PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE (NO. 2) BILL

(Except clauses 4 and 6 to 8, schedule 1, clauses 12, 27 and 28, 53 to 66, 68 to 71 and 84 to 92, schedules 12 and 13, clause 93 and schedule 14)

Third Sitting

Wednesday 5 January 2022

(Afternoon)

CONTENTS

Clauses 32 to 41 agreed to.
Schedule 7 agreed to.
Clauses 42 to 45 agreed to.
Schedule 8 agreed to.
Clauses 46 to 49 agreed to.
Schedule 9 agreed to.
Clauses 50 to 52 agreed to.
Clause 67 agreed to.
Clauses 72 to 76 agreed to.
Schedule 10 agreed to.
Clause 77 under consideration when the Committee adjourned till this day at Six o'clock.

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

not later than

Sunday 9 January 2022

© Parliamentary Copyright House of Commons 2022
This publication may be reproduced under the terms of the Open Parliament licence, which is published at www.parliament.uk/site-information/copyright/.

The Committee consisted of the following Members:

Chairs: Sir Christopher Chope, Philip Davies, † Dame Angela Eagle, Dr Rupa Huq

† Anderson, Stuart *(Wolverhampton South West)* (Con)
† Butler, Rob *(Aylesbury)* (Con)
Efford, Clive *(Eltham)* (Lab)
† Eshalomi, Florence *(Vauxhall)* (Lab/Co-op)
† Frazer, Lucy *(Financial Secretary to the Treasury)*
† Holden, Mr Richard *(North West Durham)* (Con)
† Howell, Paul *(Sedgefield)* (Con)
† Jones, Andrew *(Harrogate and Knaresborough)* (Con)
† Mackrory, Cherilyn *(Truro and Falmouth)* (Con)
† Mak, Alan *(Lord Commissioner of Her Majesty's Treasury)*
† Mayhew, Jerome *(Broadland)* (Con)
† Murray, James *(Ealing North)* (Lab/Co-op)
† Oppong-Asare, Abena *(Erith and Thamesmead)* (Lab)
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Thomson, Richard *(Gordon)* (SNP)
† Twist, Liz *(Blaydon)* (Lab)
† Whately, Helen *(Exchequer Secretary to the Treasury)*

Chris Stanton, Kevin Maddison, *Committee Clerks*

† attended the Committee

Public Bill Committee

Wednesday 5 January 2022

(Afternoon)

[Dame Angela Eagle *in the Chair*]

Finance (No. 2) Bill

(Except clause 4, clauses 6 to 8 and schedule 1, clause 12, clauses 27 and 28, clauses 53 to 66, clauses 68 to 71, clauses 84 to 92 and schedules 12 and 13, clause 93 and schedule 14)

3.30 pm

The Chair: We are now sitting in public and the proceedings are being broadcast. I have a few preliminary announcements, the first of which is to wish everybody on the Committee a very happy new year—[Hon. Members: "Happy new year!] I hope that you have had a decent rest that will put you all in fine spirits for at least the rest of today.

I remind Members that they are expected to wear a face covering except when speaking or if they are exempt, in line with the recommendations of the House of Commons Commission. Please also give each other and members of staff space when seated, and when entering and leaving the room. I remind Members that they are asked by the House to have a covid lateral flow test twice a week if coming on to the parliamentary estate, which can be done either at the testing centre in the House or at home. *Hansard* colleagues would be grateful if Members could email their speaking notes to hansardnotes@parliament.uk. Please switch electronic devices to silent. As I am sure you all know by now, tea and coffee are not allowed during sittings.

Any decisions on new clauses that have been debated with related clauses are taken formally after consideration of the Bill in the order that they appear on the amendment paper. It is helpful to the Chair if Members indicate at the end of those debates whether they expect or want to vote on any such new clause when the appropriate time comes.

Clause 32

Introduction

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

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

Clause 33 stand part.

Clause 52 stand part.

New clause 3—*Review of impact of Residential property developer tax on the tax gap*—

"The Government must publish within 12 months of this Act coming into effect an assessment of the impact of Part 2 of this Act (Residential property developer tax) on the tax gap, and of whether it has increased opportunities for tax evasion and avoidance."

This new clause would require a Government assessment of the impact of the Residential Property Developer Tax introduced in this Bill, and of its effect on opportunities for tax evasion and avoidance.

New clause 18—*Review of the residential property developer tax*—

"(1) The Government must publish a review of the residential property developer tax within three months of the end of the first year of it applying.

(2) The review under subsection (1) must be updated annually, within three months of the end of each subsequent year that the residential property developer tax applies.

(3) The review under subsection (1), updated as set out in subsection (2), must assess—

(a) how much the RPDT has raised in each year of its operation so far;

(b) how much it is estimated that RPDT would have raised at a level of—

(i) 6%,

(ii) 8%, and

(iii) 10%; and

(c) any wider effects of setting the RPDT at the levels set out in subsection (3)(b)."

This new clause would require the Government to review the RPDT each year in order to assess the revenue it has raised and also what revenue it would raise, and the other wider effects it would have, at certain higher levels.

The Financial Secretary to the Treasury (Lucy Frazer): It is a pleasure to serve under your chairmanship, Dame Angela. Like you, I wish all members of the Committee a happy new year. As the Committee will know, the Government are determined to bring an end to unsafe cladding, to reassure homeowners and to support confidence in the housing market. As part of the building safety package announced in February 2021, we are introducing a new residential property developer tax, which will raise at least £2 billion over the next decade to help to pay for building safety remediation.

As announced on 10 February 2021 by the previous Secretary of State for Housing, Communities and Local Government, my right hon. Friend the Member for Newark (Robert Jenrick), the RPDT is one of two new revenue-raising measures that will ensure that developers make a fair contribution to the costs of remediation. Clauses 32 and 33 introduce a new residential property developer tax to be charged at a rate of 4% on the profits of businesses carrying out residential property development activity that exceed its allowance for an accounting period. The clauses confirm that the RPDT is charged as if it were an amount of UK corporation tax.

Clause 52 is an anti-avoidance provision, which prevents taxpayers from adjusting their profits arising in an accounting period in order to obtain a tax advantage. The clause will apply where trading profits derived from residential property development activities arise in the accounting period ending before the commencement of RPDT, and arose only because of arrangements made on or after 29 April 2021.

New clause 3, tabled by the hon. Member for Glasgow Central, seeks to require the Government to publish an assessment of the impact of RPDT on the tax gap, and of whether it has increased opportunities for tax evasion and avoidance. As the RPDT has been designed to be aligned with UK corporation tax, the existing corporation tax compliance mechanisms, such as inquiries, information powers and penalties, will apply to RPDT, as well as anti-avoidance rules including transfer pricing and the general anti-abuse rule.

Her Majesty's Revenue and Customs regularly reports on the taxes that it is responsible for collecting, and the RPDT will be no exception. HMRC will assess the impact of RPDT on the tax gap in its annual "Measuring tax gaps" reports, and will monitor RPDT revenue in its annual tax receipts statistical publications. The Government also carefully assessed the impacts of RPDT throughout the consultation period and published a detailed impact assessment of RPDT at the autumn Budget. For those reasons, I believe that a further impact assessment is not appropriate, and I therefore ask the Committee to reject the new clause.

New clause 18, tabled by the hon. Members for Ealing North, for Erith and Thamesmead and for Blaydon, seeks to require the publication of an annual review of the tax, including the revenue raised, the estimated yield that would have been raised had the tax been set at various differential rates—6%, 8% and 10%—and the wider effects of the higher rates. HMRC regularly reports on the taxes that it is responsible for collecting, and the RPDT will be no exception. The revenue raised from RPDT will be published in HMRC's annual tax receipts statistics publications.

The RPDT rate was carefully considered in the context of the upcoming increase in the main rate of corporation tax in 2023, other taxes and forthcoming regulatory changes, as well as the wider macroeconomic environment. The 4% rate of RPDT balances the need to raise £2 billion over a decade—at the same time as seeking a fair contribution from the residential property development sector—against the need to ensure that the tax does not have a significant impact on housing supply. The Government monitor the tax system continuously and will keep the tax under review. For those reasons, I believe that a further annual review of RPDT is not appropriate, and I therefore ask the Committee to reject new clause 18.

In conclusion, the clauses in this group form the first part of the legislation needed to introduce RPDT in April 2022 and the necessary anti-avoidance provisions. I therefore recommend that the clauses stand part of the Bill.

James Murray (Ealing North) (Lab/Co-op): It is a pleasure to serve on a second Finance Bill Committee under your chairship, Dame Angela.

I will address the clauses that the Minister set out in her remarks, starting with clause 32, which notes that the new residential property developer tax will be applicable from 1 April 2022, as announced at the spring Budget of 2021. As we have heard, this is a new, time-limited tax on the profits of residential property development companies' property development activity, with a rate of 4% over a £25 million allowance. The Government estimate that it will generate £2 billion over the course of a decade, and they said that the funds are earmarked to help with cladding remediation costs, according to the former Secretary of State for Housing, the right hon. Member for Newark (Robert Jenrick), who spoke to the Building Safety Bill in February 2021. The explanatory note for the clause states that the tax is to

"ensure that the largest developers make a fair contribution to help fund the Government's cladding remediation costs."

We support the principle behind the new tax, but I intend to use this Committee sitting to question the Ministers on the detail of its design and to probe their views on its place in the Government's wider response to the cladding scandal. We know that the Bill has been consulted on, but we also note stakeholders' disappointment that the consultation process was truncated, as stage 1—setting out objectives and identifying options—was cancelled. Although we recognise the importance of moving quickly to raise revenue in order to help meet the costs of remediating unsafe cladding on buildings, it is disappointing that the Government were not able to conduct a thorough consultation.

Clause 33 sets the rate of the RPDT charge at 4% on profits that exceed the allowance of £25 million. The tax is charged as if it were an amount of corporation tax chargeable on the developer. As I mentioned earlier, the Government expect that £2 billion of revenue will be generated while the tax is in effect, so I will ask the Minister several questions in order to try to clarify the reasoning behind some of the Government's decisions on the detail of the tax. First, we note that the tax does not come with a sunset clause, and therefore active legislation will be required to repeal it when it comes to an end. Will the Minister explain the reasoning behind that decision? If the tax is intended to be time-limited, why have the Government have chosen to leave it in need of active repeal, rather than simply adding a sunset clause?

Secondly, I mentioned that the expected revenue from the tax is £2 billion. We know, however, that that is just a fraction of the total cost of remediating unsafe cladding, which was estimated by the then Housing, Communities and Local Government Committee in April 2021 to be about £15 billion. What is more, labour and material shortages have significantly driven up the cost of construction. That is thought to add £1.2 billion to the overall cost of remediation, wiping out most of any gain from this tax. With the cost of cladding remediation already thought to be so much greater than the amount that the tax is expected to raise, and with that gap likely only to increase, will the Minister try to explain further why the rate was set at 4%? Will she confirm whether, if the amount raised should fall short of £2 billion or if costs should increase substantially, the Government would be open to considering raising the level of the tax?

It was in pursuit of an answer to that question that we tabled new clause 18, which would require the Government to publish a review of the residential property developer tax within three months of the end of the first year of it applying, and thereafter annually, within three months of the end of each subsequent year that the tax applies. The review, as updated, must assess how much the RPDT has raised in each year of its operation so far and how much it is estimated that it would have raised at levels of 6%, 8% and 10%.

As I mentioned, the cost of remediating unsafe cladding was estimated last year to be about £15 billion, and the cost of labour and materials has increased due to supply chain crises. Industry experts have estimated an 8% increase in the cost of cladding jobs, compared with last year. As I mentioned, that could increase the total cost by £1.2 billion. As I said, this tax aims to raise £2 billion, which is just a fraction of the total cost and much of which, it seems, will be wiped out by rising costs.

We have therefore tabled this new clause to ask the Government to assess how much they could raise through the tax and how much they could raise with different

[James Murray]

rates. Given the significant discrepancy between the estimated revenue raised by the RPDT and the estimated cost of remediation, will the Minister set out in further detail, when she responds, exactly how the rate of 4% was reached and what specific consideration was given to alternatives? It was with that in mind that we tabled the new clause. We will not seek to put it to a vote, but we hope that it will help us to debate and probe the important and central issue of the rate at which the RPDT has been set.

In summary, I will be grateful if, in her reply, the Minister could set out exactly how the figure of 4% was arrived at and, furthermore, how she expects the rest of the cost of cladding remediation to be met. I would be grateful if she could set out, either in her reply now or in writing, what other sources of funding she anticipates being used to meet the total cost of cladding remediation.

Finally in relation to this group, I will briefly mention clause 52, which is an anti-avoidance provision preventing taxpayers from adjusting their profits arising in an accounting period in order to obtain a tax advantage for the purposes of this tax. We welcome the intent behind that clause and will not oppose it.

Richard Thomson (Gordon) (SNP): It is a pleasure to serve under your chairmanship, Dame Angela. I rise to speak to new clause 3, in the name of my hon. Friend the Member for Glasgow Central. As the Minister outlined, this new clause would require a Government assessment of the impact of the residential property developer tax being introduced by the Bill and of its effect on opportunities for tax evasion and avoidance.

We are all familiar with what this tax sets out to achieve and those on whom it should fall. There is a £25 million annual allowance for construction firms, and the tax will be levied above that at 4%. That does not take a great deal of time to say, but unfortunately, giving it effect requires 16 pages and a further eight pages across two schedules in the Bill and a great many more pages in the explanatory notes to say exactly how it will work in practice. Therefore, the opportunity for genuine confusion, for interpretation and, sadly, for evasion and avoidance is certainly a real and present danger in the legislation.

The anticipated impacts are set out in table 5.1 of the "Autumn Budget and Spending Review 2021". We are not talking huge sums from this tax, but given its stated purpose and the means to which the revenues are going to be put, I think that reviewing its impact—not just in a financial sense, but in the sense of the unintended consequences that it could have and the havoc that it could wreak in terms of confusion, differences of interpretation, and avoidance and evasion—seems to be an eminently reasonable thing to do. I urge the Minister to reconsider how the Government intend to tackle that once the tax is implemented.

3.45 pm

Lucy Frazer: I very much welcome the initial comments of the hon. Member for Ealing North, and that he welcomes the points in principle. That is important, given that we are trying to help those people who have suffered a terrible tragedy and ensure that we have the necessary funds to remedy the situation. He asked several questions, the first of which related to consultation. I reassure him that the Government undertook extensive stakeholder engagement as part of the 12-week consultation —holding 40 consultative meetings—to help ensure that the issues raised in the consultation about the design and impact were considered fully.

The hon. Gentleman also mentioned a sunset clause. We have been clear that this is a measure to raise £2 billion-worth of revenue by way of tax, and that it will be time limited and will be repealed once sufficient revenue has been raised. As with all other taxes, the Government will keep this tax under review.

The hon. Gentleman asked whether the 4% rate was sufficient. However, at the same time, he also mentioned the supply chain issues that might mean that the cost of construction has gone up. It is, of course, important to ensure that what we ask from developers is fair, in order to ensure that their businesses remain viable and sustainable at the same time as contributing to this issue. The rate was carefully considered in the context of the upcoming increase in corporation tax, other taxes, the regulatory changes and the wider macroeconomic environment. We feel that 4% represents the right balance, raising the £2 billion over a decade while being fair and not having an impact on housing supply. The hon. Gentleman asked how we came to this rate; we considered it very carefully and decided on 4%.

James Murray: For the sake of clarity, I would be grateful if the Minister could help my understanding. She said that the tax was intended to raise £2 billion over 10 years, but she may have implied that if it has not raised £2 billion over 10 years, it would keep applying until £2 billion was raised. Is it for 10 years, or is it for £2 billion? The Government will not necessarily raise £2 billion over exactly 10 years; one has to come before the other. Is it going to be for 10 years and then finish—no matter what it has raised—or will it keep going until it has raised £2 billion?

Lucy Frazer: The Government have made clear that they propose to raise £2 billion from this tax. They have done extensive analysis as to what the appropriate rate is to recover that amount. At a rate of 4%, we anticipate that we will raise that £2 billion—in fact, slightly more than that—in 10 years, and that is when the tax will come to an end.

I will address the points made by the hon. Member for Gordon, because he rightly raised an important point about tax avoidance. It is HMRC's duty to ensure that we do not have tax avoidance and evasion. However, I reassure him that the existing corporation tax compliance mechanisms that currently exist—which include inquiries, information powers and penalties—will apply to this tax, as well as anti-avoidance rules, including transfer pricing and the general anti-abuse rule. He did not specifically raise any particular measures that he thought would be anti-avoidance or abuse—if there are any, I would be very interested to hear them in due course and discuss that with him.

For those reasons, we ask the Committee to reject the two new clauses and to agree that clauses 32 and 33 stand part.

Question put and agreed to.

Clause 32 accordingly ordered to stand part of the Bill.

Clause 33 ordered to stand part of the Bill.

The Chair: The decision on clause 52 stand part and any decisions on new clauses 3 and 18 will be dealt with later in our proceedings, though I note that the Labour Front-Bench spokesman indicated that Labour will not push new clause 18 to a Division.

Clause 34

Meaning of "residential property developer"

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

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

Clauses 35 to 38 and 47 to 49 stand part.

That schedule 9 be the Ninth schedule to the Bill.

Clauses 50 and 51 stand part.

Lucy Frazer: Clauses 34 to 38 set out key definitions for the residential property developer tax, which collectively set out the conditions that need to be satisfied for a business to be in scope of the tax. Clauses 47 to 51 and schedule 9 address a mix of aims within the tax, including the definition of a group, excluding a deduction for the tax when calculating profits or losses for other tax purposes, and the application of transfer pricing principles for the purpose of the residential property developer tax.

Clause 34 defines a residential property developer, and confirms that to be in scope of the RPDT, a business must be a company that undertakes residential property development activities as further defined in clause 35. Clause 34 provides an exclusion for non-profit housing companies and their wholly owned subsidiary companies from being treated as residential property developers for the purposes of the RPDT. The clause defines a non-profit housing company by reference to existing legislation, and a power has been taken that allows the definition to be updated in future in line with any changes to regulatory frameworks.

Clause 35 provides a non-exhaustive list of what amounts to residential property development activities, and confirms that profits from these activities undertaken by the developer on or in connection with UK land in which it has an interest will form the tax base.

Clause 36 explains that a residential property developer or a related company will have an interest in the land for the purposes of the tax where it has an interest in or over the land that forms part of its trading stock used in its development trade. It explains the tax's application to related companies and joint venture companies.

Clause 37 provides a definition of residential property and sets out the types of properties that will not be regarded as residential property. The clause excludes certain types of buildings from the definition of residential property, so that any profits or losses from their development are not taken into account when computing profits that are subject to the tax. These include, typically, specialised institutions that provide temporary or longer-term accommodation for a specific class of residents, and buildings that are occupied purely under licence to occupants who do not hold any lasting rights over the property. Finally, the clause sets out the criteria to be met in relation to buildings that are excluded from the definition of residential property as student accommodation. Clause 38 sets out the formula used to calculate the residential profits or losses from residential property development activity by a developer for an accounting period.

Clause 47 introduces an exit charge that applies when a non-profit housing company ceases to meet the conditions to be exempt from the RPDT, and sets out the operation of the exit charge. This rule has been welcomed by the non-profit sector.

Clause 48 provides the definition of a group of companies for the purposes of the RPDT, other than for the group relief rules in schedule 7. Since a group of companies is entitled to a single £25 million allowance, it is important to set out clearly what constitutes a group for that purpose.

Clause 49 introduces schedule 9, which introduces a rule preventing a residential property developer from obtaining any deduction for the tax when calculating any profits or losses for income tax or corporation tax purposes. Clause 50 sets out where the meaning of various terms used in the RPDT legislation can be found.

Clause 51 confirms that the RPDT will apply for an accounting period for UK corporation tax purposes of a developer that ends on or after 1 April 2022. It sets out the treatment of accounting periods that straddle the commencement date of 1 April 2022. The RPDT will be chargeable only in respect of profits calculated from 1 April 2022 to the end of the accounting period, with an apportionment being made of the profits for the whole accounting period on a time basis.

In summary, this group of clauses defines key terms needed for the RPDT to work and provides the essential framework for the administration of the tax. The clauses will be supported by guidance to provide further clarity for taxpayers.

James Murray: As we have heard, clauses 34 to 38 concern the key concepts contained in the RPDT legislation. Clause 34 sets the basic conditions that, when satisfied, mean that a company is to be designated as a residential property developer, potentially within the charge of the RPDT. Subsection (1) defines an RP developer as either a company that undertakes residential property development activities or one that holds

"a substantial interest in a relevant joint venture company."

The company's interest in such a joint venture is aggregated with those of other members of the same group to determine whether that is a substantial interest.

Subsection (3) clarifies that a non-profit housing association or organisation is not treated as an RP developer for the purposes of the tax. That is a very important distinction that we support. My colleagues in the shadow housing team pressed the Government on that point during Committee stage of the Building Safety Bill, and I welcome that being reflected in this Bill.

Subsection (4) is a logical extension of subsection (3), determining that wholly owned subsidiary companies of non-profit housing companies are also excluded from being treated as RP developers for the purposes of the tax. It makes sense to exclude non-profit housing associations from RPDT, particularly given that they have already made a much more substantial contribution

[James Murray]

to cladding remediation than private developers. Research by the National Housing Federation in October 2021 found that private developers and cladding manufacturers had allocated £643 million of future profits to remediate unsafe cladding, while non-profit housing associations have estimated that their remediations will cost in excess of £10 billion.

Subsection (5) allows the Treasury to amend the definition of a non-profit housing company by regulation, and to make any consequential changes to this part of the legislation. As we have heard, that allows the definition to be updated, in line with any changes to the regulatory framework for registered social housing providers. It may be understandable that the Government want to be able to adjust definitions to match any changes in the way that social housing providers operate, as well as to recognise the impact of any changes to the regulatory framework. However, so that we can better understand the Government's concerns, I would be grateful if the Minister could indicate why it may be necessary to amend the definition of a non-profit housing company.

Clause 35 sets out the criteria and definitions of residential property development activities for the purposes of the tax, as well as setting the territorial scope of the legislation. Subsection (1) brings within scope anything that is done by an RP developer or in connection with land in the United Kingdom for the purposes of the development of a residential property. A developer must have an interest in the land at some point for the activity there to be RP developer activity for the purposes of the tax. Land in that respect is taken to include buildings or structures on a piece of land. The requirement for an interest in land means that profits from similar activities undertaken by companies acting purely as third-party contractors, who are not RP developers, do not come within the charge of the tax.

Clause 36 raises an important question about who the RPDT applies to. Subsection (1) sets out the definition of an interest in land for the purposes of the tax. Broadly, it sets out that, when an RP developer has an interest in land, it must have

"an estate, interest, right or power in or over the land".

That estate, interest, right or power must form

"part of the RP developer's, or the related company's, trading stock".

Subsection (4) elaborates what "trading stock" refers to and makes clear the importance of an estate, interest, right or power in or over land being disposed of. It is the point about disposal that I would like to probe further. Discussions with Clerks about whether new clause 19 was selectable drew out the fact that the residential property developer tax is aimed at developers that do development work in order to trade property once the work has been done. It seems clear to me that the RPDT would apply in the case of a developer who builds homes and sells their freehold interest once the development is complete, but what happens when the developer retains some sort of interest for a specific period of time, or indefinitely?

4 pm

First, what about build to rent? We know that the RPDT is not intended to apply to build-to-rent developers. That point was raised during the consultation on the RPDT last year, and I understand that the Treasury confirmed in October 2021 that build-to-rent developers would be excluded. If I understand it correctly, the exclusion is achieved by clause 36(1)(b) and clause 36(4), which specify that the tax will apply only to developers whose "interest in land" is held as "trading stock", thereby excluding those developers who hold it as a landlord.

Most build-to-rent developments are purpose-built and intended for long-term rent, but some developers could consider retaining for-sale developments as rented units for a specific period of time, and then selling later. That could be the case, for instance, where house prices suddenly drop, but the drop is expected to be short term. If a developer completed a development this autumn, say, they could chose to hold the units as build to rent for 10 years, thereby exceeding the expected lifeline of the RPDT, and then dispose of the units afterwards. Assuming that the RPDT is indeed a 10-year tax, as the Minister indicated, will she confirm that that developer could avoid the RPDT altogether in such developments?

Secondly, what would happen where a developer had built a block of flats and then retained the freehold while granting long leases to the leaseholders of individual flats? In that case, the developer might also retain a long-term interest in managing the building, maintaining the communal areas and so on. Technically, by virtue of the developer's status as freeholder, it would be a landlord. Would it be subject to the RPDT?

Clause 37 also deals with definitions. It describes the types of properties that will or will not be regarded as "residential property" for the purposes of the RPDT. The clause provides a general definition of residential property and then exclusions for specialised institutions or accommodation that are restricted in how and by whom they will be occupied. It defines a residential property as a building that is being constructed, adapted or is designed specifically for use as a dwelling, which includes land that forms gardens or grounds around the building. The definition also draws in other land over which the building owner has rights or is seeking planning permission. Thereafter, the clause cites a range of exemptions, wherein the function of the residential building removes it from liability to the RPDT.

It would be useful if the Minister could offer greater clarification on a number of the exempted purposes of residential buildings. Does the exemption for "accommodation with personal care" for people requiring care due to old age, disability, substance dependency or mental illness include permanent sheltered accommodation, where care is available but not routinely provided on a permanent basis? Does the exemption for student accommodation extend to privately owned properties that would otherwise be in scope, but which have been adapted to become houses in multiple occupation and are marketed to university students, which would mean, in effect, that they are privately owned student houses rather than purpose-built student accommodation? Clause 37(3) includes the condition that the occupants of student accommodation would reasonably expect to inhabit the property for at least 165 days a year for the purposes of education, but there is a grey area and we would welcome clarity.

We are also conscious of concerns raised by the British Property Federation about exemptions on build-to-rent properties. The federation notes that most models of build-to-rent developments are "outside the scope of RPDT"—as I mentioned—which it supports. However, it argues that build-to-rent developments that benefit from forward funding arrangements and those that are delivered through for-profit affordable housing developers are both within scope, and that having some build-to-rent models in scope and others out of scope creates an uneven playing field. Will the Minister clarify the intention behind the provision?

Clause 38 deals with the meaning of "residential property developer profits or losses". It sets out the formula used to calculate the RP developer profits or losses that form the base for the purposes of the RPDT for an accounting period. We can see that the starting point is the company's adjusted trading profits or losses for the accounting period, determined in accordance with clause 39. That amount is updated for any RP developer profits or losses from joint ventures that are attributable to the company, in accordance with clause 40. Certain losses and other reliefs can then be deducted, calculated in accordance with parts 1, 2 and 3 of schedule 7, where available, to give the RP developer profits or losses for the accounting period.

Clause 47 concerns the exit charge on non-profit housing companies. The clause provides for an exit charge when a non-profit housing company ceases to meet the conditions to be exempt from the residential property developer tax. The conditions for exemption are provided for in clause 34. The charge may also apply where a non-profit housing company ceases to be owned by another such company and is acquired by another company under the same control as that other company. The clause is aimed at preventing for-profit entities from benefiting from the exemption. It is an understandable clause to bring forward and it is right that for-profit entities should not benefit from an exemption aimed at non-profit entities.

Clause 48 provides the definition of a group of companies for most purposes of the RPDT, including the allocation of the allowance under clause 43. The meaning of a group for the purposes of RPDT group relief and RPDT group relief for carried-forward losses is separately provided in schedule 7.

Within clause 48, subsection (1) confirms that for the purposes of the RPDT, other than for the rules for group relief in schedule 7, a group means two or more companies that together meet the condition in subsection (2). Subsection (2) provides that the condition is that one of the companies is

"the ultimate parent of each of the other companies, and…is not the ultimate parent of any other company."

Subsection (3) explains that a company is the ultimate parent of another if its parent and no other company is the parent of both of them. Subsection (4) explains that a company is the parent of another if the other company is its 75% subsidiary or it is entitled to at least 75% of the other company's distributable profits, or would be entitled to 75% of its assets in a winding-up. For these purposes, the rules relating to corporation tax group relief are used, for example to define equity holders and how beneficial entitlement rules are applied to groups.

Clause 49 and schedule 9 contain a set of miscellaneous provisions. The first of these relates to a rule preventing a company that is liable to pay the RPDT from obtaining any deduction for the tax when calculating any profits or losses for income tax or corporation tax purposes. Similarly, the second paragraph of schedule 9 ignores any payments for RP developer losses of a joint venture company or RP developer group relief when calculating corporation tax, profits or losses, and any such payment will not be treated as a distribution.

Paragraph 3 of schedule 9 applies the arm's length principle included in the transfer pricing rules in part 4 of the Taxation (International and Other Provisions) Act 2010 to an RP developer's RP development activities and its other activities. The provisions in that Act are to be interpreted as if the activities were carried on by separate persons under common control.

Finally, paragraph 4 of schedule 9 applies the arm's length principle included in the transfer pricing rules in part 4 of the 2010 Act to transactions or provisions between companies under common control, where the provision or transaction would be taken into account when computing the RP developer's profits or losses for only one of those companies.

Clause 50 provides definitions for the legislation that ensure consistency of terminology. Finally, clause 51 provides commencement provisions for the RPDT, which apply to profits arising from 1 April 2022. It also provides an amendment to the usual rules for payment of tax by quarterly instalments, where these would otherwise apply to payments before that date.

To that end, subsections (2) and (3) of clause 50 require pre and post-commencement profits to be time-apportioned where a company's accounting period straddles the commencement date of 1 April 2022. For a company with a 31 December 2022 year end, if it sells a development pre-commencement in, for example, January 2022, part of the profits will be brought into the charge, whereas the same profits for a company with a 31 March 2022 year end will fall out of scope.

In summary, we will not oppose this group of clauses, but I hope that in her reply the Minister will be able to answer the questions that I have set out. In particular, I would be grateful if she could fully address the questions that I have raised in relation to clause 36: specifically whether RP developers would be liable to the RPDT if they either held the units on a piece of land for 10 years as build-to-rent or if they retained a long-term interest as a freeholder landlord.

Alison Thewliss (Glasgow Central) (SNP): A happy new year to you, Dame Angela, and to all colleagues.

I have just a few queries about these clauses. First, I want to touch on the issues relating to exempting registered social landlords. During the consultation, the Scottish Federation of Housing Associations asked the Government to exempt all non-profit housing providers and wholly owned subsidiary companies. It highlighted the social housing sector's concerns that developers would look to pass on costs where properties are purchased off the shelf, as it were, rather than housing associations doing it themselves, and it was very pleased that it had that exemption as part of the rules that the Government are introducing. That is very welcome, and I am glad that has been the case.

A "registered social landlord" is defined in clause 34(4)(b), and paragraph (c) refers to the Housing (Scotland) Act 2010. Does the Minister intend to keep in touch with

[Alison Thewliss]

the Scottish Government should there be any further changes to Scottish legislation that might be impacted by the Bill? The definition of a registered social landlord in Scotland is slightly different from that in England. An RSL is not allowed to be for-profit in Scotland, and that is very clear in the legislation. I understand that on the English register there are 1,625 providers of registered social housing, 60 of which are classed as for-profit.

Out of curiosity, has the Minister or her colleagues had any discussions with the for-profit organisations? Looking at some of the names, I think that some of the people they seek to provide housing for appear to be reasonably laudable causes—people we would wish to support—even though it is through for-profit social housing. I am curious about what the impact might be on the sector as a result.

On clause 34(5) and the point made by the hon. Member for Ealing North, it is important that a lot of the measures are going to secondary legislation and we will lose sight of any future changes that the Government make to the definitions of non-profit and any other definitions that they seek to make. How does the Minister intend to report that back to the House in a way that allows Members to ensure that there will be no unintended consequences from things that happen once the Bill leaves Committee?

On the definitions of residential property in clause 37 and the exemptions in subsection (2), I was interested to see that student accommodation is a part of this. In many respects I agree with student accommodation being exempted, particularly accommodation run by universities themselves for no profit. Universities looking not to make a profit but simply to make the accommodation pay for itself are very different from the rapacious student accommodation providers that seek deliberately to make profits from students. Some of the fees that they can charge and the developments that they create are sizeable.

There are huge accommodation providers in Glasgow Central. They have a worthy goal in providing accommodation for students, but students have to pay through the nose for it and they are not quite in the same classes of accommodation. What conversations has the Minister had with student accommodation providers, both those working on a non-profit basis and those working on a commercial basis? It is clear that there are implications from cladding on student accommodation. Unite was mentioned in the press as having in its portfolio 22 high-rise buildings that are affected by cladding. I understand that it is meeting the cost of removing the cladding but, as I say, it is a profitable business in many respects. What more can the Government tell me about their conversations on that?

My other points were covered by the hon. Member for Ealing North, but I have one final point about the preparedness of HMRC to implement the significant and complex new tax. My hon. Friend the Member for Gordon mentioned the complexity. When legislation starts to get into equations, we are talking about something that is quite complicated, especially when we look at the detail in the clauses and the schedules that follow them. What preparations is HMRC meant to be making for this? HMRC has had a busy couple of years, given all the things it has had to do as a result of coronavirus. A lot of that was done at pace, with other stuff put to the side, and I wonder whether this might be one thing that was put to the side while HMRC dealt with coronavirus.

It is clear from some of the press coverage of the coronavirus schemes that HMRC did not have the staff to check up on where the money was going, and that it has been trying to claw back some of that money without the staff complement to do that properly and fully. I would like to know from the Minister the size of the team that has been working on this and what more needs to be done to ensure that this goes smoothly in April 2022.

4.15 pm

Lucy Frazer: There are quite a lot of points to address. I will deal with those that are easy to deal with orally, and I will get back to the hon. Member for Ealing North in writing on some of the more detailed points he raised. I am very grateful to him and to the hon. Member for Glasgow Central for welcoming our decision on affordable housing and the not-for-profit sector. We had obviously thought about that very carefully. I think it is the right decision, and I am pleased that it has cross-party support. I welcome, as does the hon. Member for Ealing North, the work that has already been done to reduce cladding by that sector.

The hon. Member for Ealing North asked why we will not extend the definition beyond that to not-for-profit providers. It is because this measure relates to a charge when people have made a significant profit of more than £25 million. He also asked why we need flexibility to come back, by way of regulation, and change the definitions. The definitions are based on legislation from the devolved Administrations, and if those definitions change, we need the flexibility to change them here as well.

The hon. Gentleman also asked about different scenarios for disposals of land. He will know that, when coming up with this policy, we thought carefully about what should and should not fall within it, and what was right to fall within it. We excluded build-to-rent because it is a very different sector in which profits are earned in a different manner at a different time. It was not comparable to the build-to-sell sector. He posited a number of scenarios in which commercial entities might change their activities in order not to pay this charge over the period of time but may ultimately sell properties in due course. We of course considered the possibility that people might change arrangements in order not to pay the tax, but we took the view, having discussed the issue, that significant change in commercial behaviour or business models in order simply to avoid the tax would be unlikely. I will get back to him on some of his specific points.

The hon. Gentleman also made a point about student accommodation, which I will answer from a broad perspective. Those who build properties and are able to pay the levy, because they have an income of more than £25 million, are subject to the tax. It is on house sales of a particular kind, where the purpose of the sale is essentially a sale of a property but it so happens that some other services are provided at the same time. It is essentially competing with the build-to-sell sector, which is why it is included in the legislation.

The hon. Member for Glasgow Central asked whether we would keep in touch with the Scottish Government, which we of course will and are very happy to. She asked what happens when people provide good services, for example in the affordable housing sector, but are profit making. I want to reiterate that the levy will catch significant property developers earning in excess of £25 million—it is that type of company that will be caught by the levy. We will of course keep everything under review, and the same point relates to the point that the hon. Member for Glasgow Central made about student accommodation. This is about big providers that are selling property to individuals, rather than renting the accommodation in short order.

I am really pleased that the hon. Member for Glasgow Central recognised the successful work that HMRC has done over the course of the pandemic in pretty short order. The furlough scheme and all the grants have largely been administered by HMRC, and it has done a tremendous job, delivering at pace. She is right to point out that HMRC has been stretched at times and that there is a significant amount of work coming its way in due course with the social care levy, but I want to reassure her that it is fully aware that this legislation is coming down the path and that it will be ready to deliver. For those reasons, I commend the clauses to the Committee.

Question put and agreed to.

Clause 34 accordingly ordered to stand part of the Bill.

Clauses 35 to 38 ordered to stand part of the Bill.

The Chair: The decisions on clauses 47 to 49, schedule 9 and clauses 50 and 51 will be dealt with later in our proceedings.

Clause 39

Adjusted trading profits and losses

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

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

Clauses 40 and 41 stand part.

That schedule 7 be the Seventh schedule to the Bill.

Clause 42 stand part.

Lucy Frazer: Clauses 39 to 42 set out how to calculate the tax base for the purposes of RPDT for an accounting period. Clause 39 sets out what adjustments are made to the UK corporation tax trading profits or losses to arrive at the adjusted trading profits or losses of a residential property developer for the purposes of RPDT. The clause provides that any apportionment of in-scope activity and other activities are to be made on a just and reasonable basis. The clause also provides for an exclusion for any trading profits from residential property development activities that are carried out by a company for charitable purposes.

Clause 40 sets out how any joint venture profits or losses attributable to a developer are determined for the purposes of calculating RPDT profits or losses. The clause confirms the criteria for a relevant joint venture company to fall within the charge to RPDT and how the joint venture profits or losses will be attributed to the developer.

Clause 41 introduces parts 1 to 4 of schedule 7, which make provisions for loss relief and group relief for the purposes of RPDT. As they largely replicate the rules that apply generally for corporation tax, I do not propose to spend long taking the Committee through them. Part 1 of schedule 7 allows any unrelieved RPDT loss to be carried forward against RPDT profits in the next accounting period. Parts 2 to 4 of schedule 7 apply equivalent rules for UK corporation tax group relief for the purposes of RPDT.

Clause 42 restricts the amount of a carried forward loss that can be set against profits of a later period for the purposes of RPDT. This ensures that carried forward losses do not reduce profits above the annual allowance that are chargeable to RPDT by more than 50%, in line with the treatment of carried forward losses under UK corporation tax.

In summary, these clauses and the schedule set out important mechanics for the calculation of the base of the tax, and I therefore recommend that they stand part of the Bill.

James Murray: As we have heard, clause 39 concerns adjusted trading profits and losses relating to the calculation of the RPDT charge. Subsection (2) lists the circumstances in which trading profit and loss can be ignored in the calculation of the charge. These are those profits, losses, and any allowances or charges under the Capital Allowances Act 2001 that do not relate to residential property development activity, corporation tax loss relief, and group relief, and any amounts that are taken into account in calculating trading income by the operation of the loan relationship and the derivative contracts rules.

Also, any trading profits from residential property development activities that are carried out by a charitable company and apply for the purposes of the charitable company are ignored. Furthermore, we can see that in subsection (3) there is provision whereby corporation tax profits, losses or capital allowances and charges that relate to both the company's residential property development activity and any other activities may be apportioned between the RP developer activities and other activities on a just and reasonable basis.

Clause 40 focuses on attributable joint venture profits and losses. The clause sets out how an amount a joint venture profits or losses attributable to a developer is determined for the purposes of calculating RP developer profits or losses under clause 38 for the purposes of this tax. The clause confirms the criteria for a relevant joint venture company to fall within the charge of this tax. Notably, we see that where there are five or fewer persons who between them own at least 75% shareholding, the holdings of members of the group are to be aggregated and treated as one holding.

Clause 41 introduces schedule 7 and relates to RPDT reliefs where provision is made for loss relief and group relief for the purposes of RPDT. Part 1 of schedule 7 clarifies that an unrelieved RPDT loss is to be carried forward against RPDT profits in the next accounting period, but its use is subject to the restriction to setting off against 50% of the profits of any future accounting period, as provided for by clause 42, which I shall refer

[James Murray]

to shortly. Part 2 concerns RPDT group relief, which is comparable to corporate tax group relief that has been set out specifically for the purposes of the tax under discussion today. Part 3 is similar, in that it applies the principles of carried-forward group relief from corporation tax to the RPDT.

Relatedly, we see clause 42 impose a restriction on the use of carried-forward losses for the purposes of the RPDT. That ensures that carried-forward losses do not reduce profits above the annual allowance that are chargeable to RPDT by more than 50%. That corresponds to the treatment of carried-forward losses for the purposes of corporation tax on trading profits. We will not be opposing the clauses or the schedule.

Lucy Frazer: I am grateful for the indication that there will be no opposition, so I ask that the clauses stand part of the Bill.

Question put and agreed to.

Clause 39 accordingly ordered to stand part of the Bill.

Clauses 40 and 41 ordered to stand part of the Bill.

Schedule 7 agreed to.

Clause 42 ordered to stand part of the Bill.

Clause 43

Allowance

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

The Chair: With this it will be convenient to discuss clause 44 stand part.

4.30 pm

Lucy Frazer: Clauses 43 and 44 provide for the operation of the annual allowance. The RPDT will be charged on the profits that exceed a residential property developer's £25 million annual allowance. Clause 43 provides for the operation of the £25 million annual allowance that is available to each group of companies before profits become chargeable to RPDT. A power is included that allows HMRC to set the process for a group of companies to allocate its allowance in secondary legislation.

Clause 44 provides for the calculation of the annual allowance for the RPDT where the profits of a member of a joint venture company are not chargeable to UK corporation tax. It provides for the allowance of a JV company to be reduced and for the exempt member to instead have an annual allowance that can be allocated to its joint venture interests. Although the rule may seem complicated at first glance, it will ensure that where a non-taxable investor, such as a pension fund, has interests in several joint ventures, those joint venture companies do not benefit from multiple allowances. In summary, clauses 43 and 44 ensure that RPDT is proportionate, administrable and targeted at the largest developers.

James Murray: As the Minister has described, clause 43 relates to allowances and provides for the operation of the allowance that is deducted from profits chargeable under the RPDT. Under clause 43, the £25 million allowance is adjusted pro rata when an accounting period is less than a year. Within a group of developers, the allowance can also be allocated between member companies at the direction of an allocating member. In the absence of an allocating member, the allowance is to be evenly split between the total number of members.

Clause 44 applies a similar principle to joint venture companies and sets out the terms of allowance within the RPDT. Critically, where a member of a joint venture company is outside the scope of corporation tax because it is an offshore entity, a sovereign immune entity or an institutional investor, the allowance afforded to the joint venture company is reduced in proportion to the percentage competition of members that are outside its scope. We support the principle of removing unfair tax advantages and maintaining fair competition in the market, and therefore we will not oppose the clauses.

Lucy Frazer: Again, I am very grateful for that indication. I commend the clauses to the Committee.

Question put and agreed to.

Clause 43 accordingly ordered to stand part of the Bill.

Clause 44 ordered to stand part of the Bill.

Clause 45

Application of corporation tax provisions and management of RPDT

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

The Chair: With this it will be convenient to consider that schedule 8 be the Eighth schedule to the Bill.

Lucy Frazer: Clause 45 and schedule 8 provide for RPDT to be treated for administrative purposes as an amount of UK corporation tax. Clause 45 outlines the framework within which RPDT will operate and makes necessary amendments to existing administrative legislation to accommodate RPDT. It also introduces schedule 8, which makes further provisions about the management of RPDT, including setting out the circumstances in which a company will not be required to report its RPDT profits, which will reduce any administrative burden for groups with profits that are unlikely to exceed the annual allowance.

In summary, the clause and schedule set out important mechanics for the collection, management and payment of RPDT.

James Murray: As the Minister has described, clause 45 and schedule 8 concern the application of corporation tax provisions and management. The clause applies general corporation tax principles to the RPDT and provides that RPDT be treated for administrative purposes as an amount of corporation tax. The clause and schedule outline the framework within which RPDT will operate and make necessary amendments to administrative legislation to accommodate RPDT.

As pointed out by the Chartered Institute of Taxation, the alignment with corporation tax and other existing mechanisms should reduce some administrative burdens for both developers and HMRC, which we welcome.

However, we note that the turnaround on this novel tax, as mentioned earlier in this Committee sitting, is rapid. Given the truncated consultation period, I seek reassurances from the Minister that HMRC's systems will be ready for the collection, management and payment of RPDT. I would be grateful if the Minister could also confirm whether any additional budget allocation has been offered to HMRC to support the roll-out of RPDT and, if so, what the value of the allocation is.

Lucy Frazer: I assure the hon. Gentleman, as I assured the hon. Member for Glasgow Central some moments ago, that HMRC will be ready to bring in the tax that we are legislating for. As he will know, we have just gone through a spending review. HMRC will have sufficient funds to ensure that it can comply with its duties and obligations.

Question put and agreed to.

Clause 45 accordingly ordered to stand part of the Bill.

Schedule 8 agreed to.

Clause 46

Requirement to provide information about payments

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

Lucy Frazer: Clause 46 provides for RPDT receipts to be monitored. It introduces a requirement for residential property developers making an RPDT payment to state the amount of the payment to HMRC in writing in order to ensure that RPDT receipts can be monitored. It also provides for a penalty if there is a failure to comply with that requirement. In summary, the clause sets out an important requirement to enable HMRC to monitor RPDT revenue.

James Murray: As we have heard, clause 46 introduces a requirement for companies making a payment of RPDT to provide information about a payment to HMRC so that receipts for the tax can be monitored. The clause sets out the definition of the responsible company—the company making payment on behalf of the RP developer under relevant group payment arrangements or, in any other case, the RP developer itself.

The clause further requires that the responsible company must notify an officer of HMRC in writing, on or before the date when the payment is made, of the amount of the payment due under RPDT. In addition, the clause refers to penalties for failing to inform HMRC about payments owed. Penalties are aligned with previous legislation on corporation tax notices. We will not oppose the clause.

Question put and agreed to.

Clause 46 accordingly ordered to stand part of the Bill.

Clauses 47 to 49 ordered to stand part of the Bill.

Schedule 9 agreed to.

Clauses 50 to 52 ordered to stand part of the Bill.

Clause 67

Securitisation companies and qualifying transformer vehicles

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

Lucy Frazer: Clause 67 introduces a power enabling changes to be made by secondary legislation to stamp duty and stamp duty reserve tax in relation to securitisation and insurance-linked security arrangements. The Government are keen to ensure that the UK's stamp duty and SDRT rules contribute to maintaining the UK's position as a leading financial services sector.

On 30 November, the Government published a response document and a draft statutory instrument following consultation on reform of the tax rules for securitisation companies. The consultation explored issues including the application of the stamp duty loan capital exemption to securitisation and ILS arrangements. The consultation sought views on whether uncertainty as to how the existing stamp duty loan capital exemption applies increases the costs and complexity of UK securitisation and ILS arrangements, and whether that is a factor in arrangements being set up outside the UK.

Clause 67 will allow Her Majesty's Treasury to make regulations to provide that no stamp duty or stamp duty reserve tax charge will arise in relation to the transfer of securities issued by a securitisation company or a qualifying transformer vehicle. A qualifying transformer vehicle is the note-issuing entity in an ILS arrangement. The power will also allow HMT to make regulations to provide that stamp duty or SDRT is not chargeable on transfers of securities to or by a securitisation company. The power allows the Government to make changes to allow UK securitisation and ILS arrangements to operate more effectively, and reduce cost and complexity. There is currently no power to make changes through secondary legislation to the stamp duty and SDRT rules in relation to securitisation and ILS arrangements.

In summary, clause 67 will support the Government to respond flexibly to the evolving commercial practices of the securitisation and ILS markets, and ensure that the UK's securitisation and ILS regimes remain competitive. I therefore commend the clause to the Committee.

Abena Oppong-Asare (Erith and Thamesmead) (Lab): I am delighted to serve under your chairship, Dame Angela. Happy new year, everyone.

As we heard from the Minister, clause 67 relates to stamp duty on securities and related instruments. We do not oppose efforts to increase the efficiency and flexibility of this sector, but we wish to see appropriate safeguards to ensure that these changes do not increase the risk of stamp duty evasion and, as the Minister mentioned, to make sure that they meet the UK's position as a leading financial sector.

Securitisation can be a useful source of finance for UK businesses and can aid capital liquidity and risk management. I note that the Treasury has consulted on the impact of stamp duty on securitisation and insurance-linked securities. Clause 67 gives the Treasury powers to make changes through secondary legislation to stamp duty as it relates to securitisation. Can the Minister explain why the Government feel that it is necessary to make those changes through secondary legislation, rather than using the Finance Bill or other primary legislation?

[Abena Oppong-Asare]

Can the Minister also give us some detail on the exact changes that the Government intend to make through this secondary legislation? For example, in what circumstances will the trading of securities be exempt from stamp duty? How will she ensure that this does not increase the scope for tax avoidance? Can she also provide reassurance that Parliament will still be able to scrutinise these changes? The clause really needs to be scrutinised.

Lucy Frazer: I thank the hon. Lady very much for those points. I welcome the fact that she, too, thinks it important that this country remains competitive and flexible, and supports growth in this very important sector.

The hon. Lady asked why we need these changes to be made by secondary legislation. The answer is that technical changes of the type consulted on are more often and more appropriately made through secondary legislation than by primary legislation. Making the changes through secondary legislation gives Government flexibility to ensure that technical changes respond to the evolving nature of the securitisation and ILS markets.

However, it is of course important that we have scrutiny and review. We had a consultation on this issue, from which these provisions follow; of course, anything that comes through secondary legislation will be scrutinised. We will keep this under review, as we do all taxes.

4.45 pm

Abena Oppong-Asare: I thank the Minister for taking the time to explain that. It would be helpful if she could also explain what measures were put in place to allow Parliament to scrutinise these changes. I am sure that she would agree that it is important that Parliament should be able to scrutinise these changes properly; if she could list what steps have been put in place, that would be extremely helpful.

On my other question, it is really important that there is no increase in tax avoidance. Can the Minister set out what the Government have put in place to ensure that it does not increase?

Lucy Frazer: Like me, the hon. Lady will be aware that when things go through the secondary legislation procedure they are subject to scrutiny by this House, through those Committees. She will also know that this Government are absolutely committed to ensuring that we tackle tax avoidance; there are a large number of measures in this Bill that tackle tax avoidance and evasion, through cracking down on promoters and other mechanisms. It is something that we are alive to and acting upon, and for those reasons I ask that clause 67 stand part of the Bill.

Question put and agreed to.

Clause 67 accordingly ordered to stand part of the Bill.

Clause 72

Identifying where the risk is situated

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

Lucy Frazer: Clause 72 relocates into IPT legislation the criteria to determine the location of an insured risk for the purpose of insurance premium tax. IPT is charged on most general insurance, where it provides cover for risks located within the UK.

Insurance for risks located outside the UK is exempt from UK IPT. That exemption prevents double taxation across different tax jurisdictions and puts UK-based insurers on a level playing field with overseas insurers. Legislation sets out how to determine the location of a risk in order to establish whether the IPT exemption applies. Regulations previously used to determine the location of an insured risk were replaced in 2009, and the new regulations did not include an equivalent provision. Instead, reliance was placed on directly effective European Union legislation. To ensure clarity for the insurance industry, this measure relocates the criteria into primary legislation. This is a technical change and does not reflect a change in IPT policy.

The changes made by clause 72 will remove references to inoperative regulations in the Finance Act 1994, introducing criteria to the same effect directly into the IPT legislation. The measure ensures that insurance for risks located outside the UK remains exempt from IPT, providing clarity and continuity for the insurance industry and supporting the maintenance of an effective and fair tax system.

Abena Oppong-Asare: I thank the Minister for her explanation of clause 72; it does seem like a straightforward clause that simply moves the criteria for determining where the risk is located into primary legislation. The Chartered Institute of Taxation has stated that the legislation does meet its stated objectives. For that reason, we do not oppose the clause.

I note that there has been wider consultation on the insurance premium tax, including on how to address the avoidance of the tax and how to reduce the administrative burden on HMRC and the industry. That is particularly important as HMRC has been under a lot of pressure—particularly during the pandemic. In the Government's response to the consultation on the issue of IPT avoidance, they said that, on reviewing the responses,

"neither of the proposed options provide a proportionate solution to the issue this chapter sought to address. As such, neither option will be taken forward at this time."

That seems like the Government have given up at the first hurdle. Why, if the proposed measures are not appropriate, are the Government not considering other measures to prevent avoidance in this sector?

Alison Thewliss: I do not have any major objections to what is being proposed, but I would be doing the Association of British Insurers a disservice if I let the clause go through without mentioning its concern, which I share, that insurance premium tax is quite a regressive tax. We are about to discuss tobacco duty; the ABI points out, through some research by the Social Market Foundation, that insurance premium tax now raises more revenue than beer and cider duty, wine duty, spirits duty, or betting and gaming duties.

Since 1994, the standard rate of IPT has increased more rapidly than tobacco duty. Those are all things that we want people not to do; we would prefer it if

people did not drink as much, smoke as much or gamble as much, so we tax those things. It seems ludicrous to tax people on insurance, which we would like people to have and which benefits them and society, so I ask the Minister to consider further whether insurance premium tax is something sensible that we want to keep doing.

Lucy Frazer: I am grateful to the hon. Member for Glasgow Central for her broader points about the subject matter. I do not think she raised a particular point in relation to the clause under consideration, but this is an area that, like others, we will keep under review. I undertake to get back to the hon. Member for Erith and Thamesmead in writing on the specific point that she raised in relation to the consultation.

Question put and agreed to.

Clause 72 accordingly ordered to stand part of the Bill.

Clause 73

Transitioned trade remedies: decisions by Secretary of State

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

Lucy Frazer: The clause gives the Secretary of State for International Trade the power to call in and take control of reviews of trade remedies measures transitioned from the EU. This ensures that the Government can effectively take steps to prevent harm to UK industry where there is evidence of unfair competition.

Trade remedies are additional tariffs or tariff-rate quotas temporarily imposed to protect domestic industries from dumped or subsidised imports or unforeseen surges in imports. At the end of the transition period, the Government transitioned 43 of the EU's trade remedy measures. The Trade Remedies Authority is now reviewing the transitioned measures to assess whether their continuation is suitable for the UK economy. The TRA is responsible for collecting and analysing evidence relating to trade remedies cases, and it currently makes recommendations to the Secretary of State for International Trade on whether particular measures should be revoked or varied or, in certain cases, retained or replaced. The Secretary of State can only accept or reject a TRA recommendation in its entirety.

The current framework was introduced in 2018. Since then, it has become clear that in some circumstances, greater ministerial involvement in decision making is required. The call-in power is designed to address that. It will allow the Secretary of State to call in a case if she considers it necessary. For example, she will be able to take a closer look at an individual case if needed in the wider public interest. The intention is that the Secretary of State will continue to rely on the expertise of the TRA to collect and analyse evidence, but that it will do so under her direction.

Whether a case is called in or not, the process will continue to be robust, transparent and evidence based, but the power will allow the Secretary of State greater flexibility in decision making than our legislation currently allows. The call-in power will apply only to transition reviews, and where the TRA is reconsidering its previous conclusions from a transition review. In parallel, the Government are considering wider changes to the trade remedies framework to ensure that it can consistently defend UK industry. That is separate from the limited scope of this clause, and the International Trade Secretary will report on the findings of that review in due course.

The changes made by clause 73 will amend the trade remedies regime to allow the Secretary of State for International Trade to call in transition reviews and reconsiderations of transition reviews conducted by the TRA. After calling in a case, the Secretary of State will be responsible for determining the outcome of that review or reconsideration. That will ensure that the Secretary of State can have greater oversight and involvement in a particular transition review or reconsideration of a transition review as appropriate, and therefore the ability to decide on appropriate measures, such as varying the tariffs that apply to particular products under the UK's trade remedies framework.

Where this power is exercised, the Secretary of State need not necessarily base their decision on a prior recommendation or decision of the TRA. The Secretary of State will be required to publish the notice of a decision made under this clause. The Government will make secondary legislation to set out in more detail how the call-in power is to be exercised.

In summary, clause 73 will help to prevent injury to UK industry by empowering the Secretary of State to call in transitional reviews where appropriate, and give her control to determine the outcome of a particular transition review or reconsideration of a transition review. Such a determination may include retaining, varying, revoking or replacing the trade remedies already in place on the goods subject to the review.

Abena Oppong-Asare: This important clause relates to trade remedies. As we have heard, it allows Ministers to override the powers of the Trade Remedies Authority in order to maintain safeguard tariffs on cheap imports that unfairly undermine UK industry.

The clause's introduction was prompted by the row over the TRA's proposals to get rid of tariffs on cheap steel imports. In June last year, the TRA recommended the removal of limits inherited from the EU on about half of the UK's steel imports. Slashing those safeguards and opening the floodgates to cheap steel imports would have been devastating for steel plants across our country and damaging for our wider economy. At the time, the director general of UK Steel said:

> "On their first major test in a post-Brexit trading environment, the UK's new system has failed our domestic steel sector."

The Government U-turned on that decision after pressure from Labour and the industry, and belatedly maintained protections for the steel industry. Obviously, however, there are concerns about future TRA decisions, so we support the clause. Indeed, Labour campaigned for the Government to take more action to support our vital steel industry.

I ask the Minister to expand on subsection (5), which allows the Secretary of State to make regulations regarding how to make decisions on transitioned trade remedies. Will she set out what sort of regulations she envisages that the Secretary of State will make and how those

[Abena Oppong-Asare]

decisions will be made? It is important that there is a transparent process for making these important decisions on trade remedies.

Finally, although we welcome this measure and hope that it ensures that vital British industries are better protected in the future, we remain concerned about the Government's wider failure to support British industry. Industries such as steel are of vital strategic importance for our economic prosperity and national security, but the Government's lack of an industrial strategy means that the steel industry is lurching from crisis to crisis. We need a proper plan to decarbonise the sector, to boost business competitiveness and to use British steel in UK infrastructure projects, in order to safeguard the future of the steel industry, as Labour's plans to buy, make and sell in Britain would do.

Labour would also invest up to £3 billion over the coming decade in greening the steel industry. We would work with steelmakers to secure a proud future for the industry to match the proud past and present of British steel communities. I urge the Government to do the same.

Lucy Frazer: I did not want to interrupt the hon. Lady, but I think she has gone outside the remit of the measures in the Bill. However, I would like to correct her on a point—*[Interruption.]* She was talking about the steel industry as a whole, when we are dealing with a provision that relates in particular to the power of the Secretary of State to call in trade remedies.

The Chair: Order. I will allow some leeway for reasonable debate, and if anyone goes out of order, I will stop them. The Minister should feel free to make some general comments, so long as they are not too long and do not stray too far.

Lucy Frazer: That is very kind, Dame Angela. I want to correct a general point that the hon. Lady made in relation to steel and the decision that was made by the then Secretary of State for International Trade. The hon. Lady suggested that there was a U-turn and that pressure was put on by the Labour party. In fact, there was no decision by the Government; the decision was made by the Trade Remedies Authority. I just wanted to clarify that point.

5 pm

The hon. Lady also talked about support for industry. In making that decision there was, of course, support for the steel industry, but we know that the Chancellor has supported industry in a broad sense, with £400 billion coming into the economy to protect businesses, large and small, across the country over the last 18 months.

The hon. Lady made a specific point about how the regulations will be used, and I will get back to her on that issue in writing.

Question put and agreed to.

Clause 73 accordingly ordered to stand part of the Bill.

Clause 74

Reference documents: amount of import duty

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

Lucy Frazer: The clause simplifies the way that technical updates are made to the UK's tariff schedule. This measure inserts a new provision into the Taxation (Cross-border Trade) Act 2018 so that changes to the UK's tariff schedule that do not alter the tariff duty rates applied to imported goods can be made by public notice rather than by secondary legislation, as is currently the case.

The clause will ensure that routine technical changes to tariff legislation, such as changing the codes used to classify goods or removing redundant codes, can be implemented more easily and quickly for those who refer to the legislation. Importantly, this measure also reduces the burden on parliamentary time in considering routine technical changes, while maintaining Parliament's current levels of scrutiny of tariff duty rate changes.

In summary, the clause amends the Taxation (Cross-border Trade) Act 2018 so that technical changes can be made by public notice, thus ensuring simpler and quicker implementation of those changes to the UK's tariff schedule.

Abena Oppong-Asare: This relatively minor change allows technical updates to the tariff schedule to be made by public notice rather than secondary legislation. Given that there are safeguards to ensure that substantive changes, such as varying the rate of import duty, continue to be made by regulation and are therefore subject to parliamentary oversight, we do not oppose the clause.

Question put and agreed to.

Clause 74 accordingly ordered to stand part of the Bill.

Clause 75

Restriction of use of rebated diesel and biofuels

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

The Chair: With this it will be convenient to consider that schedule 10 be the Tenth schedule to the Bill.

The Exchequer Secretary to the Treasury (Helen Whately): It is a pleasure to serve under your chairmanship, Dame Angela.

Clause 75 and schedule 10 make technical amendments to the existing legislation that restricts the entitlement to use rebated red diesel and biofuels from 1 April 2022, to adjust restrictions and ensure that the legislation operates as intended.

To help achieve net zero and improve UK air quality, the Government announced at Budget 2020 that they would reduce the entitlement to use rebated diesel and biofuels, which currently enjoy a duty discount, from this April. These tax changes will ensure that most current users of rebated diesel use fuel taxed at the standard rate for diesel from April 2022, like motorists, which more fairly reflects the harmful impact of the emissions they produce. The changes will also incentivise users of polluting fuels, such as diesel, to improve the energy efficiency of their vehicles and machinery, invest in cleaner alternatives or just use less fuel.

Following consultation in 2020, the sectors that will be allowed to continue to use rebated diesel and biofuels beyond April 2022 were confirmed at spring Budget 2021, with the changes legislated for in the Finance Act 2021. Clause 75 and schedule 10 will make technical amendments to the Hydrocarbon Oil Duties Act 1979 and the Finance Act 2021 to adjust restrictions on the entitlement to use

rebated diesel and rebated biofuels, clarify how the changes to the new rules work, and allow the legislation to operate as intended.

In summary, the changes will alter the circumstances in which the use of rebated diesel and rebated biofuels will be permitted from 1 April 2022, including provisions aimed at transition to the new rules. They will also amend definitions relating to certain vehicles, machines and appliances. Some of these changes follow feedback received from stakeholders since the Finance Act 2021 received Royal Assent. Overall, the technical changes in this clause and schedule will ensure that the Government's reforms to the tax treatment of rebated diesel and biofuels from April 2022 work as intended.

Abena Oppong-Asare: I thank the Minister for her explanation of the clause, which introduces technical amendments to the changes introduced to restrict the entitlement to use rebated fuel, more commonly known as red diesel. We discussed the substance of that change in Committee on the last Finance Bill. As I said then, we support the intention behind the Government's measure. There is a clear need to ensure that fuel duty rebates are as limited as possible in order to meet our net zero commitment.

The amendments made by this Bill are technical in nature, and we do not oppose them. However, will the Minister set out which, if any, industries will be affected by the changes and what work is being done to ensure that they are prepared, given that we are now only a few months from the introduction of the changes? Will she also update us on preparations by Her Majesty's Revenue and Customs and other agencies for the changes? Is she confident that the Government will be able to ensure compliance from April this year? The Minister's colleague, the Financial Secretary to the Treasury, mentioned that there has been some restructuring around HMRC, but I echo the earlier comments by the hon. Member for Glasgow Central and my hon. Friend the Member for Ealing North, who explained that HMRC has been busy for a number of years. Will the Minister update us on what work has been done to ensure that we are prepared for this change?

Alison Thewliss: I am glad that the definitions are being amended to include fairs and circuses, of which there are many in my constituency, to allow them to continue to use rebated diesel and biofuels after 1 April 2022. In that industry it is quite difficult to adapt machines to use other sources. The showpeople I represent will be pleased that the Government have listened on this measure, and I thank the Minister for that.

Helen Whately: I welcome the support that the hon. Member for Erith and Thamesmead expressed for the intention behind this measure and her recognition that the changes are of a technical nature and that the Opposition therefore will not oppose the clause. I assure her that there has been substantial consultation on the overall policy. Indeed, as the hon. Member for Glasgow Central said, the Government have listened, and that is reflected in some of the changes. I am confident in HMRC's ability to monitor compliance.

Question put and agreed to.

Clause 75 accordingly ordered to stand part of the Bill.

Schedule 10 agreed to.

Clause 76

Rates of tobacco products duty

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

Helen Whately: The clause implements changes announced in the autumn Budget 2021 on tobacco duty rates. The duty charged on all tobacco products will rise in line with the tobacco duty escalator, with additional increases made for hand rolling tobacco and to the minimum excise tax on cigarettes.

Smoking rates are falling in the UK, but smoking remains the biggest cause of preventable illness and premature deaths in the UK, killing around 100,000 people a year and about half of all long-term users. All those factors mean that we need to continue to encourage more people to kick the habit. We have already set out ambitious plans to reduce the number of smokers from 14% to 12% of the population by 2022, as set out by the Department of Health and Social Care in its tobacco control plan. We have announced that we aim to reduce smoking prevalence in England to 5% or less by 2030. That includes a commitment to continue the policy of maintaining high duty rates for tobacco products to improve public health.

According to Action on Smoking and Health, smoking costs society almost £14 billion per year, including a £2 billion cost to the NHS because of the disease caused by smoking. At autumn Budget, the Chancellor announced that the Government would increase tobacco duty in line with the escalator. The clause specifies that the duty charge on all tobacco products will rise by 2% above retail price index inflation. Duty on hand-rolling tobacco increases by a further 4%, to 6% above RPI inflation. The clause also increases the minimum excise tax—the minimum amount of duty to be paid on a pack of cigarettes—by an additional 1%, to 3% above RPI inflation.

The clause will continue our tried-and-tested policy of using high duty rates on tobacco products to make tobacco less affordable and to continue the reduction in smoking prevalence. That will reduce the burden placed on our public services by smoking. I commend the clause to the Committee.

Abena Oppong-Asare: As the Minister set out, the clause raises the duty on tobacco products, in line with the duty escalator, by RPI plus 2% for cigarettes and RPI plus 6% for hand-rolling tobacco. The minimum excise tax has been increased. We do not oppose those increases, but I will take this opportunity to make a couple of wider points about action to prevent smoking and the Treasury's role in it.

Action on Smoking and Health stated that last year's Budget was

> "a small step forward on tobacco, but on its own won't deliver on the Government's commitment to a Smokefree 2030."

In fact, projections show that the Government will miss that target by seven years, and double that for the poorest in society. As the Minister knows, tobacco duty has a dual role: raising revenue for the Government and reducing smoking rates. The latter role is most effective when combined with a comprehensive funded strategy to reduce smoking. Unfortunately, the funding for such

[Abena Oppong-Asare]

a strategy has been repeatedly cut in recent years as part of broader cuts to public health grants. The Minister mentioned that smoking has fallen, but recently published evidence shows a 25% increase in smoking among young adults since the first lockdown, so it is clear that there is a lot of work to be done.

In a debate on smoking last year, the Under-Secretary of State for Health and Social Care, the hon. Member for Erewash (Maggie Throup), said in response to a question on taxation:

> "That is a matter for Her Majesty's Treasury. However, the Department continues to work with HMT to assess the most effective regulatory means to support the Government's smoke-free 2030 ambition, which includes exploring a potential future levy."—[*Official Report,* 16 November 2021; Vol. 703, c. 181WH.]

Will the Minister tell us what work the Treasury is doing to design a levy on tobacco manufacturers, along the lines of the "polluter pays" principles, to pay for campaigns to stop smoking and other public health measures? Those large and profitable companies often pay relatively little tax in this country, while those who smoke rightly pay a large amount of tax every time they buy a pack of cigarettes. Many public health experts urge the Government to look at the idea of a levy, and I strongly hope that the Minister will say more on that.

Helen Whately: I am glad to hear that the Opposition will not oppose the clause. The hon. Lady has said that it is not enough on its own, and the Government agree. Our tax treatment of tobacco is just one of a set of policies in place to reduce smoking. I assure her that the UK is seen as a global leader on tobacco control. Over the last two decades, we have implemented regulatory measures to stop young people smoking and non-smokers from starting, and to support to help smokers quit.

The hon. Lady also asked about a tobacco levy. I can tell her that the Government consulted on proposals for a tobacco levy in 2015. That consultation concluded that a levy is not the most effective way to raise revenue or protect public health. It would add complexity and additional costs, while the amount of revenue it could raise is uncertain.

5.15 pm

Abena Oppong-Asare: I appreciate the time the Minister has taken to answer this question. The Department of Health and Social Care is saying something completely different. Last year, the Health Minister, the hon. Member for Erewash, said that taxation was a matter for the Treasury and that the Department was working with the Treasury to look at an effective regulatory means to support the Government's smoke-free 2030 ambition, which included exploring a potential future levy. Could I have clarification on that?

It seems that the Department is saying something different from what the Minister has just said—that the consultation was done in 2015 and it was decided that a levy was not appropriate? I am not trying to be difficult here, but I think the Government need to explore this idea. A number of health experts and even the Health Minister are saying that, so some work needs to be done on this in detail. The last review was done in 2015, and we have moved on a number of years.

Helen Whately: I am happy to take that point away and look into the position taken by my colleagues in the Department of Health and Social Care and the Treasury. I will get back to the hon. Lady on the question of the levy. I can assure her that work is currently happening on a tobacco control plan. The Government are considering policy and regulatory changes, which will be part of our ambition to be smoke-free by 2030. Those will be set out in due course in our tobacco control plan. I commend the clause to the Committee.

Question put and agreed to.

Clause 76 accordingly ordered to stand part of the Bill.

Clause 77

Rates for light passenger or light goods vehicles, motorcycles etc

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

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

New clause 5—*Vehicle taxes: effect on climate change goals*—

> "The Government must publish within 12 months of this Act coming into effect an assessment of the impact of sections 77 to 79 on the goal of tackling climate change and on the UK's plans to reach net zero by 2050."

New clause 15—*Review of VED revenue from light passenger or light goods vehicles, motorcycles etc in context of future demand for electric vehicles*—

> "(1) The Government must publish within twelve months of this Act coming into effect an assessment of the expected level of revenues of Vehicle Excise Duty from light passenger or light goods vehicles, motorcycles etc in future years in the context of the expected uptake of electric vehicles.
>
> (2) The Review must also consider possible alternatives to Vehicle Excise Duty on these vehicles."

Helen Whately: Clause 77 makes changes to uprate vehicle excise duty—or VED—for cars, vans and motorcycles in line with the retail prices index from 1 April 2022. VED is paid on vehicle ownership, and rates chargeable are dependent on various factors, including the vehicle type, date of first registration and carbon emissions. The Government has uprated VED for cars, vans and motorcycles in line with inflation every year since 2010, which means that rates have remained unchanged in real terms during this time. The changes made by clause 77 will uprate VED rates for cars, vans and motorcycles by RPI only for the 12th successive year, meaning that VED liabilities will not increase in real terms. The standard rate of VED for cars registered since 1 April 2017 will increase by only £10. The flat rate for vans will increase by £15 and motorcyclists will see an increase in rates of no more than £5.

New clause 5, tabled by the hon. Member for Glasgow Central, asks the Government to publish within 12 months of this Bill coming into effect an assessment of the impact of sections 77 to 79 on the goal of tackling climate change and on the UK's plan to reach net zero by 2050. Similarly, new clauses 4 and 8 tabled by the hon. Lady ask the Government to publish, within 12 months of this Bill coming into effect, impact assessments on the goal of tackling climate change and on the UK's

plan to reach net zero by 2050, first on the Act as whole, and, secondly, on section 99 and schedule 16. These amendments are unnecessary and should not stand part of the Bill.

The Government are proud of our world-leading climate commitments, most recently set out in the net zero strategy. The latest Budget and spending review confirm that since March 2021, the Government will have committed a total of £30 billion of domestic investment for the green industrial revolution. That investment will keep the UK on track to meet its carbon budgets and nationally determined contribution, and to reach net zero by 2050. The net zero strategy sets out how the Government will monitor progress to ensure that we stay on track for our emissions targets. That includes commitments to require the Government

"to reflect environmental issues in national policy making".

At fiscal events, including the spending review 2021, all Departments are required to prepare their spending proposals in line with the Green Book, which sets out the rules that we use in the Treasury to guide individual spending decisions. The Green Book already mandates consideration of climate and environmental impacts in spending, and it was updated in 2020 to emphasise that policies must be developed and assessed against how well they deliver on the Government's long-term policy aims such as net zero.

Furthermore, the Treasury carefully considers the climate change and environmental implications of relevant tax measures. The Government incorporated a climate assessment in all relevant tax information and impact notes for measures at Budget—they are published online—and we will continue to do so in future TIINs. For example, the TIIN for the new plastic packaging tax incorporates an assessment of anticipated carbon savings—nearly 200,000 tonnes of carbon dioxide in 2022-23. In addition, HMRC is exploring options further to strengthen the analytical approach to monitoring, evaluating and quantifying the environmental impacts of tax measures.

Given the substantial work already under way on these issues, the proposed amendment would add unnecessary bureaucratic requirements and layers of complexity. I therefore urge the Committee to reject new clause 5 and, for the same reasons, I will urge the Committee to reject new clauses 4 and 8 when we turn to those.

New clause 15, tabled by the hon. Members for Ealing North, for Erith and Thamesmead and for Blaydon, asks the Government to publish, within 12 months of the Act coming into effect, a review of the impact on VED revenue of future demand for electric vehicles. This new clause is also unnecessary and should not stand part of the Bill. The Government are committed to achieving net zero carbon emissions by 2050, and the transition towards electric vehicles and the phase-out of new petrol and diesel cars and vans will make a vital contribution to that. The Government have committed to ensuring, as we move forward with this transition, that revenue from motoring taxes keeps pace with this change, to make sure that we can continue to fund the excellent public services and infrastructure that people and families across the UK expect.

Analysis that projects the possible impact on VED revenues of future demand for electric vehicles is already in the public domain. First, since 2016, the Government have asked the Office for Budget Responsibility to publish a fiscal risks statement to improve disclosure and management of fiscal risks. The OBR's 2021 fiscal risks report makes an assessment of the fiscal impact of achieving net zero, including the impact on VED and fuel duty receipts, which it explores under different climate change modelling scenarios.

Secondly, the net zero review published by the Treasury in October of last year also examines the possible decline in tax revenues, including VED and fuel duty receipts, as part of the transition to net zero. It notes that, were the current tax system to remain unchanged across the transition period, tax receipts from most fossil fuel-related activity would decline towards zero across the first 20 years of the transition, leaving receipts lower in the 2040s by up to 1.5% of GDP in each year relative to a baseline where they stayed fixed as a share of GDP.

Given that analysis of future VED revenues has already been published by both the Government and the OBR, the review of this issue sought by this new clause is unnecessary. I therefore urge the Committee to reject new clause 15.

Overall, the changes outlined in clause 77 will maintain revenue sustainability by ensuring that motorists continue to make a fair contribution to the public finances. I therefore urge that this clause stand part of the Bill.

Abena Oppong-Asare: Clause 77 raises the rate of vehicle excise duty for various categories of vehicle by RPI. This is a regular update to VED to ensure that it remains the same in real terms, and we do not oppose it. I do wish to make broader points about taxes affecting drivers and, in particular, to speak to our new clause 15.

Electric vehicles are not liable for vehicle excise duty, and of course their owners do not pay fuel duty. New clause 15 calls on the Government to report on expected future levels of vehicle excise duty in the context of the increasing uptake of electrical vehicles. It is designed to encourage the Government to begin to think and talk publicly about that critical question.

The transition from petrol and diesel cars to electric vehicles is critical as part of our broader transition to net zero. The Opposition have constantly raised concerns about the fact that the Government are not doing enough to support the take-up of electric vehicles, whether through supporting consumers and producers or improving the critical charging infrastructure. We continue to believe that the Government must do more in that area, but we also believe that they must begin to set out how they will deal with the fiscal consequences of the transition.

Fuel duty and VED currently raise around £35 billion for the Treasury each year. They are by far the largest revenue-raising environmental taxes. It is a truly significant amount of Government revenue, equivalent to nearly half the Education budget, but as electric vehicles become an increasing share of vehicles on the roads, that revenue will decline rapidly. One estimate shows that tax revenues from car usage could fall by around £10 billion by 2030, £20 billion by 2035, and £30 billion by 2040. The Treasury's own net zero review stated that much of the current revenue from taxing fossil fuels was likely to be eroded during the transition to a net zero economy.

[Abena Oppong-Asare]

We might have expected the review to set out what the Treasury planned to do about that, but it was notably silent on that matter. When the Minister responds, can she tell us what work the Treasury is carrying out on that important issue and when it will set out its plans? Can she tell us what alternatives to VED the Treasury is considering—for example, road pricing or other taxes? Crucially, how will the Treasury balance the need to maintain income from driving with the need to incentivise the switch to electric vehicles? Those are critical questions, which cannot and must not be left to the last minute. We deserve to have an open debate about the best way forward. Motorists and taxpayers deserve clarity about how they will be taxed in the future. I hope that the Minister can begin to give us some insight into the Treasury's thinking on this issue.

The Chair: I call Richard Thomson.

Mr Richard Holden (North West Durham) (Con): Thank you very much indeed, Dame Angela—

The Chair: Order. I will call the hon. Gentleman, but first I call Richard Thomson.

Richard Thomson: Thank you, Dame Angela; it is a relief to find out that my hearing is not as dodgy as I momentarily thought it was.

The Chair: It was probably my mask.

Richard Thomson: I rise to speak in support of new clause 5, which is in the name of my hon. Friend the Member for Glasgow Central. The Minister has run through why we are looking to have an assessment. I say to her as gently as I can that it is all fine and well to be proud of commitments that the Government have made, but it would be much better to rack up more quickly achievements that she could point to and be proud of on climate change, rather than just making statements of aspiration. This is one area where it is quite important to get some more chalk on the board.

As we have heard, the Bill sets a series of incremental changes to vehicle excise duty, and precisely because they are incremental, we might expect, at best, an equally incremental impact, or even an imperceptible one, on changing behaviour and on the resulting climate change impacts. We are all aware of the mandate to end the sale of new petrol and diesel vehicles in a bid to encourage the take-up of alternatively fuelled vehicles, but I am of the same view as the hon. Member for Erith and Thamesmead: we will need some significant further incentivisation if we are to drive the change through that policy on the scale and at the pace that is required.

My party is very fond of drawing comparisons with Norway—another small country, like Scotland, of 5 million people—on the other side of the North sea. Sometimes those comparisons are about what might have been, but we also point to what could and perhaps what should be. Norway has been so successful in incentivising the take-up of electric vehicles that the Government are running out of hydrocarbon-fuelled vehicles to tax, which has resulted in a 19.2 billion kroner gap in their latest budget.

That is not a problem that the UK Government are likely to encounter any time soon, in view of the current take-up of electric vehicles, and that is why new clause 5 is so important. It would provide for an assessment of how effective or—as we suspect—ineffective these particular changes will be over the year, so that the UK Government had the necessary information base to set future policy as quickly as possible. I think the Minister knows that we need to do that at some point, and surely it is better to start sooner rather than later.

Mr Holden *rose—*

The Chair: I am waiting for the Whip. If the Whip wishes to move the adjournment, I will call Richard Holden first when we come back after the break.

The Lord Commissioner of Her Majesty's Treasury (Alan Mak): What would you prefer, Chair?

Mr Holden: I will be really quick.

The Chair: I intend to come back promptly at 6 o'clock. If you could be here very promptly, Richard Holden, I give you prior warning that I intend to call you on the dot.

Ordered, That the debate be now adjourned.—*(Alan Mak.)*

5.31 pm

Adjourned till this day at Six o'clock.