a definition in law. We are framing the measure in the context of currently existing practices and discussions within the OECD. We expect those to come to fruition in the next five years.

As a long stop date, we have left a review in 2025 in place, but of course the Treasury may decide to vary that, or indeed the Government may decide to take it off the statute book, if such a process is forthcoming. The hon. Lady will be aware that taxes have a tendency to mutate. When the income tax was introduced by William Pitt, it was allegedly temporary, but it was temporary only for a while and then came back. It is a good point, however.

I will turn to a couple of wider points mentioned by the hon. Member for Houghton and Sunderland South. She talked about tax avoidance, and she will be aware that, as I have touched on, the Government have done a great deal to tackle and address tax avoidance; there are several such measures in the Bill, which I thank the Opposition Front-Bench team for supporting. Indeed, it is worth noting that the tax gap has continued to fall, which reflects the excellent work of successive Administrations. That is over and above the passage of a variety of measures designed to cut down on tax avoidance and evasion and, of course, an anti-promoters strategy, which is currently the subject of consultation with the public and which we hope to bring to fruition later this year. A series of initiatives is already under way, in addition to much previous work in that area.

On the issue of country-by-country reporting, the hon. Lady will be aware that we already, with the strong encouragement and support of the Government and our predecessors, have private country-by-country reporting, which was an important move forward. The difficulty is that public country-by-country reporting requires a measure of international consensus. If it does not have that, it runs the risk of setting all kinds of incentives that might actually have the effect of undermining the policy and the transparency that we move to, so it is an evolving position in this country, as in the OECD. We hope that the general move towards more integrated global solutions and greater transparency is one that we can reach in all those areas.

The SNP new clause 11, which would require the Government to report to the House within six months of the Act passing—

The Chair: Order. I am sorry to interrupt, but unfortunately I did not see Stephen Flynn indicate that he wanted to speak. Would the Minister mind if I brought him in first?

Jesse Norman: I am more than happy to bide my time, Ms McDonagh.

Stephen Flynn (Aberdeen South) (SNP): Thank you, Ms McDonagh, and I thank the Minister for allowing me the opportunity to speak to new clause 11, of which there are two parts. The first relates directly to the digital services tax and the second relates to Scottish limited partnerships in relation to the DST. I shall come to that in due course, to address, I hope, the concerns of the hon. Member for Houghton and Sunderland South.

With direct reference to the new clause and DST, the Minister has taken great pains to stress that this is a new tax, and because of that we need to take things slowly. However, I feel there will still be a strong element of cynicism in the public domain about how effective the tax will be, which his why we have tabled new clause 11. Such cynicism would certainly be justified. Earlier we heard about Amazon as an example of a large multinational corporation that benefited from the lack of direct taxation. For instance, last year I believe it paid £220 million in direct taxation in the United Kingdom, despite revenues in excess of about £11 billion. That is neither sustainable nor fair.

As to fairness, we heard at great length earlier about online retail's impact on high streets across the United Kingdom. We need not go far to see that many shop fronts are now derelict because of the change in consumer habits. I suggest that those habits are unlikely to change, particularly for people in the younger generations who have become accustomed to sitting in the comfort of their home ordering what they want, and getting it delivered in a day or two.

That being the case, we need to create an element of fairness, which will allow revenue to be gained and income put back into the system. I imagine Members can think of many avenues for spending that revenue, but perhaps it could be spent to provide local authorities with the finance they require to invest in city centres and transform them into something better. The issues relating to DST have perhaps never been as relevant as they are now, given the prevalence of online retailing.

We also need to be mindful during the pandemic of the fact that many companies in Scotland and the United Kingdom face an extremely bleak future, and will still have to pay their fair share, as they have always done. It is unacceptable for us to be in such a situation. That is why I welcome the measure, although it could perhaps have been dealt with in a way that sought to bring in more revenue. Many companies will be in extremely challenging circumstances, through no fault of their own, and we must have a system that provides fairness, as they would expect.

Netflix was discussed earlier. I understand, as do Members on both sides of the Committee, that it might not have the same financial burden of payment as Amazon. I did not ever think I would use this phrase in the Houses of Parliament, but rather than "Netflix and chill" the expression should surely be "Netflix pay your bill." The reality is that it has coined it and has not had to pay back. No fair-minded person can support that.

I appreciate the Minister's comments and understand his position: we need to see where the OECD is coming from in its approach. Ultimately we need a global, sustainable position on online taxation; everyone recognises that, but the Government have been slow in getting to the point where they are now, and they could have gone

further. The new clause allows them to reflect on where they will be. As I have said, public cynicism will continue to be rife.

That brings me to the second element of the new clause, which relates to Scottish limited partnerships. As all those present are aware, the future of SLPs has been contentious. My colleagues in the Scottish National party have on numerous occasions suggested to the UK Government that changes need to be made, and that SLPs need to be brought under control. After all, they are not taxable in the UK if none of their members is resident there. There is a concern—a justifiable concern—that SLPs may be used to avoid DST. That is the crux of where we are coming from and it is an extremely reasonable concern, given the propensity of SLPs to be used for tax evasion in the past.

I do not wish to suggest that Amazon or the like will follow the pathways that many of the organised crime groups have in trying to funnel money through SLPs, because that is obviously not the same argument to be having, but the reality is that SLPs and the framework that they provide would allow for avoidance to take place, and we should all want to do everything that we possibly can to limit that.

Up to now, I think it was reasonable to say that the Government's record on SLPs has not been good enough, to put it mildly and candidly. I hope that a recognition of our proposal in new clause 11 with regard to SLPs will be taken on board, out of a commitment to end the sorry practice of those partnerships.

Jesse Norman: I thank the hon. Gentleman for his contribution to the debate on this clause and for the points he has made.

It is worth pointing out a couple of things. First, I have talked a little about the Government's record on issues of avoidance. The hon. Gentleman talked about cynicism. What is interesting is that the public are perhaps more discerning than he thinks, and I do not think that there is cynicism about this issue. In fact, although I have not looked at any polling on this issue, I think the public are generally highly supportive of this measure. It is not a tax on retail; it is a tax on user-generated content. However, the understanding that there was a problem in the application of international tax rules and that it needed to be addressed is widespread, and I think there is a recognition—for those who would get their heads around this tax—that this measure is part of a response to that problem, as indeed is the wider OECD programme.

Stephen Flynn: I perhaps did not convey it correctly, but I think the cynicism will derive from the fact that the public will not regard the levels that are being put in place as sufficient to bring in the revenue that they should. These companies have benefited exponentially in recent years, and the figures that the Government expect in terms of revenue pale into insignificance compared with the revenue that these companies ultimately bring in. I think that is where the cynicism will arise.

Jesse Norman: There are two points here. One is the question of what the right level is. As we have discussed, this tax is designed to raise what by any other standard would be a pretty substantial amount of revenue—£2 billion over five years—and at the same time to establish a category of taxation that, in and of itself, is an important category. We have talked about some of the wider philosophical implications of that with my hon. Friend the Member for Aberconwy as well, so I think there is recognition of it.

Of course, it is also worth saying that, in relation to Scottish limited partnerships, the Government have recognised the problem, we have consulted and considered, and we are framing a legislative response to it. So there is also recognition of that problem.

The effect of the new clause would be to require the Government to report to the House, within six months of the Bill's passing into law, the effect of the DST on tax revenues, and in particular the effect on the tax payable by the owners and employees of Scottish limited partnerships. Of course, this is a tax on groups, not a tax on individuals, whether those individuals are employees or owners; therefore, that is where the tax will fall.

In addition, DST payments will not be required until after the end of the relevant accounting period for each liable group, and thus payments will not be required until 2021. So the report that the hon. Gentleman describes would not contain any useful information. The DST's reporting deadlines mean that very few groups would have needed to register and no groups would have been required to send in their return by that point. The report would not provide useful information about DST receipts.

We have talked about the importance of reporting and reviewing, but the effect of the new clause would be to pass a requirement to report with very little information and with very little purpose to it. I therefore commend clause 70 to the Committee and urge it to reject amendment 7 and new clause 11.

Bridget Phillipson: I would like to press amendment 7 to a vote.

Question put, That the amendment be made.

The Committee divided: Ayes 6, Noes 10.

Division No. 3]

AYES

Flynn, Stephen	Ribeiro-Addy, Bell
Oppong-Asare, Abena	Smith, Jeff
Phillipson, Bridget	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 negatived.

Clause 70 ordered to stand part of the Bill.

Clause 71 ordered to stand part of the Bill.

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

3.2 pm

Adjourned till Tuesday 16 June at twenty-five minutes past Nine o'clock.

Written evidence reported to the House

FB24 WTT Consulting

FB25 Armadillo Support Limited

FB26 The Loan Charge Action Group

FB27 Self-Employed Alliance