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Public Bill Committee

FINANCE BILL

Ninth Sitting

Thursday 18 June 2020

(Morning)

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Monday 22 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 18 June 2020

(*Morning*)

[Siobhain McDonagh *in the Chair*]

Finance Bill

Clause 99

Tax relief for scheme payments etc

11.30 am

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

The Chair: With this it will be convenient to discuss schedule 14.

The Financial Secretary to the Treasury (Jesse Norman): It is a delight to see you in the Chair, Ms McDonagh. Welcome to day six of our deliberations—or is it day five? It feels like many more. At the start of the Committee, I said that we were like pilgrims in "The Pilgrim's Progress", and that hopefully we would get through the slough of despond. I venture to say that we have made it over the hill of difficulty, but perhaps not quite reached Calvary or the place of deliverance.

Clause 99 and schedule 14 exempt payments made under the Windrush compensation scheme and the troubles permanent disablement payment scheme from income tax, capital gains tax and inheritance tax. The Government deeply regret what happened to many members of the Windrush generation. The Windrush compensation scheme was launched in April 2019 and is a key part of the Government's righting those wrongs. It compensates individuals who have suffered loss by being unable to demonstrate their lawful status in the United Kingdom. The compensation covers a number of areas, including loss of income, denial of access to social security benefits and incorrect detention. Similarly, the troubles permanent disablement payment scheme makes payments in acknowledgment that, during the troubles, many individuals suffered permanent injury through no fault of their own. It also aims to address the adverse financial impact that troubles-related disablement can have on individuals and families.

Payments made under schemes such as these are often made entirely free of income tax without the need for legislation, but there are circumstances where income tax may apply. Payments could be taxable if they were made to reinstate taxable social security benefits or in respect of a terminated employment. All types of payments could be subject to inheritance tax or capital gains tax if they exceed the relevant thresholds. Clause 99 and schedule 14 will ensure that payments made under the Windrush compensation scheme and the troubles permanent disablement payment scheme are exempt from income tax, capital gains tax and inheritance tax.

The changes reaffirm the Government's commitment to the Windrush generation and to those who suffered as a result of the troubles, and give certainty about compensation to claimants. The clause also introduces a new power to allow the Government to extend the definition of "qualifying payment" to other compensation schemes, allowing the Government to act more quickly to clarify the tax treatment of any necessary future compensation schemes, including those set up by foreign Governments. As we have seen, payments from such schemes can begin before it is possible to pass legislation in a Finance Act to exempt them from those taxes. Exempting such payments from tax in the past has not been controversial, and I hope it will not be so today and in the future.

The clause provides tax exemptions and gives clarity to those eligible for payments under the Windrush compensation scheme and the troubles permanent disablement payment scheme. I therefore commend the clause and the schedule to the Committee.

Wes Streeting (Ilford North) (Lab): It is a pleasure to be here for what is likely to be our final day of line-by-line scrutiny of the Bill. It is important to remember that the reason why we are discussing clause 99 is in no small part, as the Minister alluded to, due to the Windrush compensation scheme, which is the culmination and inevitable consequence of the appalling circumstances of the aggressive and deeply destructive hostile environment pursued by the Government over the course of the past 10 years. As Wendy Williams said in her review, the Windrush scandal, which saw so many people's lives completely disrupted, and in many cases ruined, was the result of "foreseeable and avoidable" systematic operational failings, so it is right that the Windrush compensation scheme was established. The House has considered those issues many times.

It is a source of deep regret, to put it mildly, that fewer than one in 20 people who have made claims under the Windrush compensation scheme have been paid so far. I want to take the opportunity, as we are discussing clause 99, to restate again our view that the Government must act much more quickly. People are owed that compensation, although the financial compensation will never fully compensate for the emotional and mental trauma that British citizens suffered as a result of the Windrush scandal.

It is appalling that we have added insult to injury by moving so slowly on compensation claims, even where they have been made. Of course, as the Minister outlined, the clause improves conditions for people accessing such schemes, whether the Windrush compensation scheme or the troubles permanent disablement payment scheme, so we have no objection to the clause.

Alison Thewliss (Glasgow Central) (SNP): It is regrettable that so many people are still waiting for their money through the Windrush compensation scheme. I urge the Minister to do everything he can to make sure that the money gets out the door.

It is useful that the clause allows for future schemes so that there will, hopefully, be fewer delays and less confusion for people in future about the impact of those schemes. We want to make sure that, where wrongs have been done, people can get the money that they are entitled to in compensation as swiftly as possible.

Jesse Norman: I thank both hon. Members for their comments. To pick up on the last point, the hon. Lady is absolutely right about the value of building in capacity

to respond more quickly in future. It is noticeable that the Chartered Institute of Taxation, which is well respected across the Committee, commented that,

"This is a sensible move from the government to help… It is also encouraging to see that the bill…will make it easier in the future for payments…to be made tax-free, without the need for fresh legislation."

That very much remakes the point she made, and I thank her for that.

On the point about the numbers paid out, I completely understand the concern and I know that other Ministers do as well. There is a balance between due process and speed. Of course, the compensation claims have to be agreed on both sides—the offers have to be accepted—for them to be payable. It is important that the hon. Members have put their concerns on the record, and I fully share them.

Question put and agreed to.

Clause 99 accordingly ordered to stand part of the Bill.

Schedule 14 agreed to.

Clause 100

HMRC: EXERCISE OF OFFICER FUNCTIONS

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

Jesse Norman: Clause 100 is a technical measure that makes changes to put it beyond doubt that tasks that are being done by an individual officer of Her Majesty's Revenue and Customs may be carried out by HMRC using a computer or other means. It ensures that the intention of Parliament is appropriately reflected in the legislation and confirms that the rules work as they have been widely understood and applied over many years. No new charges or obligations for taxpayers will result. The changes merely clarify legislation.

If I may explain the context for the introduction of the clause, the Government announced by written ministerial statement on 31 October 2019 that it would legislate retrospectively and prospectively to confirm notices to file tax returns and penalty notices issued by HMRC through automated processes as valid. That long-standing practice has been challenged in the courts on the basis that the legislation states that some tasks are to be carried out by

"an officer of the Board."

The relevant legislation in the Taxes Management Act 1970 is 50 years old and was designed to support a paper-based manual tax system.

The way in which HMRC administers the tax system has evolved over time, in line with taxpayers' expectations for a modern and digital system. Decisions made by HMRC officers are often given effect by computer-driven processes, so that HMRC can assess and collect taxes in the most efficient and cost-effective way.

Harriett Baldwin (West Worcestershire) (Con): As he expatiates on the value of digital technology to tax collection, will my right hon. Friend share with the Committee his thoughts on making tax digital and how the recent opportunity to make furlough payments has shown the value of a digital tax system?

Jesse Norman: My hon. Friend makes an acute comment. The response to covid has undoubtedly highlighted the need for greater investment in digitisation within the tax system, and specifically put a greater emphasis on the ability to reach taxpayers quickly to respond to a national emergency and to improve resilience.

As my hon. Friend will be aware, we are introducing making tax digital for VAT, but it is widely thought that there is a case for taking it further. We have it under close consideration. As her question highlights, taxpayers—and people more generally—expect nothing less than to have a tax system that is digital, effective and integrated, and not one where the lack of digitisation can be exploited for the purposes of legal suit.

To avoid any doubt, the clause clarifies the legal basis for the existing policy, which has been in place for many years, allowing for the use of automated processes. It puts beyond doubt that the law operates in the way Parliament intend it to and as it has been widely understood to work to date. It does not introduce new or additional obligations, and will help to ensure the tax system applies fairly to all, while preventing loopholes opening up in tax law that could be exploited by people who do not wish to pay their proper share of taxes.

The changes made by the clause will clarify that tasks being done by an individual officer of HMRC may be carried out by HMRC using a computer or other means. The legislation is treated as always having been in force. The effect of that is to protect over £100 billion in tax revenue, already collected. Failure to legislate would result in enormous disruption and uncertainty for taxpayers and HMRC alike. For these reasons, I commend the clause to the Committee.

Wes Streeting: The Government have brought forward clause 100 for obvious reasons. As we have heard from the Minister, it is patently absurd that we would be in position where HMRC was dragged through legal processes simply because section 8 notices were issued used automated processes, for example.

There is obviously a good case to be made for applying ever-changing technology to improve the efficiency of processes within HMRC's systems, to try to improve the customer experience of HMRC customers, which, as we know as constituency MPs, can sometimes be very good and sometimes be absolutely abysmal. Where HMRC can automate processes to free up people time, the focus should be on redeploying those people to try to give people and the state overall a better service. There is nothing to quibble about there.

It is important to lay down a cautionary note about how automated processes and algorithms are used, particularly when it comes to decision making that can have substantial impact on citizens, organisations and businesses. Writing in *Tax Journal*, Catherine Robins and Steven Porter of Pinsent Masons were critical of the Government's announcements, arguing that:

"Some of HMRC's powers can have very serious consequences for taxpayers and the fact that a human being has to decide to exercise them is an important safeguard, which should not be eroded."

I share their concern, up to a point. I think it is important that there are safeguards, checks and balances and, ultimately, opportunities for people to appeal to human judgment, to account for technical error and to

[Wes Streeting]

appeal technical error. As the capacity and scope of technological change continues to widen, it is even more important that Ministers and civil servants think very carefully about the application of technology and whether it is indeed right and proper for a decision to be made by an automated process rather than a human being.

Those are much bigger, wider principled and ethical considerations. For the reasons that the Minister has outlined, clause 100 is a perfectly reasonable and sensible provision, and it is one that we are happy to support.

11.45 am

Alison Thewliss: I want to raise some of the concerns expressed to us by the Institute for Fiscal Studies' Tax Law Review Committee, which sent an extensive note earlier in the week. It is looking for ministerial reassurance that the powers will not be used without proper consultation and discussion of safeguards to replace the discretionary decisions, especially about penalties, currently made by human officers. It is the discretionary point that I am most worried about. We must not get to a situation where computer says no and that is the end of the story, because sometimes it can be quite difficult for businesses to get the decision pulled back and unpicked, and reconsidered.

I will highlight the case of uploading real-time information, because businesses in my constituency had serious issues with the technology for uploading RTI prior to coronavirus and now find themselves unable to claim under the job retention scheme, for example. That has been an issue with technology, and it has been very difficult to resolve it. Meanwhile, those businesses are on the brink, on the point of going bust, with employees whom they are struggling to pay. That is because in an emergency it is difficult to unwind a technical, computer-based decision, made months ago.

I ask for reassurance about the automating of discretionary decisions. What safeguards will be put in place to ensure sure that no businesses find themselves in a situation where they cannot unpick a decision made by a computer, and to ensure that they will be able to speak to a human who has discretion and is able to exercise it effectively?

Jesse Norman: Again, I thank Opposition colleagues. Let me pick up a couple of the points raised. The hon. Member for Glasgow Central asks for safeguards, and of course she makes a very important wider point. In a rule of law society we want as little discretion as possible to be exercised—and, in particular, personal discretion—so it is important that within HMRC there is baked in a culture of accountability for decisions. From that point of view, nothing is changing. This measure is ratifying an existing set of arrangements by putting them on a legal basis. However, I can reassure her that the issue of safeguards and the balance of powers between HMRC and taxpayers is taken very seriously, and I have specifically commissioned work within HMRC to ensure that that balance is appropriately maintained, not just at customer level but more generally.

The hon. Lady and the hon. Member for Ilford North raised the question of decision making more generally. I think I have, in a way, spoken to that, but I recognise that there is a distinction between the automated exercise of a decision and the capacity to make a decision itself. Of course, HMRC does increasingly rely on computerised systems, and it is absolutely right for our purposes as a nation that it should do so. It is, for example, inconceivable that we could have responded to coronavirus with either the self-employed scheme or the furlough scheme without heavy reliance on computing. It is to HMRC's enormous credit that it was able to commission and bring into effect a platform and an approach to those schemes in a matter of weeks, using that computing expertise. I also agree with the hon. Gentleman when he points out that there are benefits not merely in terms of customer service, but in freeing up people and, we hope, improving the quality of work by taking HMRC staff away from the more routine operations and more towards higher quality work that can give more professional satisfaction.

Question put and agreed to.

Clause 100 accordingly ordered to stand part of the Bill.

Clause 101

RETURNS RELATING TO LLP NOT CARRYING ON BUSINESS ETC WITH VIEW TO PROFIT

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

Jesse Norman: Again, this is a technical measure. Clause 101 makes changes to put beyond doubt that where an LLP is found not to trade for profit, HMRC can continue to amend LLP members' tax returns using income tax rules as it has always done, in the same way that it does for general partnerships. It ensures that, as with the previous clause, the intention of Parliament is appropriately reflected in the legislation, and it confirms that the rules work in the way they are widely understood to work, and as they have been applied since they were introduced in 2001. To ensure that this is plainly and unequivocally understood, the measure is introduced with prospective and retrospective effect back to that date—2001—with the result that the changes simply clarify and support the legislation and continue to meet taxpayers' expectations. Again, they do not result in any new charges or obligations for taxpayers.

By way of context, limited liability partnerships are a legitimate means of structuring business activity. They are used successfully by the vast majority of partnerships: for example, by many large law and accountancy firms that operate for profit. Since the LLP rules were introduced in 2001, HMRC has always treated LLPs and their members' tax returns under income tax rules on the same basis as any other partnership. That is widely understood and accepted by the vast majority of taxpayers, but it has been challenged in the courts on the basis that where an LLP is found not to trade for profit in line with its partnership tax return, the law does not support its treatment under income tax rules. The upper tax tribunal recently confirmed that HMRC's long-held tax treatment of LLPs is correct. This decision overturned an earlier decision of the first-tier tribunal that had judged it incorrect. However, as the matter is still in litigation, putting the matter beyond doubt in legislation will provide certainty for LLP taxpayers.

Such legal challenges come from a small minority who are intent on avoiding paying their tax and looking for technical loopholes to do so. They seek to use

limited liability partnerships to create losses and to share and then offset them unfairly against their members' personal income in their own tax returns. That is not fair either to the Exchequer or to the vast majority of honest limited liability partnerships. The Government are legislating to prevent such practice.

The measure introduces three conditions that clarify the position and apply where an LLP delivers a partnership return; where the basis of that return is trading with a view to profit; and where it is found that the LLP was not trading with a view to profit. This clarifies the legal basis relating to LLPs that submit partnership returns where they are subsequently found not to be trading for profit, allowing HMRC to amend LLP members' tax returns in such circumstances, as it has always done, to remove any unfair tax advantage. The clarification does not introduce any new or additional obligations or liabilities for taxpayers and it prevents loopholes from opening up in tax law that could be exploited in future by those seeking to avoid paying their fair share.

The changes made by the clause clarify the treatment of LLP partnership returns where the LLP is found to be operating without a view to profit. It permits HMRC to amend such returns using income tax rules, as it has always done. The legislation is introduced with retrospective effect, treating it as always having been in force. This is necessary in order to maintain the status quo, provide certainty for taxpayers, and protect about £2 billion of tax revenue that has already been collected. It also ensures that people seeking to avoid tax do not secure unfair and advantageous treatment due to the exploitation of perceived loopholes in legislation.

The policy is not new and nothing will change for taxpayers. No new or additional liabilities will be created and HMRC's policy and processes will continue to operate in the way that they have for many years. It provides clarity for taxpayers and ensures that there is a fair and level playing field for all. I therefore commend the clause to the Committee.

Wes Streeting: Limited liability partnerships are a legitimate way of structuring business activity that is used successfully by the vast majority of LLPs that operate for profit. There is no doubt about any of that, but as we heard from the Minister this morning, there have been too many examples of LLPs being used for the purposes of minimising people's tax liabilities, effectively to avoid tax. Of course, Opposition Members take a very dim view of that.

Clause 101 seems to be a sensible provision, intended to help HMRC to close down tax-avoiding structures that use LLPs to generate and spread losses that the partners use to offset against their other personal income. Let the message go out that people ought to act within not just the letter but the spirit of the law, and if they cannot find in themselves the moral scruples to do that, this House will have no hesitation whatsoever in changing the letter of the law to make sure that people do the right thing and pay their fair share.

Jesse Norman: The hon. Gentleman has made the point extremely well, and with his support I hope the Committee will agree to the clause.

Question put and agreed to.

Clause 101 accordingly ordered to stand part of the Bill.

Clause 102

PREPARING FOR A NEW TAX IN RESPECT OF CERTAIN PLASTIC PACKAGING

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

Jesse Norman: Clause 102 ensures that Her Majesty's Revenue and Customs can make preparations to introduce a new tax in respect of certain plastic packaging. The new tax will apply to plastic packaging that is manufactured in or imported into the UK and that contains less than 30% recycled plastic.

Plastic waste is a very serious global issue. Often, it does not decompose. Indeed, it can last for centuries in landfill, or it ends up littering the streets or polluting the natural environment. More than 2.2 million tonnes of plastic packaging are produced in the UK each year. The vast majority is made from new plastic, rather than recycled material, because recycled plastic is often more expensive to use than new plastic.

To tackle this problem, the Conservative manifesto reaffirmed the commitment to introduce, from April 2022, a world-leading new tax on the manufacture and import of plastic packaging that does not contain at least 30% recycled plastic. The tax will provide a clear economic incentive for businesses to use recycled material in the production of plastic packaging, which will create greater demand for this material, and in turn stimulate increased levels of recycling and collection of plastic waste, diverting it away from landfill or incineration.

This follows an initial announcement of the tax at Budget 2018 and consultation on the high-level design in 2019. In its response to the consultation framework, the Chartered Institute of Taxation welcomed the Government's measured approach to the implementation of the tax. Many respondents agreed with the initial proposals on the tax design, although there were areas where some respondents disagreed.

The Government took this feedback into consideration, announcing in response that we would extend the scope of the tax to include imported filled plastic packaging that contains less than 30% recycled plastic, given concerns about the impact on UK competitiveness without that adjustment. The Government are currently holding a further consultation on the detailed design and implementation of this tax, to ensure that it works as intended and so that businesses have time to prepare for it.

Clause 102 is a technical provision to ensure that HMRC can make preparations for the introduction of the new tax, such as incurring expenditure on the development of an IT system. Alongside this, HMRC is developing the detailed legislation to introduce the tax. We expect that this will be published in draft for technical consultation later this year, before being implemented in a future finance Bill.

In conclusion, the clause forms the first part of the legislation needed to introduce the plastic packaging tax. I therefore commend it to the Committee.

Wes Streeting: For very obvious reasons, it is quite right to move ahead and use the tax system to incentivise good behaviour, to reduce our reliance on plastics, particularly products using new plastics, and to improve the take-up and use of recycled plastics.

That is why this proposal received such widespread support in response to the Government's consultation, and I recognise and welcome the fact that the Government responded favourably when the majority of respondents made representations about wanting the tax to be extended to imported filled plastic packaging.

In his remarks, the Minister addressed some of the questions I had about the timetable for introducing draft legislation, and when we can expect it to be implemented. Next year's finance Bill feels a long way away, and, because of the events we are living through, finance legislation and a finance Bill might be introduced sooner. On the basis of the merits of this policy and the impact it is likely to have on the use of plastics in our country—we certainly hope it will have such an impact—we would support the Government if they were presented with the opportunity to move further and faster. I urge the Minister to consider doing so.

12 noon

Jesse Norman: I thank the hon. Gentleman for his comments. As he will know, the introduction of any new text requires great care and attention, which is why, as he rightly highlighted, we have taken such a deliberate approach to consultation. However, I thank him for his support and note his suggestion. With that, I commend clause 102 to the Committee.

Question put and agreed to.

Clause 102 accordingly ordered to stand part of the Bill.

Clause 103

LIMITS ON LOCAL LOANS

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

Jesse Norman: This is another small, technical measure. Clause 103 makes changes to ensure that Public Works Loan Board lending is available to local authorities in order to support worthy capital endeavours that benefit their residents. There is a statutory limit on the total amount that may be lent to local government through the PWLB, a limit that is governed by section 4 of the National Loans Act 1968. That Act allows for two future levels of that limit to be specified in advance through primary legislation and activated through secondary legislation.

The legislation would be exercised through HM Treasury. A date to exercise these powers has not been, and would not usually be, set in advance. The Treasury considers this clause to be a high priority because of the central role the PWLB plays in the capital finance system, supporting local authorities to deliver public services and, still more urgently, supporting communities through the pandemic as the need may arise.

The changes made by clause 103 will amend the predetermined legislated figures in the 1968 Act. The limit is currently £95 billion, and the clause resets the two future amounts to £115 billion and £135 billion. Clause 103 thus ensures the continuity of PWLB lending, which is a key stream of funding for local authorities across the country.

Harriett Baldwin: I know that Worcestershire County Council finds the Public Works Loan Board very useful. Can the Minister update the Committee on the interest rate charged on that facility?

Jesse Norman: That is a very helpful question. I cannot update the Committee at the moment, because, as my hon. Friend will know, that is a matter for consideration within the Treasury. However, she has usefully put the issue on the record, and I thank her for doing so.

Wes Streeting: Clause 103 gives me an opportunity to speak to some of the challenges facing local authorities and the role that the Public Works Loan Board can play. I also want to knock on the head some of the assertions that have been made about local government finances and the sensible use of borrowing by local authorities across the country to invest in local infrastructure and works that benefit their residents. I speak not just as my party's shadow Treasury spokesperson, but as a former deputy leader of the London Borough of Redbridge and a current vice-president of the Local Government Association.

Local authorities have done a remarkable job managing their finances sensibly and effectively during a very difficult decade. Not only was the public sector broadly hit by cuts, but local authorities felt the brunt because those cuts were both deep and front-loaded. The local authority response to those challenges over the course of the past decade has, to be frank, been remarkable. The same can be said for the ingenuity of many local authorities in making sensible and wise investments that not only improve the lives of their residents but generate income that can then be ploughed back into frontline services and mitigate the impact of central Government cuts. I think I speak for people right across the Local Government Association, regardless of their party, in saying that, as well as devolving power without resources, the Government have too often devolved blame. I hope that Ministers will consider that. I will address the issue this afternoon, when debate the new clauses.

There have been some rather unhelpful and misleading headlines about local authorities borrowing to invest in local projects. Of course, as with central Government, we will always be able to point to decisions that, though made with the best of intentions, do not work and incur a liability for the public purse. If public funds are not used widely, it is absolutely right that there should be scrutiny, lessons learned and accountability. It is fair to say, however, that in the vast majority of cases where local authorities have drawn on the Public Works Loan Board, their approach has been sensible, effective and well deployed. It is important that the facility continues to be made available to local authorities in the same way.

When Ministers consider not just this Bill but impending decisions by the Treasury, I urge them to recognise the awful impact of covid-19 on local authorities. In responding

to the Secretary of State's plea to do whatever it takes to get their communities through the crisis, not only have their costs risen; their income has also fallen significantly. I urge Ministers to think carefully about the demands they place on local authorities, particularly in terms of loan repayments during this period, and to consider whether more could be done.

Stephen Flynn (Aberdeen South) (SNP): I have had a look at the figures. Scottish local authorities are due to repay £793 million of PWLB interest and principal debt over the financial year 2020-21. Given the extreme challenges facing local authorities, does the hon. Gentleman agree that it would be sensible if the Treasury considered mitigating those debt repayments?

Wes Streeting: I am grateful to the hon. Gentleman for his intervention. The Government have to look very carefully at the liabilities facing local authorities and how they are having to balance them against other demands and challenges. As I have said, in addition to creating cost pressures, the pandemic has had an impact on local authority income, too. In that respect, local authorities really are all in this together, whether they are Labour, Conservative or SNP. There are challenges for local authorities right across the United Kingdom. As we will discuss when we come to the new clauses, some communities have been affected more than others. None the less, the challenges are universal.

I hope that Ministers will take that on board and that they will listen very carefully to the representations from the Local Government Association, which is cross-party but Conservative controlled. We will do our best to remedy that in next May's local elections. I hope that the representations Ministers receive from Conservative LGA leaders—and not just Opposition party representatives—will help them understand the challenges that local authorities are facing, particularly as they have been unable to collect around £1 billion in combined business rates and council tax income during the crisis so far.

I also impress upon Ministers the importance of Government keeping their word to local government. When local authorities were asked to do whatever it takes—and whatever it took—to get communities through the covid-19 pandemic, they took the Secretary of State for Housing, Communities and Local Government at his word and they delivered. Now, they expect to be reimbursed, as was promised. The Government have given some additional funding to local authorities, but it is a drop in the ocean when compared with the cost pressures they face and the fall in income.

With that, I am content to support the clause, and I hope that the wider points that it has enabled me to make have been heard and well understood by the Treasury, and not just the Ministry of Housing, Communities and Local Government.

Jesse Norman: I will just move the clause, if I may.

Question put and agreed to.

Clause 103 accordingly ordered to stand part of the Bill.

Clauses 104 and 105 ordered to stand part of the Bill.

New Clause 1

WORKERS' SERVICES PROVIDED THROUGH INTERMEDIARIES

"Schedule (Workers' services provided through intermediaries) makes provision about workers' services provided through intermediaries."—*(Jesse Norman.)*

This new clause introduces the new Schedule inserted by NS1.

Brought up, and read the First time.

Jesse Norman: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss Government new schedule 1—*Workers' services provided through intermediaries.*

Jesse Norman: The new clause and new schedule 1 make changes to ensure that the off-payroll working reform is extended to medium and large-sized organisations in all sectors outside the public sector from April 2021.

The reform moves the responsibility for determining whether the off-payroll working rules apply from an individual's personal service company to the client engaging them. It also requires the client, or the party paying the individual's personal service company to account for and deduct employment taxes where they are due, rather than that responsibility resting with the individual's personal service company. The change is not the imposition of a new tax, but is focussed on improving compliance with the already existing off-payroll working rules.

The off-payroll working rules have been in place for nearly two decades. They are designed to ensure that individuals who work like employees but through their own personal service company pay broadly the same income tax and national insurance contributions as those who are directly employed. Without those rules, nothing prevents individuals from being engaged off-payroll simply to reduce the tax and national insurance contributions rightfully due.

Personal service companies have traditionally had to self-assess whether the rules apply. Unfortunately, non-compliance with the off-payroll working rules outside the public sector is widespread. The public sector reform has demonstrated that organisations engaging individuals are better placed to assess the employment status for tax of that individual.

There have been several attempts to tackle non-compliance with the rules in recent years. In November 2015, the Government carried out a consultation on how to improve the effectiveness of the off-payroll working rules. Since then, the Government have carried out three further consultations on reforming the rules. During this period, several alternatives to the original off-payroll working rules were suggested. The Government fully considered alternative proposals as part of the extensive consultation process on the reform.

In general, the approaches suggested would create a group of people who are exempt from the employment status tests and subject to a separate and advantageous tax regime, which the Government did not consider to be fair to the majority of working individuals who are subject to the existing boundary between employment and self-employment. Options such as administrative changes and strengthening HMRC's compliance response were also discussed, but the consultation found that those would not be sufficient to tackle the problem.

[Jesse Norman]

The off-payroll working rules were reformed in the public sector in April 2017, shifting the responsibility for determining whether the off-payroll working rules apply from an individual's personal service company to the public sector client engaging them. That was because organisations are better equipped to make the correct employment status for tax assessments than are individual contractors, and HMRC is better able to monitor their compliance. This reform is effective in reducing non-compliance with rules: it raised an estimated £250 million in additional revenue in the first 12 months, with independent research showing that it did not damage the flexibility of the labour market.

12.15 pm

Following the successful implementation of the reform in the public sector, the Government announced at Budget 2018 that it would address the unfairness elsewhere in the labour market by extending the reform to the private and voluntary sectors from April 2020. In developing these latest changes, the Government have listened carefully to feedback from the implementation of the public sector reform and held many sessions with stakeholders since then to improve the design of the reform for all sectors.

Non-compliance with the rules outside the public sector remains widespread and is forecast to cost the Exchequer more than £1.3 billion a year by 2023-24 if not addressed. This is not sustainable. It denies the taxpayer revenue for important public services and perpetuates an unfairness between individuals who may work in the same way but pay different levels of tax. It also results in a disparity of tax treatment between the public sector and other sectors.

The changes made by new clause 1 and new schedule 1 would move the responsibility for determining whether the off-payroll working rules apply from an individual's personal service company to medium and large-sized organisations across all sectors that receive the individual's services. This change will not apply to engagements with the 1.5 million smallest businesses. It is important to note that this change is not an imposition of a new tax, but focused on improving compliance with off-payroll working rules that already exist.

The new clause and new schedule were originally published in draft in July 2019. HMRC took a number of steps ahead of the scheduled introduction in April 2020 to ensure organisations were ready for the reform. In November 2019, HMRC launched an enhanced version of the check employment status for tax—CEST—tool. HMRC worked with more than 300 stakeholders to make the tool clearer, reduce user error and consider more detailed information. HMRC also set up dedicated teams providing education and support to all organisations affected, including one-to-one support for 2,000 of the UK's biggest employers and direct communications to around 40,000 medium-sized businesses. This was supported by workshops, guidance, online learning and roundtables to help those organisations make the right decisions.

The Government also conducted a review of the implementation of the reform, which was published in February 2020, and announced that HMRC would take a supportive approach to compliance in the first year of the reform, with penalties being applied only in cases of deliberate non-compliance. The new clause and new schedule are being introduced at this stage via a Government amendment with a new commencement date of 6 April 2021. That follows the announcement of a delay to the introduction of the reform on 17 March 2020, as part of the Government's covid-19 economic response package. This ensures that businesses and contractors will not have to implement and adjust to the reform until next year. HMRC will continue to provide a comprehensive package of education and support in the run-up to the new implementation date, building on the extensive preparations made in anticipation of the original implementation date that I have already outlined.

The Government very much value the important role that contractors play in the labour market and want businesses to be able to design their workforces, and work with those workforces, in a way that makes sense for them. This reform does not change that.

Alison Thewliss: Will the Minister give way?

Jesse Norman: I am winding up, so perhaps I could let the hon. Lady introduce her point in her speech.

When their engagement meets the tests of an employment relationship, contractors should not pay less tax than those who are directly employed. I therefore move that new clause 1 and new schedule 1 stand part of the Bill.

Wes Streeting: Our position on IR35 has been well rehearsed in previous and recent debates on the Floor of the House, but let me revisit some of those points, because this debate is closely followed outside Parliament and matters to people across the country. Self-employment is a vital part of the UK economy. People who are genuinely self-employed deserve to be properly supported while also ensuring that everyone pays the right amount of tax. Historically, the tax arrangements for self-employed people have differed from those for people on payroll, reflecting the fact that self-employed people have lower levels of protection in areas such as holiday pay, sick pay and other rights and benefits that people would enjoy if they were employed on payroll. Clearly the system has also been subject to abuse, and it is right that we tackle that abuse.

Some of the anxiety arises from concerns that the Treasury, and the Government more broadly, sometimes have a tendency to think of the self-employed as if they fell into only two categories of people. The first is the very wealthy, who use self-employment status to avoid paying their fair share of tax, which should obviously be clamped down on. The second is the very low paid, who work in parts of the economy that are deemed unproductive—even to the extent that some people would think it desirable that such workers were not engaged in those forms of employment, as if that were the best way to tackle the UK's poor productivity statistics. The true picture of self-employment in the country is a lot more complicated than that, and huge numbers of self-employed people make an enormous contribution to the economy and who provide a whole range of services that benefit citizens across the country and businesses more generally.

It is right that the Government have taken the decision to delay the implementation of the roll-out until April 2021 due to coronavirus. The Opposition would again

impress on the Government the need to use the additional time ahead of implementation to provide an additional review and to learn from the mistakes of the public sector roll-out and the continuing anxieties about the planned private sector roll-out. Those concerns were expressed in the House of Lords report entitled, "Off-payroll working: treating people fairly", which concluded that the Government must address IR35's inherent flaws and unfairness, a point that was supported by the ICAEW.

The Opposition urge the Government to use this time wisely. We believe it is necessary for the Government to take a broader approach in order to modernise the law on employment status and to look at how it interrelates with tax status, so that we have a genuinely joined-up approach that brings together the issues of tax and employment law. Notwithstanding the planned roll-out of IR35, the Chancellor made it very clear, when he announced the self-employment income support scheme, that there will be consequences for future Treasury policy and future tax arrangements for Britain's self-employed. That message was heard loud and clear by the self-employed, but if we are asking them to pay a greater contribution, we also have to address the inherent challenge and, in many cases, the injustice around their employment protections and the levels of social protection and social insurance that people enjoy if they are employed, as opposed to self-employed.

As the shadow Chancellor has said, having addressed this issue many times both in her current role and in her previous role:

"We really need a joined-up approach to the issues that brings together the consideration of tax and employment law and levels up protections for the self-employed, as well as dealing with the current implications of the tax system that boost bogus self-employment."—[*Official Report,* 4 April 2019; Vol. 657, c. 489WH.]

She made those remarks back in April 2019; it is now June 2020. I am not sure that, in the year that has passed since she made those comments, the situation has changed particularly and that things have improved. The delayed roll-out is something that has been widely welcomed, but it is crucial that the Government use this time wisely. It is not clear from the year that has just passed that the Government will use the next year any better.

Stephen Flynn: Before I get into the substantive detail of this issue, I want to touch on the process and where we find ourselves at this moment in time with the new clause that has been tabled by the Minister. It is simply not acceptable that such a contentious tax matter was first introduced through a 45-minute money resolution debate in the House, instead of being subject to the full scrutiny of the Budget process.

The money resolution debate took place after the Finance Bill was published, meaning that the Government were able to introduce the detailed IR35 tax law as a Finance Bill amendment. The result of what can only be described as a procedural whizz is that Opposition parties cannot do what they were elected to do and amend the proposals as the Bill goes through its line-by-line scrutiny. Frankly, that is not good enough. I certainly thought better—perhaps wrongly—of the Government in that regard. Of course, that entire process missed out those MPs who have been disenfranchised from taking part in the House as a result of the Government's shocking processes in recent weeks.

On the substantive issue at the heart of this, let us be clear that IR35 is creating a new group of zero-hours employees paying full taxation but without receiving the associated employment rights. What is just and fair about that? Speaking as a Member with a constituency that is dominated by the oil and gas sector, I have been inundated—inundated—with correspondence from contractors outraged by the decisions that the Government are seeking to take, particularly so given that we are in the middle of a global pandemic. I hope that the huge concern that I and others have about the long and, frankly, short-term sustainability of the oil and gas sector, and the impact that that has on employees, has not escaped the Government's notice. To then add a further layer of complexity into their employment status is simply unforgivable.

In the north-east of Scotland, we are witnessing job losses hand over fist. Barely a day goes by when companies are not shedding staff. That is applicable to most sectors at the moment, be it hospitality, tourism or aviation, but it is very rare for a sector of such scale to be so dominant in one city, as is the case in Aberdeen. What the Government are seeking to do in relation to IR35 is a slap in the face to those workers who are having to deal with the most difficult of challenges.

Not only are the Government hitting those contractors—many of whom went down that path in good faith—with IR35, but they are failing to deliver any sectoral support to the oil and gas industry. Not a single penny of sector-specific support has been provided by the UK Government for the oil and gas sector, irrespective of the fact that the Treasury has lined its pockets with North sea oil and gas revenue for decades. It is time to give back, not time to double down on the damage, so I urge the Government to reconsider what they are putting forward.

Alison Thewliss: My hon. Friend makes an excellent point about contractors in the north-east of Scotland. In my constituency of Glasgow Central, it is IT contractors, many of whom came to live in Glasgow from India. They work in the IT sector and have found that their contracts have not been renewed with companies that they have been working for, and they are now really struggling to find employment, causing them a huge deal of uncertainty at this time, particularly with the coronavirus crisis.

Stephen Flynn: I welcome the intervention from my hon. Friend, which goes to the nub of the issue that we are discussing. The Government's policy is, frankly, to turn their back on those people who need support at this time.

If the Minister is not willing to take my word for that, perhaps they will listen to the salient words of one of their own. The hon. Member for West Aberdeenshire and Kincardine (Andrew Bowie) said late last year in a letter to the then Chancellor:

If the proposed changes—making every medium and large sector private business responsible for setting the tax status of any contractor they use—were to come into effect, I would worry for the industry"—

the oil and gas industry—

"and its ability to attract the highly skilled workers they need. It is also predicted that changes could see a worker's income reduced by up to 25 per cent. Many of these workers are my constituents."

[Stephen Flynn]

Many of those workers are also my constituents, and it is simply not good enough. I am glad that there is cross-party support in north-east Scotland for opposing what the Government are seeking to do, and I sincerely hope that that cross-party ethos will be found in this room today, before the Government do more damage.

I just want to pick up on one final point. I think the Minister said in his opening remarks that he listened carefully—that the Government have listened carefully. They have not listened to the House of Lords—I do not say that with any joy, being a member of the Scottish National party—which has been clear that they need to pause this policy and go back to the drawing board. I urge them to do just that.

12.30 pm

Andrew Jones (Harrogate and Knaresborough) (Con): The issue of off-payroll working has attracted much attention in the House and beyond. Clearly, there are some problems to solve, but they are not easy problems to solve.

In some cases, the issue is straightforward. People work for one employer for prolonged periods up to several years and they really are employees, because they do similar jobs to colleagues and use company equipment, but they do so on different terms. It may be that they are better paid in terms of headline salary than their immediate work neighbours, but the situation is more complex, because they are not paid for holidays or potential pension contributions and so on.

Some workers may have been put under pressure to become self-employed by less scrupulous employers who have sought to save money on things such as NI payments. I have read of cases—I am sure we all have—where the imbalance of power that can exist between an employer and an employee has seen pressure on people to choose a particular route. That is not satisfactory for those employees or taxpayers generally as revenue for public services is missed.

While some may have been pressured into becoming self-employed, vast legions in our economy have chosen the self-employed route because they enjoy the challenge of that type of work or they want to be more in control of their own destiny, which being your own boss can achieve, or many other personal reasons.

That is to be really encouraged, because the flexibility that self-employed workers, often on contracts, provide has been a great boost to our economy. It is one of the ingredients that has contributed to the recent economic progress that we have enjoyed. Being swift of foot in response to commercial opportunities gives a competitive advantage. It has allowed companies to bring in extra resource where they need to boost operational capacity. It has allowed extra skills to be brought into a company when needed. Many people I have met or corresponded with in my Harrogate and Knaresborough constituency have highlighted to me that they have built careers adding real value to their clients.

There are some sectors where the use of contractors is more prevalent than others. We have just been hearing about the oil and gas sector, but that includes IT and technology more broadly, as well as marketing and the creative industries, sectors where the UK is strong, and where I worked before coming into this place. This is about bringing skills and capacity into a company when needed but when there is not enough work for long-term permanent employment. There is also the issue of the growing sector of interim managers.

I see a balance to be struck here in the way the issue is taken forward by Ministers between protecting some employees and recognising that the vast majority have chosen self-employment and are providing real value. We need to balance employment rights and protections between the employed and self-employed, while ensuring that the rules do not have a sclerotic effect on our economy. Flexible, nimble companies responding to customers, adding value, creating wealth and grabbing opportunities is how economies grow and jobs are created. Ensuring that is preserved is critical to the operation of these rules. That is something the Minister must consider as he takes this forward.

Miriam Cates (Penistone and Stocksbridge) (Con): I refer hon. Members to my entry in the register of Members' interests. This is clearly a contentious issue, but the majority of employers and contractors I have spoken to agree that some kind of reform is necessary.

Our tax system must be fair, but it should also support those who take risks to grow businesses and innovate in a way that benefits our whole economy. It should not offer advantages to those who are using PSCs to create wealth only for themselves. I am certainly not saying that it is wrong to create personal wealth, just that our tax system should not offer particular advantages in doing so and tax should not be avoided as a result. We must balance flexibility with fairness and it is not fair that two people doing the same job in broadly the same conditions pay different rates of tax. We must recognise that those who are genuine contractors do not have the same benefits as employees—they do not have the same job security—but where someone is to all intents and purposes an employee, they and their employer should pay their fair share of tax and national insurance.

I have personal experience of running a small business in the tech sector and I believe that current practices discourage people from becoming employees in some sectors. For example, in the tech industry, people with certain programming skills can command such high day rates as contractors that there is very little incentive to become an employee in a small company. That is a particular issue in a sector where there is a shortage of talent and a great demand for skills.

While there is and always will be a role for contractors, contracting costs can be prohibitively high for start-ups and scale-ups, and those businesses find it difficult to recruit employees with the right skills. Start-ups and scale-ups need employees—people who are committed to the company, who can help shape its culture and, importantly, who can pass on their knowledge and skills to new employees as the company grows. Labour market flexibility has to work for employers and employees. At the moment, the very businesses that we most need to grow and innovate are struggling to recruit skilled employees, especially in areas outside London and the south-east, such as Sheffield and Barnsley, which I represent.

I believe that the reforms will make employment and the benefit that it brings more attractive. As I said, we should be using the tax system to support those who

create wealth not only for themselves, but for our whole economy. In that way, any tax saving to an individual or company is an investment for the taxpayer, not just lost revenue. A great example of that is the research and development tax reliefs, which I am delighted have been increased in the Bill and will encourage the kind of innovation that the UK really needs to boost growth and productivity. They are incentives that help to create wealth for us all.

In contrast, using a personal service company to reduce an individual's tax burden does not benefit the taxpayer. The individual's income tax and national insurance savings are not used to create other jobs or to invest in technology or create products, and so the taxpayer does not receive any return on the lost revenue. Where a worker is genuinely self-employed, facing additional risks, with none of the benefits of employment, there should be no change, but where someone is to all intents and purposes an employee, improving compliance should make sure the taxpayer does not lose out.

I understand that any changes bring risks and uncertainty and I am pleased that the changes to IR35 have been delayed for a year to give our economy some chance to stabilise after covid-19, but fairness should be the foundation of our tax system and properly applied, the regulations will help to achieve that aim.

Jesse Norman: I will respond to the many important points raised by hon. Members, who I thank for raising them.

My hon. Friend the Member for Penistone and Stocksbridge is absolutely right to highlight the importance of making employment attractive. It is vital that best practice be spread throughout the economy as rapidly as possible and if the effect of that is to create a more level playing field between two sides of a particular divide, that would be a very valuable thing. The Government's concern is that there is an unfairness in that someone can be, as it were, latently employed, although working for a personal service company, and that is the concern that the Government seek to address.

My hon. Friend the Member for Harrogate and Knaresborough is absolutely right to emphasise the importance of having a flexible and nimble economy. He is right, and the hon. Member for Ilford North is right, to focus on the effect of the self-employment and self-employed contractors in making this happen. For reasons I will come on to, this reform does not tax the self-employed. It does not tax anyone. What it does is to change the determination for people who are not self-employed but who are in fact employed, and to determine whether they are or not.

The hon. Member for Aberdeen South made a series of comments that I am afraid are simply not true. He was very rude about the Government's decision to introduce this via a separate resolution, but the details of the change were announced as part of the Budget resolutions. They were not moved. They could and may well have been discussed—I do not recall the details—during the Budget debates. Therefore, it was perfectly open to the House to scrutinise those details, although the resolution was not itself moved. If the resolution had been moved, it would not have been possible for us to legislate with anything like the same straightforwardness for the move to an April 2021 deadline. That was the purpose of delaying moving the resolution. The effect was that the resolution was debated on the Floor of the House of Commons in and of itself—given a separate debate to that resolution in order to discuss that. Therefore, the idea that there has been any short-circuiting of due process is entirely wrong.

Of course amendments can still be tabled on Report, and the hon. Gentleman may seek to do that. He was very rude about the reform, saying it would lead to zero-hours contractors, and calling it shocking, but is he planning to support it? Will he vote in favour of it or against it? That will be the true measure of his and the SNP's position on this important reform.

Finally, the hon. Gentleman talks about the Lords Economic Affairs Committee, but of course he is entirely wrong about that. We have yet to respond to the Lords Committee—we will do so in due course—but we have engaged very closely with it on a whole variety of different areas. If he speaks to Lord Forsyth, he will know that I approached Lord Forsyth personally, having just become Financial Secretary, to reopen the relationship and make it flourish. Indeed, I volunteered to appear in front of the Lords Economic Affairs Committee last year precisely to hold myself and the Treasury accountable in this area.

Stephen Flynn: The Minister has gone through a number of the points I made, but one that he did not touch upon was the impact that the proposal will have upon contractors working in the oil and gas sector, given the huge challenges facing those workers at the moment. What message would he give those contractors, whose future is uncertain in any case, but who are facing this change on top of an already devastating situation?

Jesse Norman: We are obviously very concerned about the effects of coronavirus, which is precisely why we have delayed the implementation of the reform by a year. The message I would give is that we absolutely respect and support the work that those individuals are doing and understand the position they are in. The Government have rapidly made available very important sources of support for the economy across a whole range of different areas and sectors of work and, indeed, in the benefits system, both for businesses and families and the sustaining of jobs. Therefore, there is no absence of respect or support for the people the hon. Gentleman describes.

The hon. Member for Ilford North mentioned the diverse nature of these different forms of employment. He referred to the self-employed, but actually the self-employed are not taxed by this. The genuinely self-employed are not affected by the reform. The reform is designed merely to change the way in which the status of someone who is latently employed—actually employed, but perhaps unaware of it or not behaving on that basis—is determined. The hon. Member asks us to use the additional time appropriately. We have got before April 2021. I have said already, but let me say again that we are in the process of commissioning external research into the effect of the public sector reform. As he will be aware, the early research immediately after the public sector reform did not bear out the dire predictions regarding flexibility or reduction of income, but we will make sure

[Jesse Norman]

that external research into the longer-term effects of the public sector reform is completed and placed in front of the House before April next year.

Alison Thewliss: Can I ask the Minister about the impact assessments that will be done? What monitoring is his Department doing of the chilling effect that this is having on contracts right now? What I am hearing from contractors in my constituency is that those contracts are not being renewed now and it is already having a chilling effect, regardless of when the measure is coming in. What monitoring is he doing of the situation?

12.45 pm

Jesse Norman: As I have said, in relation to public sector reform, the external research did not detect any great chilling effect. We will be looking at the longer-term effects of public sector reform. On this reform, it is undoubtedly true that the measure is nudging some companies to consider whether people they had thought of as contractors are not, in fact, employees. In some cases, they are having to review the structure of their workforces. I do not think that is a chilling effect on the status of those contracts, because those people were always latently employed. It is then for the contractor and the company to work out what future arrangement they wish to have.

Alison Thewliss: The IT contractors from India who I mentioned earlier can choose to go anywhere in the world. They have chosen to locate in Glasgow because the work is there, the skills are there and they have a good community in my constituency. If the contracts are not there, they will take their skills and their money and go somewhere else. What is the Minister doing to mitigate against that?

Jesse Norman: That is a claim that the hon. Lady makes and we will be able to test it over time through external research. It is not a view that has been validated so far in the roll-out to the public sector. It is a diverse and vibrant area of our life and it may well have more resilience overall than she is giving it credit for, but we will not know until we have seen the effects of the reform.

The final point, raised by the hon. Member for Ilford North, is to do with rights. Of course, the measure is to do with the determination of tax due, but the Government have put in the Queen's Speech a substantial commitment to bring forward a Bill in that area following the Taylor review. I know that my colleagues in the Department for Business, Energy and Industrial Strategy take that very seriously.

Question put and agreed to.

New clause 1 accordingly read a Second time, and added to the Bill.

New Clause 2

Review of geographical effects of provisions of Sections 27 to 30

'The Chancellor of the Exchequer must within twelve months of the passing of this Act lay before both Houses of Parliament a report assessing the differential geographical effects, broken down by nation and NUTS 1 statistical region, of the changes made by sections 27 to 30 of this Act.'—*(Alison Thewliss.)*

This new clause would require a geographical impact assessment of the clauses of the Bill relating to reliefs for business.

Brought up, and read the First time.

Alison Thewliss: I beg to move, That the clause be read a Second time.

My understanding was that we were breaking after the previous clause, so I will scramble to find my notes. We think it is important to look at the geographical impact of the Bill. I support the new clause tabled by Plaid Cymru, which has suggested that we have a report assessing the

"differential geographical effects, broken down by nation and NUTS 1 statistical region, of the changes made by sections…of this Act."

What is lacking in this House—I have said this before and I have no hesitation in returning to it—are real mechanisms to explore how effective the measures in the Finance Bill are in reality. My colleagues and I have supported work on a Budget Committee, which has been before the Procedure Committee to look at it as well. We do not understand the effectiveness of the policies and the ideas that the Government have, so we end up with things being proposed in Bills that turn out to be completely ineffective or we find out that they have differential effects from what the Government expected, so they have to come back later to amend things and try to fix their mistakes.

We feel that requiring the Government to consider the geographical effects of the changes to the reliefs, including research and development expenditure credit, would give a better understanding of how effective they are across the different regions and nations and of whether those incentives actually contribute to the continuing inequalities that we see across the UK. We think this is an issue of real importance to Scotland and to Wales for the measures where we do not necessarily have particular control ourselves and where the devolved nations do not have competence. It is important to understand what the Government are about with the legislation they are proposing as well as its impact, and whether the measures are truly seen to be effective.

Wes Streeting: The hon. Member for Glasgow Central makes a reasonable case—that will be a running theme throughout a number of new clauses, not least when we turn to new clause 3 in the afternoon session. I will make the points I want to make about the importance of reviewing the geographical impact of measures in the Finance Bill at that point, but I concur with her remarks.

Jesse Norman: I thank colleagues who have spoken. New clause 2 would require the Government to assess and report on the geographical effects of changes to business tax reliefs made by clauses 27 to 30 within 12 months. That relates specifically to the research and development expenditure credit, the structures and buildings allowance, and the treatment of intangible fixed assets.

Her Majesty's Revenue and Customs does not routinely require businesses to provide geographical information about where expenditure is incurred as part of their claims for RDEC, SBA or intangible fixed assets treatment. In order to do so, changes would need to be made to the CT600 form, which would create a burden for businesses. In addition, those claiming the reliefs would only provide information after the year-end. For that reason, it does not make sense. It is not possible for Her Majesty's Revenue and Customs to have that information within

the 12 months stipulated in the amendment. HMRC does in fact already publish annual statistics on many tax reliefs, including a detailed breakdown of R&D tax relief claims, which analyses, by region and sector, the number of claims and the amount of relief received. However, the regional analysis is based on the company's registered office, not necessarily where expenditure is incurred.

Although the next set of annual R&D tax relief statistics will be published by HMRC in the autumn, companies can claim R&D tax relief up to two years after the end of their accounting period. For that reason, the 2020 statistical release will include claims only until 2018-19, and will therefore not include claims for the increased 13% RDEC rate. The Government do, of course, remain committed to levelling up every region and nation of the UK to spread opportunity and to ensure that everyone benefits from growth. For example, the spring Budget provided a £1.14 billion increase to block grants for devolved Administrations to spend on their own priorities. That is in addition to the £2.7 billion that the Government are investing in city deals across Scotland, Wales and Northern Ireland, with £800 million of funding being provided to support four deals in Wales alone, and a further £1.4 billion being provided across 10 deals in Scotland.

As we look to our economic recovery from the impact of covid-19, that levelling-up agenda will be more important than ever. Given that the Government already publish detailed analyses and that regional information is collected and held as part of HMRC's tax returns, asking business to record further information would represent a significant additional business burden. I ask the Committee to reject the new clause.

Alison Thewliss: The Treasury Select Committee is also looking at regional imbalances. Part of the Committee's work has identified that the data collected by the Government on a range of areas is not sufficient. It is not good enough for the Minister to say, "Oh, it's difficult to do that." I accept that money is not necessarily spent where an office is based, but it is a start in understanding where that money is going. If lots of organisations based in London are taking in the money and perhaps it is going somewhere else, the Government ought to be aware of that and ought to be looking at it to make sure that if somebody based in London is taking in the money but it is being spent somewhere else, then perhaps they should be based where the money is being spent. Perhaps they should be moving their offices to where the money is being spent. That puts it back on to those businesses, to add to that consideration, so I do not buy the Minister's argument that it is awfully difficult and that we should not do it. It is a first step into looking at how it might be done, so I would like to press clause 2.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 7, Noes 10.

Division No. 7]

AYES

Flynn, Stephen	Smith, Jeff
Oppong-Asare, Abena	Streeting, Wes
Phillipson, Bridget	
Ribeiro-Addy, Bell	Thewliss, Alison

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.

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

12.56 pm

Adjourned till this day at Two o'clock.