

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)**

Fourth Sitting

Wednesday 5 January 2022

(Evening)

CONTENTS

CLAUSES 77 to 83 agreed to.

SCHEDULE 11 agreed to.

Adjourned till Tuesday 11 January at twenty-five minutes past

Nine o'clock.

Written evidence reported to the House.

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

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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, Cheryl (*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

(Evening)

[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)

Clause 77

RATES FOR LIGHT PASSENGER OR LIGHT GOODS
VEHICLES, MOTORCYCLES ETC

6 pm

Question (this day) again proposed, That the clause stand part of the Bill.

The Chair: I remind the Committee that with this we are discussing 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.”

Mr Richard Holden (North West Durham) (Con): It is a pleasure to serve under your chairmanship, Dame Angela. I apologise to the hon. Member for Gordon, who has the honour of sharing with me a great first name; I could not quite hear the muffled mask comments. I apologise for that, Dame Angela.

I wanted to speak in support of clause 77, because a couple of years ago the Government tried to change some of the regulations in this area to start taxing motorhomes, which are produced in my constituency, as expensive cars rather than light goods vehicles. I am delighted that my hon. Friend the Minister is not proposing such a change today. I will just ask her whether she can assure me that no such changes are planned for the future, because the hundreds of employees at Erwin Hymer in my North West Durham constituency have really benefited from the reversal of that change. I just want to get that reassurance from her.

The Exchequer Secretary to the Treasury (Helen Whately):

I will just pick up on some of the points made by hon. Members. I am glad to hear that the Opposition will not be opposing the clause. The hon. Member for Erith and Thamesmead said that she wants us to talk publicly about the future of vehicle excise duty. Clearly, we are well aware of—there is no secret—the expected future revenues from vehicle excise duty and fuel duty. In fact, I outlined in my opening remarks on the clause some of the data in the public domain about that, including the modelling by the Office for Budget Responsibility and in the net zero review. I can assure the hon. Member that my right hon. Friend the Prime Minister, in “The Ten Point Plan for a Green Industrial Revolution”, set out the need for motoring taxes to keep pace with the transition to electric vehicles.

The hon. Member for Erith and Thamesmead also said that she wants us to do more on electric vehicles. We are already providing substantial support for the uptake of zero and low-emission vehicles—for instance, there is no vehicle excise duty for zero-emission cars and vans. There are significantly beneficial company car tax rates for low and zero-emission cars, compared with conventionally fuelled vehicles. In the spending review 2021, we confirmed an additional £620 million to support the transition to electric vehicles, on top of the £1.9 billion announced at the spending review 2020, to address some of the barriers to uptake, including by accelerating the roll-out of charging infrastructure and supporting targeted plug-in vehicle grants to reduce prices for consumers.

The hon. Member for Gordon talked about wanting more chalk on the board. I think that, as a country, we should be proud of the achievements that we have already made in reducing harmful emissions, as well as of our substantial ambitions to achieve net zero by 2050.

I appreciate the comments from my hon. Friend the Member for North West Durham and have very much noted the point that he made.

Abena Oppong-Asare (Erith and Thamesmead) (Lab): I thank the Minister for making the point about the Prime Minister’s 10-point plan and about the Treasury’s commitment to net zero. I welcome that, but I also want to point out that the Treasury’s own net zero review said that much of the current revenue from taxing fossil fuels is

“likely to be eroded during the transition to a net zero economy”. That is the area on which the Treasury has been really silent. Does the Minister think it important that the Treasury should have a clear plan about how to address the issue? It needs to be able to maintain income and to incentivise the switch to electric vehicles. We need a balance, so will the Minister set out what the Government plan to do? We have not heard much about that aspect.

Helen Whately: I heard those points before; the hon. Lady just reiterated them. I addressed those points in my comments just now as well as in my opening remarks. I could argue that here in Committee is not necessarily the place to have a substantial debate about the future of motoring taxes, but, as I said, we have been quite open and several documents in the public domain set out the forecasts. We recognise the need for motoring taxes to keep pace with the transition to electric vehicles. I commend the clause to the Committee.

Abena Oppong-Asare: I am not trying to be difficult, but can the Minister outline what plans the Government have? We have not really discussed the details.

Helen Whately: I have nothing further to add.

Question put and agreed to.

Clause 77 accordingly ordered to stand part of the Bill.

Clause 78

VEHICLE EXCISE DUTY: EXEMPTION FOR CERTAIN CABOTAGE OPERATIONS

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

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

Clause 79 stand part.

New clause 16—*Assessment of effect of sections 78 and 79 on supply chain—*

“The Government must publish within three months of this Act coming into effect an assessment of the impact of the provisions of sections 78 and 79 on—

- (a) supply chain disruptions,
- (b) numbers of HGV drivers working in the UK, and
- (c) shortages of products in UK shops.”

Helen Whately: Clauses 78 and 79 relate to the taxation of heavy goods vehicles. Clause 78 relates to cabotage, which is the transport of goods between two places in the same country by a transport operator from another country for the purposes of hire and reward. Cabotage is restricted both in the UK and abroad. In recent months, shortages of lorry drivers have been associated with problems with the distribution of food and other essential goods, and there have been representations to allow increased levels of cabotage.

The number of professional UK-resident drivers is estimated to have fallen by about 39,000 between the year ending June 2019 and the year ending June 2021, to stand at 268,000. The Government are temporarily extending road haulage cabotage to allow, until 30 April 2022, unlimited cabotage movements of HGVs within Great Britain for up to 14 days after arriving in the UK on a laden international journey, without transport operators needing to pay vehicle excise duty. The changes came into force on 28 October 2021. This temporary relaxation of cabotage rules for international HGV journeys within Great Britain is expected to increase resilience in key supply chains in response to the acute shortage of HGV drivers.

Clause 79 relates to the HGV road user levy. The HGV levy is an annual charge paid by UK hauliers alongside their VED, as well as a daily, weekly or monthly charge for HGVs from outside the UK accessing the UK road network. In light of the impact of covid-19, the Government decided to suspend the levy in August 2020 for 12 months to support the haulage sector by reducing its costs, and they did so again for a further 12 months from August 2021 for the same reason.

Clause 78 will make temporary changes to the Motor Vehicles (International Circulation) Order 1975 so that the relevant non-UK operators travelling in Great Britain

do not need to start paying vehicle excise duty. The temporary relaxation of cabotage rules would not be effective if the relevant non UK operators of HGVs were expected to register in the UK and pay VED for the first time.

The exemption from VED will be extended to cover additional temporary cabotage rights. It will last until 30 April 2022, and encompass unlimited cabotage movements of HGVs within Great Britain for up to 14 days after arriving on a laden international journey into the UK. The changes made by clause 79 will extend the suspension of the levy for a further 12 months from 1 August 2022. This means that UK-registered keepers of HGVs will again save up to £1,200 per vehicle, as they will not have to pay the HGV road user levy when they renew their vehicle licence. Non-UK-based hauliers will also not need to pay the levy during this period.

New clause 16, tabled by the hon. Members for Ealing North, for Erith and Thamesmead and for Blaydon, asks the Government to

“publish within three months of this Act coming into effect an assessment of the impact of the provisions of sections 78 and 79”

on supply chains. The new clause is unnecessary, and should not stand part of the Bill. The Government consulted on the temporary extension of road haulage cabotage ahead of its introduction to gather evidence on its potential impact. As has been set out, the Government published a response to that consultation. We had clear indications that there will be some use of the additional cabotage rights in critical parts of the supply chain. However, existing cabotage rights are modestly used by international hauliers and therefore the measure is judged likely to only modestly increase cabotage overall.

Information received by the Department for Transport has indicated that, as anticipated, there was some use of the extra cabotage rights during November and December; initial surveys suggest that about 40% of drivers engaged in cabotage used the additional rights. The take-up of those rights may continue to change over time—for example, in the context of the omicron wave of infections—and the Government are committed to continuing to monitor take-up, with more data being collected by the DFT. With regard to the suspension of the HGV levy, the Government published a tax information impact note that sets out the expected impact of the measure, including the fiscal impact. As with all tax changes, the Treasury will continue to monitor the impact of the suspension.

The Government have acted rapidly and brought forward 32 short, medium and long-term interventions to help tackle the current HGV driver shortage and support UK supply chains. In addition to the temporary extension of road haulage cabotage, those interventions include attracting drivers back to the industry through investing £32.5 million in improving facilities across the country; launching a review to look at ways to streamline compulsory ongoing training requirements under the driver certificate of professional competence scheme; and investing £17 million to create new HGV skills boot camps to train up to 5,000 more people to become HGV drivers in England.

We are already aware that since those interventions have been introduced, there has been a 90% increase in available HGV driver tests, with 2,850 tests available each week. The Driver and Vehicle Licensing Agency is

[Helen Whately]

dealing with around 4,200 applications daily, more than double the pre-covid rate. Information from the sector shows that the lorry driver shortage is reducing, although it continues to be a significant issue. The Government will continue to use industry intelligence and official statistics to monitor the scale of the shortage and its effects. We therefore believe that new clause 16 is not necessary, because monitoring of the UK's supply chains and the impact of the Government's interventions is already taking place. I urge the Committee to reject the new clause.

Overall, the changes outlined in clause 78 will temporarily ease pressures on critical supply chains due to capacity issues connected with the acute shortage of HGV drivers. Haulier capacity has been increasing, and continues to do so, but it will take some months before UK driver numbers can be grown sufficiently to rectify that shortage, so this is a temporary change while UK drivers are recruited and trained. Additionally, the haulage sector supports many other industries, so temporarily easing its financial burdens through the changes made by clause 79 will support them and help the economy recover from the impacts of covid-19. I commend these clauses to the Committee.

Abena Oppong-Asare: As the Minister has said, clauses 78 and 79 are both designed to help strengthen supply chains, and in particular to address the shortages of drivers in the haulage sector. Clause 78 temporarily relaxes rules for international HGV journeys within Great Britain, while clause 79 continues the suspension of the HGV road user levy for a further 12 months, until 31 July 2023.

6.15 pm

We support both measures, although we believe they are only a small part of the action needed to tackle the supply chain crisis. That is why we have tabled new clause 16, which calls on the Government to publish a report on the effectiveness of the measures in tackling three related issues: supply chain disruptions, the number of HGV drivers operating in the UK and product shortages in UK shops.

I noted that the Minister said that this new clause was unnecessary, and that the Government are already doing some level of monitoring. However, I point out that we have seen nearly half a year of supply chain issues affecting the UK, due to a combination of the effects of covid, the Government's patchwork Brexit deal, and global shortages of critical materials.

In the UK, the shortage of lorry drivers has hit businesses across the economy, as the Minister noted. That has gone from fuel to food, and the impact of Brexit, cancelled driving tests and the increasing numbers of drivers forced to self-isolate have all played a part in that.

Since last summer, we have called on the Government to take decisive action to tackle the crisis and ensure that supply chain issues do not further risk our economic recovery. I am afraid that the Government have a habit of shifting the blame on to businesses, but many of the

long-term causes of this crisis do lie with the Government—whether through insecure work or a lack of skills training. The answer must be to make long-term improvements in the UK's supply chain resilience. We are concerned that, despite months of problems, the Government are still not acting.

New clause 16 simply asks the Government to be honest about the supply chain challenges we face and whether these measures are enough to solve them. Does the Minister think that this part of the legislation will go anywhere near far enough in addressing the supply chain crisis? If not, what further steps will the Government take to alleviate these problems?

Helen Whately: In essence, what I heard from the hon. Member was that she wants us to take more action on some of the challenges with supply chains. However, as I set out earlier, we have been addressing the particular problem of HGV driver shortages—both some of the short-term reasons and short-term barriers. One of those steps has been to increase the availability of new driving tests, and we have seen a substantial increase in the number of tests being taken. We are also looking at some of the longer-term challenges, such as the conditions for HGV drivers; we are therefore providing significant funding to improve roadside facilities for those drivers. That is both short-term and longer-term action being taken. We have already seen benefits from the short-term actions, with some of the pressures on the supply chain being alleviated.

Question put and agreed to.

Clause 78 accordingly ordered to stand part of the Bill.

Clause 79 ordered to stand part of the Bill.

Clause 80

AMOUNTS OF GROSS GAMING YIELD CHARGED TO GAMING DUTY

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

The Chair: With this it will be convenient to discuss new clause 11—*Gambling*—

“The Government must publish within 12 months of this Act coming into effect an assessment of the provisions of clause 80 on—

- (a) the volume of gambling, and
- (b) public health.”

Helen Whately: Clause 80 increases the thresholds for the gross gaming yield bands for gaming duty in line with retail price index inflation. Gaming duty is a banded tax paid by casinos in the UK, with marginal tax rates varying between 15% and 50%. To ensure that operators are not pulled into higher tax bands because of inflation, gaming duty bands are increased in line with RPI. That means that casinos continue to pay the same level of tax in real terms. The change made by clause 80 uprates the bands of gaming duty in line with inflation. That is expected by the industry and assumed in the public finances. The rates of gaming duty themselves will remain unchanged. The change will take effect for accounting periods starting on or after 1 April 2022.

Richard Thomson (Gordon) (SNP): I rise to speak to new clause 11. For far too many people, gambling is not something that falls into the category of harmless fun. There are many harms associated with gambling. There are the financial harms, obviously, when someone's luck is not with them. There are the short-term harms and the harms of long-term debt. There are the addictive and compulsive behaviours associated with gambling. There is the harm to individual wellbeing in terms of mental and physical health, and to the friends and families of those engaged in the harmful behaviours associated with gambling.

To get to the nub of it, duties are obviously charged on casino gaming products, but there are also social responsibilities on those who provide such experiences. Frankly, in deciding the balance in terms of where tax is levied, we need to be able to assess the impact and volume of gambling and its wider impact on public health. That is what new clause 11 would do. We do not intend to push it to a vote, but the Government need to be mindful of this issue, and they should assess and have the evidence basis for the changes that they make, so they can set appropriate policy in the future, for all the reasons I have outlined.

Abena Oppong-Asare: The SNP has tabled new clause 11 on the volume of gambling and public health, and I think there was a similar proposal last year. It is interesting to compare the uprating of these bands, to prevent casinos from paying more tax simply as a result of inflation, with the Government's decision to freeze the income tax personal allowance, which of course increases the tax ordinary people will pay as a result of wage inflation. Perhaps the Minister would like to comment on that.

I also want to say a little about gambling harm and the Treasury's role in tackling it. The Minister will be aware of the recent report by Public Health England on gambling-related harms. PHE estimated that the annual economic burden of harmful gambling is approximately £1.27 billion. It is estimated that £647.2 million of that is a direct cost to Government. In the Government's consultation on the review of the Gambling Act 2005, they asked about

"the most effective system for recouping the regulatory and societal costs of gambling from operators, for instance through taxes, licence fees or statutory levies".

What progress has the Treasury made on that? Is it considering a new tax or levy on the industry to pay for the social costs of gambling? If so, does it intend to bring such a measure forward?

Helen Whately: New clause 11 seeks to place a statutory requirement on the Chancellor to review and publish a report on the impact of the increase in the gaming duty thresholds on the volume of gambling and on public health. The Gambling Commission publishes statistics on gambling participation, spend and gross gaming yield for each part of the sector annually, and Public Health England published a review on gambling-related harm, which the Department of Health and Social Care is considering as part of its prevention strategy work, so an additional report would merely duplicate information that is already available. There is no change to the tax rate in this provision. Accordingly, the Government do not expect that it will have an impact on gambling

participation, spend or public health. I hope that that reassures Committee members, and I ask that they therefore reject the new clause.

The hon. Member for Erith and Thamesmead spoke of gambling harm. Having previously been a Digital, Culture, Media and Sport Minister with oversight of gambling, I appreciate her raising the issue. However, I reiterate that the clause changes gambling taxation; it is not related to the overall regulation of gambling activity. That is a matter for the Secretary of State for Digital, Culture, Media and Sport. The Government continue to monitor the effectiveness of existing gambling controls. The Department for Digital, Culture, Media and Sport launched a review of the Gambling Act 2005 with a call for evidence that closed at the end of March last year. The Government will respond to that review in due course.

Question put and agreed to.

Clause 80 accordingly ordered to stand part of the Bill.

Clause 81

EXCISE DUTY: PENALTIES

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

Helen Whately: Clause 81 makes two changes to ensure that current penalties for excise wrongdoings also apply to excise goods located in the customs-free zone of a freeport and to excise goods imported under the new authorised use customs procedure introduced at the end of the transition period. These changes do not create any additional burdens for businesses. They simply ensure that there is a consistent approach to excise wrongdoing penalties for serious non-compliance.

The Government have introduced two new customs procedures. The first is the free zone procedure, which will allow excise duty to be suspended in customs-free zones located in freeports. Freeports are part of the Government's plans to regenerate and develop deprived areas and our mission to level up across the country. The second is the authorised use procedure, a customs import procedure introduced at the end of the transition period to replace a previous customs procedure that no longer applied when we left the EU. The current UK excise wrongdoing penalties in schedule 41 to the Finance Act 2008 do not extend to either of these procedures. This clause corrects that and ensures that HMRC can tackle abuse and non-compliance in respect of excise goods stored under these procedures.

The changes made by the clause extend the excise wrongdoing penalty regime in schedule 41 to the Finance Act 2008 to free zones and to situations where businesses release goods into the authorised use procedure introduced at the end of the transition period. These changes do not create any additional administrative burdens or costs for businesses. They will apply only to businesses that import excise goods into UK free zones or to businesses authorised to release goods into the authorised use procedure. These changes will enable HMRC to penalise individuals for any wrongdoing or non-compliance relating to excise goods imported under either of these processes.

In summary, these changes ensure that the Government have the necessary tools to tackle non-compliance and avoidance when goods are imported into the UK under either the free zone procedure or the authorised use procedure.

Abena Oppong-Asare: I thank the Minister for her explanation of the clause, which applies the excise wrongdoing penalty regime to freeports. We do not oppose this measure; indeed, Labour Members have repeatedly raised concerns that freeports may increase the risk of tax evasion and smuggling, as well as potentially undermining workers' rights. We are also concerned that HMRC, which is already overstretched, is not well placed to manage these new risks.

The Government have introduced a number of different tax reliefs and other measures that will operate in freeports, and it is important that they are monitored closely. There is evidence from around the world that freeports have increased illicit activity. I have a couple of questions for the Minister about the steps the Government are taking to prevent tax avoidance and other illegal activity in freeports.

6.30 pm

First, will the Minister update us on how many of the eight English freeports are now operational? What checks were done prior to those freeports opening to ensure that they will not inadvertently allow illicit activity within their borders? Secondly, will she set out the process HMRC and Border Force will use to monitor and ensure compliance in freeports? Finally, will she commit to update Parliament regularly on the operation of freeports, which should include any compliance issues that have been identified, the action that was taken and an estimate of the economic impact of freeports, both in the area they operate in and on a wider scale?

Helen Whately: I am glad that the Opposition will not oppose the clause, although I think I heard that, overall, they oppose freeports. Clearly, they take a very different view from us, because we see freeports as an important part of our ambitions to level up and increase opportunities in some of the more deprived areas of the country.

From memory, I believe that three freeports are already open. I recently visited the Teesside freeport to see the great excitement there about the opportunities that it will provide to the community in that area.

The hon. Member asked what checks there will be and what we will do to ensure that there is good compliance in freeports. One thing I will say is that the change made under this clause will mean that HMRC has the tools to tackle non-compliance in relation to excise goods suspended inside the customs-free zone procedure in freeports. Overall we are confident that we will see not only compliance, where appropriate, but also economic growth and all the benefits associated with that, both in and around freeports.

I am happy to write to the hon. Member with any further details about the regime of checks that will be carried out for freeports. I therefore move that the clause stand part of the Bill—

Abena Oppong-Asare: I thank the Minister for the points she has made. I just want to say for the record that we are not against freeports; what we are concerned about is the increased risk of tax evasion and smuggling, and the potential undermining of workers' rights. I am sure that we agree that we all want freeports to work; we just need to make sure that some issues are addressed.

In terms of the freeports that are open, I thank the Minister for saying that she will write to me, which is really helpful. She mentioned that the Bill allows checks and other tools to deal with non-compliance at freeports, and it would be really helpful if she could list in her response exactly what action will be taken, because the Bill does not set that out in detail.

It would also be helpful if the Minister could elaborate in her written response, if she is not able to right now, on what steps HMRC and Border Force are taking to monitor these freeports, particularly those that are in action right now, and to ensure that they are compliant.

Helen Whately: I am glad to hear that Labour does indeed support freeports, and I thank the hon. Member for making that clear. As I said, I will write to her about her more detailed questions. I commend clause 81 to the Committee.

Question put and agreed to.

Clause 81 accordingly ordered to stand part of the Bill.

Clause 82

RATES OF LANDFILL TAX

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

Helen Whately: Clause 82 increases both the standard and lower rates of landfill tax in line with inflation from 1 April 2022, as announced in the 2021 spring Budget. Landfill tax was introduced in 1996 to encourage the diversion of waste away from landfill towards more environmentally friendly waste management options, such as recycling, reuse and recovery. It has been hugely successful in achieving that aim, contributing to a 90% reduction in waste collected and managed by local authorities sent to landfill in England.

The changes made by clause 82 will see landfill tax rates increase from £96.70 to £98.60 per tonne for standard-rated waste disposed of to landfill, and from £3.10 to £3.15 for lower-rated waste, from 1 April 2022. These changes will make sure that the price incentive to divert waste away from landfill is maintained in real terms.

Overall, clause 82 will increase the standard and lower rates of landfill tax in line with the retail prices index from 1 April 2022. That will maintain the real-terms price incentive to divert waste away from landfill. I therefore commend the clause to the Committee.

Abena Oppong-Asare: I thank the Minister for her explanation of clause 82, which increases the rate of landfill tax in line with inflation. The clause is very straightforward, and we do not oppose it. However, since we are talking about a specifically environmental tax, I will take this opportunity to bring to the Minister's attention the climate change tax policy road map published by the Chartered Institute of Taxation, which calls on the Government to set out how they plan to use the tax system to meet our net zero goal.

There are obviously several different taxes that affect the environment, some of which we have already discussed today, but there is a clear need to start thinking strategically about the role that the tax system will play in reaching

our net zero goal. Of course, tax can play a number of roles in achieving net zero. It provides a source of revenue for the investment we desperately need—in renewable energy, for example—but it can also incentivise climate-friendly behaviour, whether for individuals or businesses, and I have met businesses that are quite keen to have a bit more direction on that, particularly from the Government.

It is not just me who is saying this: in a number of meetings I have had, quite a number of stakeholders have said that we need the Government to take a joined-up approach that links climate tax policy with wider policy objectives. Unfortunately, the recent Treasury net zero review said very little about this really important issue, so could the Minister set out whether the Treasury will publish a net zero strategy? Failing that, will she give us an indication of how the Treasury intends to use the tax code as part of our effort to achieve net zero?

Liz Twist (Blaydon) (Lab): I speak in this debate as an MP whose constituency has been blighted by landfill, so of course landfill taxes are very welcome, and as my hon. Friend the Member for Erith and Thamesmead has just said, an increase in that tax is welcome as part of an environmental policy that—as she also said—needs to go much further in future. However, I want specifically to ask the Minister about enforcement of the requirement to collect and pay landfill tax after the experience in my constituency of a failed HMRC investigation lasting some six years, the unfortunately named Operation Nosedive. What will the Treasury do to ensure that enforcement action is robust and followed through to make this tax as effective as it can be?

Helen Whately: The hon. Member for Blaydon made a really important point about the enforcement of landfill tax. I am also aware of concerns about the associated waste crime. There has been a reduction in the landfill tax gap in recent years. The landfill tax gap for England and Northern Ireland was estimated at £200 million—22.7%—in 2019-20, which is a decrease compared with the tax gap in 2018-19, when it was £275 million, or 29%. So there has been an improvement in the enforcement of landfill tax, but I recognise the point that she makes and we will continue to work on that.

There is a new taskforce dedicated to tackling serious and organised waste crime. The joint unit for waste crime will bring together law enforcement agencies, environmental regulators, HMRC and the National Crime Agency to deal with waste crime.

Liz Twist: Can the Minister tell me how the tax gap is calculated? I am pleased to hear that it has gone down, but am interested to hear how the gap is calculated and monitored.

Helen Whately: I hope the hon. Member is happy for me to write to her on the methodology for calculating that particular tax gap. I am happy to set out further action that will be taken to address waste-related crime as well.

I thank the hon. Member for Erith and Thamesmead for pointing me to the report that she mentioned. She made broad points about the tax system and its role in meeting net zero. The net zero review was a substantial

document that was very open about the thinking and the challenges involved in our transition to net zero. I do not think that here and now is the place to set out a net zero tax strategy, which I think she was asking me to do, so I hope she will understand if I do not stand here and do that, but we have put a lot on paper about the Treasury's thinking on these matters.

Abena Opong-Asare: I thank the Minister for being extremely generous in giving way. I appreciate it. On the net zero review, a lot of businesses and stakeholders have come to me to highlight their concerns where they feel that actions do not go far enough, so I urge the Government to review that and take that on board.

Helen Whately: I have heard the hon. Member's points. I move that the clause stand part of the Bill.

Question put and agreed to.

Clause 82 accordingly ordered to stand part of the Bill.

Clause 83

PLASTIC PACKAGING TAX

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

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

That schedule 11 be the Eleventh schedule to the Bill.

New clause 17—*Annual review (plastic packaging tax)*—

“(1) The Chancellor of the Exchequer must review the impact of section 83 and Schedule 11 of this Act and lay a report of that review before the House of Commons within six months of the passing of this Act and once a year thereafter.

(2) A review under this section must estimate the expected impact of section 83 and Schedule 11 on—

- (a) levels of recycled material (plastic and non-plastic) in packaging,
- (b) levels of reusability and recyclability of packaging material (plastic and non-plastic),
- (c) the waste hierarchy,
- (d) levels of carbon emissions, and
- (e) progress towards a circular economy.”

Helen Whately: Clause 83 and schedule 11 make technical amendments to the legislation that introduces the world-leading plastic packaging tax, which comes into force on 1 April. Together, they make sure that the legislation operates as intended, that the UK complies with international agreements and that HMRC has the appropriate framework to administer the tax.

6.45 pm

Plastic packaging tax legislation was introduced in the Finance Act 2021 and will apply to plastic packaging that does not contain at least 30% recycled plastic. It will be charged on unfilled plastic packaging manufactured in the UK and on unfilled and filled plastic packaging imported into the UK. It will provide a clear economic incentive for businesses to use recycled material when manufacturing plastic packaging. This will help

tackle the problem of plastic pollution, creating greater demand for this material and in turn stimulating increased levels of recycling and collection of plastic waste, diverting it from landfill or incineration.

As often happens when introducing new legislation, particularly in the volume required for a new tax, a small number of technical amendments are required to make sure that the tax works as intended and can achieve its environmental aims. In addition, amendments are needed to ensure that the tax complies with international law. Clause 83 and schedule 11 make technical amendments to the Finance Act 2021. In summary, the changes will allow HMRC to make provision to modify the timing of an import and the meaning of import and customs formalities using secondary legislation. This means that the point at which the tax is chargeable can be amended to align with future changes to other policies, notably on customs and freeports. The changes also confirm that businesses below the *de minimis* threshold that do not have to register for the tax do not have to pay the tax. This will make sure the policy intent is achieved and reduce the burden on businesses that manufacture or import plastic packaging below the *de minimis* threshold.

To ensure UK compliance with international agreements, the changes will provide tax reliefs for persons enjoying certain immunities and privileges, such as visiting forces and diplomats, with provision to set administrative requirements in secondary legislation. Additionally, in respect of group registrations, the changes will transfer the obligations and entitlements, such as completing returns, to the representative member of the registered group. The changes will also require HMRC to notify the representative member of a group of the date that applications for and modification of group treatment will take effect. Finally, changes will amend certain terms used to describe unincorporated bodies to ensure consistency throughout the legislation. As the changes are technical amendments, some of which make the legislation reflect previously announced policy, there is expected to be no additional impact on businesses.

I have comments to make on new clause 17, but I am happy to hear arguments for it from Opposition Members before responding to those points.

Abena Oppong-Asare: The Minister was not in post last year and so missed the extensive discussions we had on the plastic packaging tax, which I am sure she is not sad about. However, as I said then, the Opposition support the introduction of a plastic packaging tax and believe it can play an important role in reducing the production of new plastics, encouraging the use of recycled plastic and diverting plastic from landfill or incineration. We are now only months away from this tax coming into effect, so it is good that we are able to consider it again today.

The clause makes technical amendments to ensure the tax works as intended, and we do not oppose it. However, as the Minister pointed out, we have tabled new clause 17, which calls on the Government to publish an annual review into the operation of these clauses in the context of the wider tax. In particular, we call on the Government to report on how the tax affects levels of recycled material—plastic and non-plastic—in packaging, levels of reusability and recyclability of packaging material, the waste hierarchy, levels of carbon emissions and, finally, progress towards a circular economy. Each of those criteria is vital for assessing the success of the new

tax in meeting its aims. As I set out when debating the Finance Act 2021, we share the concerns of many environmental groups and the recycling industry that the tax lacks ambition, and I have met various stakeholders about this issue.

The tax rate is set at £200 per metric tonne of chargeable plastic packaging components. We have already raised our concern that a low, flat-rate tax will not provide enough of an incentive to encourage plastic manufacturers and importers to move towards greater use of recycled plastic at the speed that we need them to do so, which is something that a number of stakeholders have also raised with me. Has the Treasury made any further assessment of the tax since the Finance Act 2021, and does it still think that the £200 rate provides enough of an incentive for businesses to shift away from non-recyclable plastic rather than just pay the charge?

Similarly, we are concerned that the percentage of non-recycled plastic allowed before the tax kicks in is too low. Last year, we proposed an escalator mechanism that would signal the Government's commitment in this area and help businesses plan for an increase in their use of recycled material over time, rather than being locked into unsustainable supply chains. I hope the information I have provided is useful, because I know the Minister was not on the Bill Committee for the Finance Act 2021. Could she tell us whether the Government have made any further consideration of this approach?

Alison Thewliss (Glasgow Central) (SNP): Like the hon. Member for Erith and Thamesmead, I remember the discussions that we had on the plastic packaging tax last April. It is with some concern that I heard the Minister say that the Government want to amend the legislation that they passed just last year so that it works with international law. It seems a wee bit of an oversight to have put through legislation that does not comply with international law, but I am glad that the Minister has brought it back in order to amend it before it comes into force.

I was also concerned by what was said about exemptions around freeports, and I wonder whether the Minister could expand on that a bit. What exactly does it mean? It is mentioned in the explanatory notes as well, but I am not quite clear what it means. If someone is importing or exporting plastics through freeports, does the tax not apply? I am quite concerned by that, because it would be a considerable loophole. It would also fly in the face of what the Scottish Government have asked the UK Government to work with them on with regards to green ports, whereby instead of being tax havens, they will actually be something that helps to support our climate change goals in Scotland. As far as I am aware, the UK Government are still holding out on any kind of agreement with the Scottish Government that allows a green port to proceed in Scotland. If the Minister has any information on that, it would be welcome.

There is a missed opportunity for the Government to table amendments to the Bill. As I said when we discussed this issue last year, the Government have not taken the opportunity to distinguish between different types of plastics. Some types of plastics, particularly PET, can be 100% recyclable in bottles that can be bought in shops. HTP, which is used in milk bottles—it is slightly opaque plastic—is less recyclable. The Government could have made distinctions in the regulations that they

made around plastic. Instead of setting the level at 30%, they could allow people to recycle 100% for PET and made that the target for something that is recyclable and achievable, which would make a huge difference by incentivising companies to do more, rather than allowing them to accept the minimum that they can get away with. I urge the Government to think about any further amendments that they could make to the scheme to make it more effective and greener, and to encourage more companies to take up the opportunities that lie within it.

Liz Twist: I want to comment on two areas. First, I want to speak in support of new clause 17. My hon. Friend the Member for Erith and Thamesmead has explained her concerns that the tax, as currently proposed, is unambitious. That, I think, is a good reason to look at reviewing the measures that are in place and seeing whether they are doing what they were expected to do but also whether they need to be strengthened in the future, so I very much support the new clause.

The other issue that I want to raise is about clause 83 itself. It is the considerable number of references in schedule 11 to further measures being taken in the future through secondary legislation. There is a striking number of them. Paragraph 3, for example, allows the commissioners to make regulations—admittedly by the affirmative procedure, which is better than the negative procedure. We see this again in paragraphs 4 and 6. Can the Minister explain to us why we need so many areas to be covered by secondary legislation? Should they not in fact be covered by the primary legislation?

Helen Whately: First, I welcome the support from the hon. Member for Erith and Thamesmead for the plastic packaging tax. I am glad to hear that she does not intend to oppose clause 83 and schedule 11.

To pick up specifically on new clause 17, tabled by the hon. Members for Ealing North, for Erith and Thamesmead and for Blaydon, it suggests that the Government should conduct future reviews of the tax and the impact that it has, including six months after the passing of the Bill for the tax rate and chargeable packaging components, and for all aspects of the tax a year after introduction or annually after an initial report. The Government have already set out a large amount of detail about the expected impact of the tax, and the National Audit Office report on environmental taxes recently concluded that Her Majesty's Treasury and HMRC had "undertaken extensive work to understand the possible impacts of the tax".

Further detail on modelling to assess the impacts of the plastic packaging tax was set out by the Office for Budget Responsibility in its economic and fiscal outlook published in March 2020. This included most significantly the increase in recycled plastic in packaging and more marginal impacts, such as switching to alternative plastics or materials.

As with all tax policy, the Government will continue to keep the plastic packaging tax under review. Given the substantive information already published and the fact that very limited data will be available within six months after the passage of the Bill, it would be premature to review the impacts of the tax as suggested. As to evaluating the impact of the tax annually after its

introduction, being able accurately to isolate the impact of particular policy measures alongside other external factors is inherently difficult, and the Government will carefully consider these issues. As set out in the tax information and impact note published in July 2021, consideration will be given to evaluating aspects including the rate, threshold and exemptions from the policy after at least one year of monitoring data has been collected and analysed.

The Government agree that it is important to understand the efficacy and impact of the plastic packaging tax, but given that these issues have been previously considered and will be kept under review, we do not think that new clause 17 is necessary.

I come now to a couple of the specific points made by the hon. Member for Glasgow Central. I can assure her that there is not an exemption from the plastic packaging tax for freeports. The clause is to ensure that the tax continues to apply with any changes to freeports legislation. And that would be the reason for not including everything in primary legislation—to answer the hon. Member for Blaydon's point—but requiring some flexibility through secondary legislation.

Alison Thewliss: The specific point I was referring to is paragraph 5 on page 164 of the explanatory notes, which says:

"This change ensures that the tax can be amended if changes to other legislation, for example regarding customs or Freeports, require a consequential amendment to Plastic Packaging Tax legislation to ensure it continues to work effectively."

I am just asking why freeports are included there. I do not understand the reference if there is no intention to make a change.

Helen Whately: What the hon. Lady read out is in line with what I said—there is not an exemption for freeports to supply the necessary flexibility—but I am happy to write to her with the reason why freeports get such a specific mention.

The hon. Lady also raised a point about a freeport for Scotland. We remain committed to establishing at least one freeport in Scotland, Wales and Northern Ireland as soon as possible.

The clause and schedule make sure that the plastic packaging tax will operate as intended from its commencement on 1 April 2022.

Liz Twist: I wonder whether the Minister has forgotten to address the issue of secondary legislation.

Helen Whately: I jumped across to that point when I was addressing the freeports point. In general, it is to allow flexibility, where primary legislation is not the right place to put measures. I am happy to write to the hon. Lady if there is anything further to add on her particular point.

Question put and agreed to.

Clause 83 accordingly ordered to stand part of the Bill.

Schedule 11 agreed to.

Ordered, That further consideration be now adjourned.

—(Alan Mak.)

7.1 pm

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

Written evidence reported to the House

FB11 Low Incomes Tax Reform Group (LITRG)
FB12 RMT

FB13 Chartered Institute of Taxation (CIOT)