PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

(Except clauses 1 and 2, schedule 1, clause 21, schedule 12, clauses 25, 27 and 31 to 34, schedule 13 and new clauses relating to those clauses and schedules)

First Sitting

Tuesday 16 January 2024

(Morning)

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Programme motion agreed to.
Written evidence (Reporting to the House) motion agreed to.
Clause 3 and Schedule 2 agreed to.
Clause 4 and Schedule 3 agreed to.
Clause 5 and Schedule 4 agreed to.
Clause 6 and Schedule 5 agreed to.
Clause 7 and Schedule 6 agreed to.
Clause 8 and Schedule 7 agreed to.
Clause 9 and Schedule 8 agreed to.
Clauses 10 to 13 agreed to.
Clause 14 and Schedule 9 agreed to.
Clause 15 agreed to.
Clause 16 and Schedule 10 agreed to.
Clauses 17 to 19 agreed to.
Clause 20 and Schedule 11 agreed to.
Clauses 22 to 26 agreed to.
Adjourned till this day at Two o'clock.

PBC (Bill 14) 2023 - 2024

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not later than

Saturday 20 January 2024

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The Committee consisted of the following Members:

Chairs: †Ian Paisley, Mr Laurence Robertson

† Abrahams, Debbie *(Oldham East and Saddleworth)* (Lab)
† Antoniazzi, Tonia *(Gower)* (Lab)
† Carden, Dan *(Liverpool, Walton)* (Lab)
† Davies, Gareth *(Exchequer Secretary to the Treasury)*
† Green, Chris *(Bolton West)* (Con)
† Hendry, Drew *(Inverness, Nairn, Badenoch and Strathspey)* (SNP)
† Howell, Paul *(Sedgefield)* (Con)
† Huddleston, Nigel *(Financial Secretary to the Treasury)*
† Largan, Robert *(High Peak)* (Con)
† Mak, Alan *(Havant)* (Con)
† Mayhew, Jerome *(Broadland)* (Con)
† Monaghan, Carol *(Glasgow North West)* (SNP)
† Murray, James *(Ealing North)* (Lab/Co-op)
† Quince, Will *(Colchester)* (Con)
† Siddiq, Tulip *(Hampstead and Kilburn)* (Lab)
† Simmonds, David *(Ruislip, Northwood and Pinner)* (Con)
† Throup, Maggie *(Erewash)* (Con)

James Rhys, Kevin Maddison, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 16 January 2024

(Morning)

[IAN PAISLEY *in the Chair*]

Finance Bill

(Except clauses 1 and 2, schedule 1, clause 21, schedule 12, clauses 25, 27 and 31 to 34, schedule 13 and new clauses relating to those clauses and schedules)

9.25 am

The Chair: Good morning, colleagues. We are now sitting in public and sittings are being broadcast. I have the usual preliminaries for those who are used to such Committees. *Hansard* colleagues would be grateful if Members could email their speaking notes to them. Please switch your phones or electronic devices to silent. Tea and coffee are not allowed during sittings.

The selection list for today's sitting is available in the room. It shows how the clauses, schedules and selected new clauses have been grouped for debate. Matters grouped together are generally the same or similar issues. A Member may speak more than once in a single debate.

I will first call the Minister to move the programme motion standing in his name. It was discussed at yesterday's meeting of the Programming Sub-Committee.

Ordered,

That—

1. the Committee shall (in addition to its first meeting at 9.25 am on Tuesday 16 January meet—

    (a) at 2.00 pm on Tuesday 16 January;

    (b) at 11:30 am and 2.00 pm on Thursday 18 January;

    (c) at 9.25 am and 2.00 pm on Tuesday 30 January;

2. the proceedings shall be taken in the following order: Clause 3; Schedule 2; Clause 4; Schedule 3; Clause 5; Schedule 4; Clause 6; Schedule 5; Clause 7; Schedule 6; Clause 8; Schedule 7; Clause 9; Schedule 8; Clauses 10 to 14; Schedule 9; Clauses 15 and 16; Schedule 10; Clauses 17 to 20; Schedule 11; Clauses 22 to 24; Clause 26; Clauses 28 to 30; Clauses 35 to 38; any new Clauses or new Schedules relating to the subject matter of those Clauses or those Schedules; remaining proceedings on the Bill;

3. the proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00 pm on Tuesday 30 January.—*(Nigel Huddleston.)*

Resolved,

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

The Chair: Copies of written evidence that the Committee receives will be made available in the Committee Room and will be circulated to Members by email.

We now proceed to line-by-line consideration of the Bill. I know that the Ministers will speak, but other Members who wish to speak should please bob so that you draw my attention. Variety is the spice of life and we do not want to hear just the Ministers and shadow Ministers. You are all welcome to speak and I look forward to hearing you.

Clause 3

FILMS, TELEVISION PROGRAMMES AND VIDEO GAMES PRODUCED BY COMPANIES

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

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

Schedule 2.

Clause 4 stand part.

Schedule 3.

Clause 5 stand part.

Schedule 4.

Clause 6 stand part.

Schedule 5.

Clause 7 stand part.

Schedule 6.

The Financial Secretary to the Treasury (Nigel Huddleston): It is a pleasure to serve under your chairmanship, Mr Paisley. I thank all members of the Committee in advance for their attention and participation, and I thank all officials, Clerks and the many stakeholders who have engaged with our discussions to date.

We are first considering the cultural support measures in the Bill. Clause 3 and schedule 2 replace the tax reliefs for film, high-end television, children's TV, animation and video games with refundable expenditure credits. The audiovisual expenditure credit will replace the four film and TV reliefs. Film and high-end TV productions will receive a credit of 34%. Children's TV and animated TV and film will receive a credit of 39%. The video games expenditure credit will replace the video games tax relief and will have a rate of 34%. Clauses 4 to 7 and schedules 3 to 6 make changes to ensure that the creative sector tax reliefs remain appropriately targeted and administrated efficiently.

I will turn briefly to the detail, starting with clause 3 and schedule 2, which reform tax reliefs to become expenditure credits. That will ensure that they continue to work as intended following the implementation of the OECD pillar two rules in the UK and elsewhere. A company claiming expenditure credits will not see its effective tax rate lowered as a result. That means that companies will not be at risk of needing to pay a top-up tax after claiming the expenditure credits. The expenditure credits will also go further to support businesses in the creative sector by providing greater benefit than the existing reliefs and greater clarity about the amount of credit that companies can expect to receive.

The expenditure credits will change how tax relief is calculated from a super-deduction to a calculation made directly from qualifying expenditure. The expenditure will increase the amount of relief received by film and high-end TV productions and video games by 0.5%. Children's TV and animated film and TV production will receive a 5.5% increase in relief.

Under the video games expenditure credit, qualifying expenditure will change from cost incurred in the UK—or the European economic area—to expenditure on goods and services that are used or consumed in the UK. There will be no cap on subcontracting. The Government are making that change to refocus video games tax relief on activity that takes place within the UK. That is appropriate now that the UK has left the EU. Those measures are expected to impact about 3,000 businesses claiming the creative tax reliefs, and we expect to see a positive response and high levels of uptake due to the greater benefit provided by the expenditure credits. Reforming the reliefs to expenditure credits is expected to cost about £60 million a year by 2028-29.

Turning to clauses 4 to 7 and schedules 3 to 6, the theatre, orchestra and museums and galleries tax reliefs have been pivotal in the development of new productions and exhibitions. They have collectively supported almost 25,000 productions since they were introduced. The two-year extension of the 45% and 50% rates of relief, announced at spring Budget 2023, will go even further to boost investment in our world-leading cultural sectors. Clauses 4 to 7 make administrative improvements to these reliefs to provide greater clarity about eligible productions and ensure that the reliefs remain safeguarded from abuse.

Now that we have left the EU, we have the opportunity to refocus our tax reliefs on activity that occurs in the UK and to give organisations more choice over where they source goods and services. That is why clauses 4 to 6 remove EEA costs and instead require expenditure to be used or consumed in the UK. This new approach considers where the goods and services are used, rather than where they are from.

Goods and services from the EEA will qualify, provided that they are used and consumed in the UK, but this will go further, because, for example, payments to a US conductor for rehearsals in the UK would also now qualify for relief, so this goes beyond the EEA. That rule is already in place in the film and TV reliefs, and it is also being implemented for video games tax relief.

The changes made by clauses 4 to 6 change qualifying expenditure for the orchestra, theatre, and museums and galleries exhibition tax reliefs to become costs incurred on goods and services used or consumed in the UK. The clauses require companies to disclose transactions between connected parties when making claims for relief, and to charge connected parties for goods and services at the same price as they would charge unrelated companies. This rule will also apply to the audiovisual expenditure credit and the video games expenditure credit.

Clause 7 requires companies to share additional information when claiming relief, and gives His Majesty's Revenue and Customs additional powers to recover overpayments of relief.

Clauses 4 to 6 are expected to impact approximately 1,200 companies, including orchestras, theatres, museums and galleries, and clause 7 is expected to impact about 3,000 businesses claiming the creative tax reliefs.

James Murray (Ealing North) (Lab/Co-op): It is a pleasure to serve on this Committee with you as Chair, Mr Paisley, and I am pleased to be able to respond on behalf of the Opposition on these clauses and schedules.

As we have heard from the Minister, clause 3 introduces a new tax relief regime for the British film, TV and video games sectors. Existing film, TV and video games reliefs will be reformed into a new expenditure credit modelled on research and development tax credits, and specifically the research and development expenditure credit regime. As the sector will have noted from the Government's policy paper on the measure, under the current schemes, relief is given by way of an additional deduction from profits, or surrendering a loss for a tax credit. Under the new audiovisual expenditure credit and video games expenditure credit regimes, companies will instead receive an above-the-line tax credit based on qualifying expenditure, which will, in turn, be taxable.

We in the Opposition strongly support the UK's creative sector—one of the areas of the global economy in which Britain is world leading. As such, we will not oppose any measures that provides certainty and greater opportunities for growth in those critical sectors. However, I will seek a few clarifications from the Minister on the details of the legislation.

First, I would be grateful to the Minister if he could provide an explanation for why the Department opted for a 34% credit rate for TV, films and video games—a 0.5% increase from the previous relief, as he set out—while animation and children's TV production has a greater increase, up to 39%.

Secondly, while the creative sectors have broadly expressed support for a simplified regime based on the research and development expenditure credit, we know that R&D tax credit schemes have been subject to a lot of chopping and changing, year after year, by this Government, as we discussed at earlier stages of the Bill. I would be grateful if the Minister could give assurances to the creative sector that they can expect stability and certainty when it comes to these new expenditure credits, to encourage long-term investment and competitiveness.

Thirdly, I would like to ask about the role of HMRC. We know that the new schemes, although they apply the same qualifying criteria rules as predecessor schemes, will need to be properly explained though new guidance. Could the Minister explain what HMRC is doing to ensure that guidance remains timely and up to date for those wanting to claim, and what HMRC will do to support those wanting to apply for the credits to understand how they operate?

In clause 4, the Government have sought to clarify rules around cultural reliefs following a two-year extension to the higher rates granted for theatre tax relief, orchestra tax relief, and museums and galleries exhibition tax relief in October 2021 to help the sector recover from the pandemic. The clause relates specifically to theatrical productions. It seeks first to clarify the exclusion of capital expenditure for the relief; secondly, to clarify the exclusion of costs incidental to production from the relief; thirdly, to exclude productions from the relief where the main focus is not observing the performance; and fourthly to clarify the "playing of roles" condition.

The Opposition wholeheartedly support the UK's world-class theatres and actors, and the creative sector more broadly, and we welcome any measures to support their work. However, I would like to raise concerns noted by the Society of London Theatre and UK Theatre in relation to guidance and consistency of claims for theatre tax relief. They have expressed concerns

[James Murray]

that the wording in proposed new section 1179AB of the Corporation Tax Act 2009, as introduced by schedule 2, that

"'UK expenditure' means expenditure on goods or services that are used or consumed in the United Kingdom"

could curb UK productions that originate in the UK but are exported abroad.

We know that the Government do not always have the best record when it comes to supporting members of the creative community to tour and export their productions overseas, and so I would like to ask the Minister what guidance will be issued to make sure UK creative exports are protected and not inadvertently hit by technicalities in the wording of the tax relief rules.

Secondly, SOLT and UK Theatre have expressed their unease at the Government's definitions of a theatrical production, and the narrow view taken of an audience. Schedule 3 states that

"it is reasonable to expect that the main purpose of the audience members will be to observe the performance (rather than, for example, to undertake tasks facilitated or accompanied by the performance)".

Could the Minister confirm whether pantomimes are excluded from making claims under this definition? I am sure that members of the public would not miss the irony of a Government clamping down on pantomimes for families across the country while indulging in their own pantomime in Downing Street and Parliament in recent years.

Nigel Huddleston: You just couldn't resist, could you?

James Murray: I look forward not only to moving on from the current drama in our wider politics, but also to the Minister's response on the specific point about pantomime productions and claims for tax reliefs.

Finally, having led for the Opposition on five Finance Bills, I know all too well that there can be complexity and indeed unintended consequences when new changes are made to tax relief regimes. Will the Minister therefore again explain what he and HMRC are doing to make sure the appropriate guidance is issued, and support offered, alongside the changes to the rules, to support claimants in navigating them?

On clause 5 on orchestras, the Government have sought to clarify rules around cultural reliefs, again following a two-year extension to the higher rate for orchestra tax relief that we mentioned earlier, which was issued in October 2021 to help the sector recover from the pandemic. Clause 5 seeks to clarify the exclusion of capital expenditure; clarify the exclusion of costs incidental to production; and amend the time limit for concert series elections to either the date of the first concert in the series or the date of the claim.

Although seeking to provide clarity in the operation of creative reliefs is welcome, I am concerned that there is still a lack of clarity on how the rules should be interpreted, and I again ask the Minister to use this opportunity to put some clarification on record. The lack of clarity was brought to my attention by my hon. Friend the Member for Worsley and Eccles South (Barbara Keeley), who is a great champion for the UK's world-class orchestras. On Second Reading, she made the point that:

"International touring is vital to the survival of many orchestras and makes up a fifth of earned income"

and that

"it boosts cultural exports and enhances the UK's place on the world stage."—[*Official Report*, 13 December 2023; Vol. 742, c. 931.]

She also referred to changes in eligibility for orchestra tax relief that required 10% of expenditure to be on goods or services that are used or consumed in the UK.

I understand the reasoning behind that, as the Minister set it out, but I also understand from my hon. Friend the Member for Worsley and Eccles South that the Association of British Orchestras believes that that means there is a lack of clarity about what orchestras will be able to claim. I am sure the Minister will agree that clarity is crucial for a successful tax system and I would therefore be grateful if the Minister could provide clarity today about how changing eligibility criteria will affect the claims that touring orchestras make.

In clause 6, the Government have again sought to clarify rules, following the higher rate that was granted for museums and galleries exhibition tax relief in October 2021. Galleries and museums are a critical part of our creative sector and of the enjoyment and fulfilment of so many people across the country. The clause seeks to provide clarity on two areas in relation to the relief: namely, the exclusion of costs incidental to production and the requirement for there to be physical admission to exhibitions for the relief to apply. The Opposition will not oppose either of those changes, but I ask the Minister what he is doing to work with key industry bodies, including the Museums Association, to ensure that the appropriate guidance is in place for museums and galleries, large and small, to be able to navigate these changes without confusion.

Clause 7 introduces new administrative measures for companies claiming creative tax reliefs. Claimants will now be required to complete and submit a new online information form. This will include the various new expenditure credits that we discussed in the previous clauses. We understand that these changes seek to streamline the process of making a claim, reduce the administrative burden on HMRC and make it easier to tackle abuse.

Of course, the Opposition support the principle of all those aims. However, as the clause involves the mandatory use of a new online information form from 1 April 2024, I ask the Minister to confirm whether he is confident that the digital systems at HMRC are ready for that to operate from that date. I believe that that is a pertinent question, given the shocking record of the Government in overseeing the implementation of the Making Tax Digital strategy since it was adopted almost a decade ago. Last summer, HMRC admitted that its ageing legacy IT systems meant that HMRC had

"underestimated the scale and complexity"

of delivering Making Tax Digital.

According to the National Audit Office, Ministers set unrealistic ambitions and timescales for implementing MTD. From the very start, HMRC rated MTD as a high-risk programme, and dates were rushed without realistic appraisal. The Financial Secretary to the Treasury is the fifth incumbent of the role since September 2021,

and there is no doubt that the churn of Ministers has contributed to the lack of direction in policymaking for digital strategy on tax affairs. I would therefore be grateful if the Minister could outline what steps he has taken to give him confidence in HMRC's ability to make sure the new online forms for the creative reliefs are operational on time and on budget. That is important for the effective administration of creative reliefs. More widely, it is important that HMRC is equipped with the tools it needs to provide a high-quality online service that individual taxpayers and businesses should expect the Government to deliver.

Dan Carden (Liverpool, Walton) (Lab): It is a pleasure to speak with you in the Chair, Mr Paisley; I am delighted to serve on the Committee.

I just wanted to raise an issue that has come to my attention in relation to the Liverpool Philharmonic Hall. The Liverpool Philharmonic Hall is the home of our orchestra in Liverpool. It has a unique model whereby the orchestra owns the hall, and the hall is also rented out for external events. That is unique compared with any other set-up in the country. I understand that, in clause 5, the Government are proposing changes to the detail of how creative tax reliefs are claimed. They are proposing that external events with connected companies—as might happen in the case of the Liverpool Philharmonic—will not be eligible for those tax reliefs. That is the model that the Liverpool Philharmonic has relied on and that has made it such a great success. I wish to use this opportunity to ask the Minister to look again and to seek assurances that the minor changes proposed in clause 5 will not affect the Liverpool Philharmonic Orchestra negatively.

Debbie Abrahams (Oldham East and Saddleworth) (Lab): It is a pleasure to serve under your chairmanship, Mr Paisley. I have a couple of quick questions for the Minister. First, on clause 3 and the assessment that the Government have undertaken of its economic impact on the sector, particularly in relation to the current TV ads slump, how much will it offset that and what timescales are the Government considering? On clause 4 and theatre production companies, is there a size limit for the companies that the measures will relate to?

9.45 am

The Chair: Minister, break a leg.

Nigel Huddleston: Thank you. I do not think anybody in this room or any Members doubt the importance of the creative industries sector. It is an absolute success story for the UK, a huge export earner and something that we can all be proud of. During the pandemic, the sector was among the hardest hit, so we provided more than £1 billion in culture recovery fund money to make sure it was able to survive and do what it does best post pandemic, which it has done incredibly well. I will endeavour to answer the points raised by colleagues in that context.

One area of relative weakness when recovering from the pandemic while other sectors boomed was British children's content, which declined. That is the rationale for the special difference and the incremental rates specifically for the children's sector—they need a little more help to recover and boom. We have a great record of children's TV content, and we want that to be the case again. I can assure the hon. Member for Ealing North that pantomimes will continue to qualify for theatre tax relief—[Hon. Members: "Hear, hear!]—as the main purpose of a pantomime audience is to observe the performance. He raised the point about observance versus participation, where there is some difference in eligibility. Of course, some level of audience participation is normally the case in pantomimes, but it is still predominantly observing, so they will be eligible and not disqualified for production.

On the further points raised by the hon. Gentleman and others about the guidance that will be provided, HMRC is currently working on that and further information will be provided in due course. I have also written to several entities, many of whom participated in the consultation. I should thank all those who participated in the 12-week consultation, which was extensive. We listened carefully and have made many changes. I think we have addressed the vast majority of the issues that were raised during the consultation. Further guidance is needed and will be provided. We are aware of the points that the hon. Gentleman raised.

On his comments about chopping and changing, tax legislation should never remain static because the nature of the economy and the world changes all the time. It is therefore always appropriate to change relevant tax legislation. Signalling and giving stability and assurance to the industry is important. I think that in these measures the support for the creative industries cannot be in any doubt. The creative industries have expressed extreme gratitude for the Government's support, which has enabled the industries to be incredibly successful over many years. The reason that many film and TV productions are now located in the UK is precisely because of the tax breaks and incentives that have been provided over the last few years.

Several points were raised about orchestras. I explained on Second Reading the rationale behind why we are making changes in relation to EEA expenditure and the UK. There are World Trade Organisation requirements, but I do not think we should underestimate the importance of what is there. In many cases some expenditures that were not previously included will now be able to be included precisely because some of the remit was limited to EEA.

At present, all orchestral productions and touring theatre productions and museums and galleries exhibitions are eligible for a credit rate of 50%. The 50% rate of relief was introduced to support our cultural sectors through the aftermath of the pandemic. At the spring Budget, it was extended for two years in recognition of the temporary but ongoing difficult circumstances that those sectors in particular face. The rate will taper to 35% on 1 April 2025 and return to 25% on 1 April 2026, so support for the sectors is still considerable. As I said, further guidance will be provided, and I will take all the comments that have been made today on board.

Question put and agreed to.

Clause 3 accordingly ordered to stand part of the Bill.

Schedule 2 agreed to.

Clause 4 ordered to stand part of the Bill.

Schedule 3 agreed to.

Clause 5 ordered to stand part of the Bill.

Schedule 4 agreed to.

Clause 6 ordered to stand part of the Bill.

Schedule 5 agreed to.

Clause 7 ordered to stand part of the Bill.

Schedule 6 agreed to.

Clause 8

Miscellaneous amendments relating to REITs

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

The Chair: With this it will be convenient to discuss that schedule 7 be the Seventh schedule to the Bill.

Nigel Huddleston: Clause 8 and schedule 7 make changes to enhance the tax rules for real estate investment trusts, or REITs; to alleviate certain constraints and administrative burdens; and to ensure that the rules keep pace with commercial practice.

The Government launched a review of UK investment funds, taxation and regulatory rules at Budget 2020 with the aim of making the UK a more attractive location to set up, manage and administer funds. We have already made great progress, introducing the qualifying asset holding company and long-term asset fund regimes, which will help support a wide range of more efficient investments better suited to investors' needs and to provide jobs across the UK.

The changes we are introducing for REITs regimes today in the clause and schedule 7 build further on that work. REITs are a specific form of property investment company. The tax rules have the effect of allowing investors to be taxed on their share of a REIT's income and gains in a way that is broadly the same as if they had invested directly in property. The regime has proven popular since its introduction in 2006, with approximately 140 REITs currently established in the UK.

The Government have already brought forward several reforms to the REIT rules under the Finance Act 2022 and the Finance (No. 2) Act 2023. Following further engagement with industry, this clause and schedule 7 bring forward a third and final tranche of targeted changes to complete the work of better meeting the needs of investors while ensuring that the right tax is paid.

The changes made by clause 8 and schedule 7 include updates to the conditions that ensure a REIT is always widely owned, and that the UK retains effective taxing rights over the rental income distributed by REITs to foreign investors. Those are in addition to a number of further technical and clarificatory changes. The Government are also taking the opportunity to make further changes to related tax rules, including a technical correction to the corporate interest restriction as it applies to REITs, and a consequential change in the related non-resident capital gains rules for collective investment vehicles.

James Murray: As the Minister explained, clause 8 makes a number of amendments to the real estate investment trust rules. The Government's policy paper on the matter set out that, since 2006, the number of UK REITs has grown to approximately 130, with the real estate sector evolving to increase the number of large institutional investors in REITs. We understand that the objective of the Government's changes is to modernise the regime and alleviate constraints and administrative burdens through various measures, which include allowing insurance companies to hold group REITs, changing the profit/finance cost ratio, amending rules relating to holding a single property, extending the exemption for gains on disposal of UK property-rich entities, and amending the definition of a holder of excessive rights.

The Opposition agree that it is important to keep pace with changes in the UK's investor landscape. We welcome measures to make the regime more appealing for real estate investment, and we will not oppose the technical changes that seek to do so in this Finance Bill. We note, however, that the Government recognise the scope for more businesses to enter the UK REIT regime, which entails one-off costs to businesses and greater demands on HMRC's capacity. At a time when HMRC is already under significant pressure, will the Minister explain what assessment he has made to ensure that businesses that want to enter the REIT regime will be supported by HMRC without other aspects of HMRC's work suffering?

Nigel Huddleston: I thank the hon. Gentleman for his comments. He will be aware that, while HMRC is operationally independent, I have oversight as part of my ministerial role. We have regular conversations about resources and capabilities, and I am more than confident about its capabilities in this and indeed many other areas. We always keep resources under review.

These changes are reasonable, and I am grateful for the hon. Gentleman's support; indeed, they have wide support from industries. They will improve the operation of the REITs rules, aligning them with current commercial practices and enhancing the regime's competitiveness. I therefore commend clause 8 and schedule 7 to the Committee.

Question put and agreed to.

Clause 8 accordingly ordered to stand part of the Bill.

Schedule 7 agreed to.

Clause 9

Managers of ships

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

The Chair: With this it will be convenient to discuss schedule 8 and clause 10 stand part.

The Exchequer Secretary to the Treasury (Gareth Davies): It is a great pleasure to see you in the Chair, Mr Paisley.

Clause 9 and schedule 8 enable qualifying companies that manage ships to elect into the tonnage tax regime. Clause 10 increases the capital allowance limit on the provision of vessels to operators in the tonnage tax regime for ship lessors. Tonnage tax is a regime aimed at boosting the United Kingdom's competitiveness in the international shipping industry. At autumn Budget 2021,

the Government announced the first substantive reforms of tonnage tax since 2005. These included removing the EU/EEA flagging requirement, for example.

Following those reforms, the Government announced at this year's spring Budget that we would permit third-party ship management under the tonnage tax regime, with the aim of attracting more shipping companies to the United Kingdom, and that we would also raise the capital allowance limit for lessors of ships into tonnage tax, broadly in line with inflation and the cost of ships. These changes follow a review into whether to include ship management and the appropriateness of the existing capital allowance limit.

Until now, only companies that owned or chartered their ships could participate in the regime. The existing tonnage tax rules will in general apply to ship managers as they do to operators, but with certain exceptions. Most notably, operators must fulfil a training requirement for ships' officers, which will not apply to third-party managers. They will be able to claim tonnage tax profits only on ships for which the operator has fulfilled the training obligation. Clause 10 will raise the overall limit on capital allowances that a lessor can claim from £80 million to £200 million—the first rise since the limits were introduced in 2000. The increase recognises general price movements and changes in vessel design and costs, ensuring that the UK tonnage tax continues to be internationally competitive. I therefore commend clauses 9 and 10 and schedule 8 to the Committee.

James Murray: As we have heard, clause 9 sets out to make changes to the tonnage tax, by extending the scope of the tax to allow entry by third-party ship managers. As the Government's policy paper sets out, as things stand, entry to the regime is available to operators of qualifying ships, with operators defined as those who own or lease vessels.

We understand that introducing the ability for ship managers who are not operators of ships to make a tonnage tax election will extend the scope of this beneficial tax regime, and it seeks to thereby increase the international competitiveness of the UK shipping industry. Extending the measure to permit ship managers to make a tonnage tax election is a largely administrative move and aims to bring the UK's shipping regime in line with the international market. We will not oppose this measure today.

10 am

Clause 10 is a further measure related to tonnage tax. It raises the limit on capital allowances to £200 million for lessors of ships into the regime in line with inflation and the market rate of ships. We know the limits on capital allowances that may be claimed by lessors on the provision of ships leased to operators of qualifying ships in the tonnage tax regime have not been increased since the regime was introduced in 2000. As with clause 9, the Opposition will not oppose a measure that aims to modernise and simplify the tonnage tax regime and in turn aims to boost UK competitiveness.

Gareth Davies: Let me take the opportunity to congratulate the hon. Gentleman on his fifth Finance Bill. He is looking good on it, and I hope this one goes as badly for him as the others. It is always a genuine pleasure to be opposite the hon. Gentleman and I am grateful to the Opposition for not opposing clauses 9 and 10.

Question put and agreed to.

Clause 9 accordingly ordered to stand part of the Bill.

Schedule 8 agreed to.

Clause 10 ordered to stand part of the Bill.

Clause 11

Extension of EIS relief and VCT relief to shares issued before 6 April 2035

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

Nigel Huddleston: Clause 11 extends the sunset clause for the enterprise investment scheme and the venture capital trust scheme to April 2035. The schemes will continue to support thousands of early-stage, innovative companies each year and ensure that they have access to the investment they need to develop and grow.

The enterprise investment scheme and venture capital trust scheme provide a range of generous tax reliefs to investors to encourage investment into higher risk, early-stage companies, which face the biggest challenges in accessing finance. This will encourage entrepreneurship in the future. The schemes are world-leading in terms of their generosity, with more than £3.4 billion of funds raised across the two schemes in the tax year 2021-22 alone. This extension will ensure that the schemes continue to support the growth of early-stage companies.

Tulip Siddiq (Hampstead and Kilburn) (Lab): It is a pleasure to serve under you, Mr. Paisley. As the Minister has set out, clause 11 extends the availability of the enterprise investment and venture capital trust tax reliefs to shares issued by eligible companies and VCTs by 10 years to 2035. The Opposition welcome the Government's long overdue decision to take action and extend the schemes, given that the original sunset clause of April 2025 was fast approaching.

Both the EIS and VCT schemes remain crucial funding lifelines for the UK's start-up community and the uncertainty created by the previous sunset clause deadline has risked hampering investor confidence in backing our high-growth firms. We also know from the latest HMRC data that between 2021 and 2022, nearly 4,500 businesses accessed more than £2.3 billion of funds through the EIS scheme—the highest number since it was introduced. As the Minister will probably know, the ScaleUp Institute has described the relief as pivotal in driving the supply of early-stage risk capital to some of the UK's most exciting companies.

It is worth noting that the 2025 sunset clause, at which point the schemes were due to be revived, was due to a request from the European Commission to ensure compliance with European Union state aid rules. Given the importance of ensuring that investors are able to plan years in advance when developing a forward pipeline of investments, the Government should have listened to business and tackled the investment uncertainty caused by this potential expiry date far sooner following our departure from the EU. Although people were concerned about the prospect of the schemes expiring,

[Tulip Siddiq]

there are those in the VC community who saw the review triggered by the sunset clause as an opportunity to improve the operation of the EIS and VCT schemes, which remain extremely complex. It is crucial that, beyond simply pushing the sunset clause back 10 years, the Government take an active interest in improving these vital schemes, including by delivering the simplification measures that many are calling for to ensure that more companies and more investors can benefit from the tax reliefs available to them.

I can confirm that the Labour party supports clause 11, which is a necessary intervention to ensure that investors can continue to invest with confidence in UK start-ups, but does the Minister acknowledge that we have an urgent need for a Government who listen to business early on, and who create the stable investment climate that we need to deliver growth in our economy, and who do not leave that until the last minute?

Nigel Huddleston: I am afraid that I respectfully disagree with the hon. Lady. We see clearly from feedback from the industry that it very much welcomes the changes. Actually, it is quite transparent throughout the Bill that we are backing business right across the UK. Richard Stone, chief executive of the Association of Investment Companies, has said:

"It's excellent news that the Chancellor has committed to extending VCTs' sunset clause…The extension…will help provide certainty to investors and businesses and enable VCTs to continue supporting UK growth companies."

The British Private Equity & Venture Capital Association has said:

"It is hugely positive that the Chancellor has EXTENDED THE EIS AND VCT SCHEMES until 2035."

The changes were not subject to a formal consultation, but were part of engagement with industry that Treasury officials and Ministers conduct on an ongoing basis. We are listening to business all the time; we make appropriate changes all the time, and the measures in clause 11 prove exactly that point. The hon. Lady is trying to score political points, but in highlighting some of the scare tactics, she is proving exactly why business can be confident in this Government, and should be somewhat fearful of the Opposition.

The clause will ensure that the EIS and VCT schemes continue to support thousands of early-stage companies each year in raising the funding that they need to succeed. I therefore urge that the clause stand part of the Bill.

Question put and agreed to.

Clause 11 accordingly ordered to stand part of the Bill.

Clause 12

RELIEF FOR PAYMENTS OF COMPENSATION BY GOVERNMENT ETC TO COMPANIES

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

Nigel Huddleston: I should probably explain to anybody wondering about the musical chairs that we have two Ministers here, because the clauses are split across ministerial responsibilities. I explain that for Members and anybody watching—the millions who, I am sure, are watching on television across the world.

Clause 12 is on a very important and newsworthy point, but it also shows that the matter that it deals with has received considerable attention for some time: it makes changes to ensure that all claimants of compensation from a range of Post Office schemes related to the Horizon IT scandal are treated similarly. It will align the tax treatment to ensure that claimants who chose to set themselves up as companies obtain tax relief comparable to that available for claimants set up as individuals.

Following the Horizon IT scandal, a number of schemes were set up to provide compensation to the individuals affected, and although most sub-postmasters are individuals, some set themselves up as corporate entities. Individuals have been exempted from paying income tax, national insurance contributions and capital gains tax on compensation that they received under the schemes that have been announced, which are being legislated for separately, but the Government are determined that postmasters affected by the Horizon IT scandal will receive the compensation that they deserve, regardless of how they arrange their business structure. The clause therefore exempts from corporation tax compensation payments made under the Post Office historical shortfall scheme, the group litigation order schemes, the suspension remuneration review and the Post Office process review scheme. The legislation will align the taxation of onward payments of compensation with that of compensation to individual recipients.

The clause will impact the relatively small proportion of compensation recipients who are structured as corporate entities, but to those impacted it is extremely meaningful. The approach taken in the legislation is consistent with tax principles and precedents, as well as the tax treatment of separate Post Office compensation schemes set up in response to the Horizon IT scandal.

Tulip Siddiq: I would like to spend a long time debating the claim that business is fearful of the Opposition, but I do not feel that this is the right time.

Nigel Huddleston: We will have that debate another day.

The Chair: And I will not allow it!

Tulip Siddiq: Given the shocking details of the Post Office scandal, which has rightly been the subject of significant parliamentary debate in the last few days, it will come as no surprise that the Opposition strongly support the measures in clause 12, which is designed to bring parity to the taxation of compensation payments received by all sub-postmasters who were victims of that shameful episode. It is quite plainly unjust for sub-postmasters structured as a corporate entity to receive less in compensation than individual claimants, or for that compensation to disappear back to the Exchequer through tax on onward payments to the directors of those entities, who are the victims.

The clause also rightly addresses the inexplicable difference that there has been in tax treatment depending on the route that victims have taken to seek damages from the Post Office, be it through the group litigation

order scheme, the Horizon shortfall scheme, the suspension remuneration scheme or the Post Office process review scheme. I thank the campaign groups, such as Tax Policy Associates, that have led the charge over the past year for their dogged efforts to highlight the outrageous proportion of sub-postmaster compensation that was set to disappear in tax. Given last week's welcome announcement from the Prime Minister that all victims of the Post Office scandal will now be exonerated and compensated in full, it is even more critical that the tax exemptions in clause 12 are implemented at pace. More broadly, the Government must ensure that the complexities of taxing compensation are not allowed to stand in the way of delivering justice to victims of future scandals. We will not oppose the clause.

Drew Hendry (Inverness, Nairn, Badenoch and Strathspey) (SNP): It is a pleasure to serve under your chairmanship, Mr Paisley. Justice, accountability and compensation for those affected and wronged are required at speed on all aspects of the Post Office-Fujitsu-Horizon scandal. That is why we will support clause 12: to ensure that the fullest possible reparations are made to those who suffered through false accusation, incarceration and worse. The scandal has gone on for far too long, and highlights the worst of Westminster's indifference and delay, even when presented with overwhelming evidence of wrongdoing. That, along with all other aspects of the scandal, must be dealt with as quickly and thoroughly as possible.

Nigel Huddleston: I thank Opposition Members for their comments. There is very clear alignment on this point. Clause 12 means that postmasters affected by the Horizon IT scandal receive the compensation that they deserve, regardless of how they arrange their business affairs. I should also make it clear that there is additional support for impacted individuals; HMRC has also set up a dedicated extra support team and phone helpline to provide postmasters and sub-postmasters with additional support. I commend the clause to the Committee.

Question put and agreed to.

Clause 12 accordingly ordered to stand part of the Bill.

Clause 13

Enterprise management incentives: time limits

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

Nigel Huddleston: We are proceeding at pace. Clause 13 amends the enterprise management incentives, or EMI, provisions to improve the process for granting EMI options by extending the time that participating companies have to notify HMRC of a grant. EMI helps small and medium enterprises to compete with larger firms to attract and retain key talent by bolstering the attractiveness of the share-based remuneration that they can offer to their employees. In the 2021 Budget, the Government launched a call for evidence on the performance of EMI and whether it should be expanded. In the 2022 spring statement, the Government concluded that EMI remains effective and is appropriately targeted. However, the Government listened to those who said that the administrative requirements of the EMI scheme could be improved, particularly the process of granting options. The change we are making will help to address those concerns by making it even easier for companies to use EMI, as requested by industry.

10.15 am

Clause 13 will extend the time limit for a company to notify HMRC of a grant of EMI options from 92 days following the date of grant to 6 July following the end of the tax year in which the grant was made. The change will apply to options granted on or after 6 April 2024. Tens of thousands of individuals are granted EMI options annually, so this measure ensures that companies are given a longer time in which to submit an EMI notification of a grant of options. Individuals will not need to do anything differently. The change is likely to result in fewer late notifications and less possibility of options being disqualified. That will improve how the scheme works for individuals who receive EMI options.

Tulip Siddiq: As we have heard, clause 13 extends the time limit within which employer companies have to notify HMRC that they have been granted EMI options from 92 days after the grant was made to 6 July following the end of the tax year in which they were granted. This change is designed to simplify the process, and so increase small businesses' ability to benefit from recruiting and retaining staff. It is one of a number of measures that were called for in submissions to a 2021 consultation on the EMI scheme, which cited the overly complex process for notifying HMRC and the need to extend the notification period. We will not oppose the clause.

Nigel Huddleston: I thank the hon. Lady again for her contribution and support. There are many relatively small and highly technical changes that we are making through the Bill, and this is one of them. On paper, it can look somewhat technical and confusing, but it is really meaningful, and I appreciate the fact that the hon. Lady and Opposition Members acknowledge that. The clause supports small and medium-sized businesses in recruiting and retaining key talent by simplifying the process to grant EMI options. For the reasons we have outlined, I urge that the clause stand part of the Bill.

Question put and agreed to.

Clause 13 accordingly ordered to stand part of the Bill.

Clause 14

Provision in connection with abolition of the lifetime allowance charge

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

The Chair: With this it will be convenient to discuss schedule 9.

Nigel Huddleston: Clause 14 and schedule 9 make changes to complete the abolition of the pensions lifetime allowance. By completing the work to remove the lifetime allowance charge, the Government will deliver the policy objective of incentivising highly skilled individuals to remain in the labour market or return to the workforce

[Nigel Huddleston]

to build up their retirement savings, helping to grow the economy and to protect the quality of our vital public services. The Government have listened to stakeholders from across the public and private sectors, including senior NHS clinicians, air traffic controllers and senior police officers, who have said that pensions tax limits can and, indeed, do influence the timing of retirement and act as a barrier to remaining in or returning to the workforce.

The lifetime allowance limits the total amount of tax-relieved pension savings that an individual can have. It is set at £1,073,100, but individuals can contribute to their pensions over this limit. However, when members previously accessed pension benefits above the limit, they were subject to a tax charge called the lifetime allowance charge. At spring Budget 2023, the Chancellor announced that he would remove the lifetime allowance charge from 6 April 2023. The Office for Budget Responsibility estimates that around 15,000 individuals will remain in the labour market as a result, and many of them will be highly skilled individuals, including senior doctors in the NHS and many other public sector workers. The British Medical Association says that scrapping the lifetime allowance will be potentially transformative for the NHS.

The Chancellor also announced at spring Budget that the lifetime allowance would be removed from tax legislation entirely in a future Finance Bill. Clause 14 will deliver the necessary technical changes to entirely abolish the lifetime allowance from tax legislation. It clarifies the tax treatment of lump sums—that is where some pensions benefits are taken as a cash lump sum—paid from registered UK pension schemes. The new tax treatment ensures that lump sums do not, regardless of their size, become entirely tax-free. It will also clarify the tax treatment of transfers to overseas pension schemes and benefits paid from them. Finally, the clause sets out the arrangements for transitioning to the new pensions tax regime and reporting requirements under the new regime.

James Murray: As we have heard from the Minister, clause 14 intends to complete the abolition of the lifetime allowance, as announced by the Chancellor at last year's spring Budget. When the Government announced their intention to abolish the LTA and the related charge, we in the Opposition made clear our concerns. Though we recognised the issue that the LTA presented to some professions, including doctors, we were concerned that the Government's chosen approach would give some of the wealthiest in society a tax cut. We argued that this was not the right approach during a cost of living crisis, and at a time when taxes on working people are rising.

Clause 14, however, focuses not on the principle of the LTA charge but rather on the technical detail of how the Government are implementing abolition of the LTA. The Bill aims to make sure that legal effect is given to the change in time for 6 April this year, which we note is a very tight deadline for such a complex measure.

Let me first turn to how the Government propose to abolish the LTA. The Chartered Institute of Taxation has expressed concerns that the legislation in the Finance Bill on the abolition of the LTA is different from that which was published for consultation last summer. Indeed, the relevant part of the Bill comes in at nearly 100 pages —that is one-third of the Bill and two and a half times the size of the original legislation published last summer. With such a great degree of apparent change between the draft and final versions, there are of course likely to be many questions about details of the version before us, and about the Government's intent. For example, the Chartered Institute of Taxation notes that the pension commencement excess lump sum aspect of the legislation that replaces the current lifetime allowance excess lump sum charge should be revised to meet the policy intent.

The Institute of Chartered Accountants in England and Wales notes not only the legislation's length, but that it introduces new terminology and computations, increasing the risk of misunderstanding by taxpayers, advisers and agents. What representations has the Minister heard from industry groups about any approaches, terminology, or computations that are introduced for the first time in the final version of the legislation before us? What action has he taken on any representations he has received?

Given that the new rules take effect from 6 April, to many of those who are following this matter closely, it seems clear that it would have been wise to give more notice to pension schemes and individuals. The CIT notes that, for example, defined contribution pension schemes need to provide information to members about options for retirement at least four months ahead of nominal pension age. That means that scheme communications for those retiring in April this year would need to be clear and updated by December last year. Does the Minister believe that, because of the timing of this legislation, pension schemes may have communicated information to pension-holders that will turn out to be incorrect by April this year?

This legislation will gain Royal Assent presumably just two months or so before the new rules take effect. Clearly, pension funds will need new processes, systems, and member communications to be in place. What meetings has the Minister held with the pension industry about the requirements of this Bill, since its publication? Did any of the funds or groups he spoke to ask the Treasury to consider a different approach, or a different timetable for abolishing the LTA? Finally, on Government guidance and support, could the Minister confirm what he is doing to make sure that any guidance is fully and clearly updated in as much time as possible before 6 April?

Drew Hendry: The cost of living crisis is gripping families across the nations of the United Kingdom. They are struggling with rent, with mortgages, with food costs and with energy bills. When we come to clause 14, though the abolition of the lifetime allowance is necessary for certain professionals, including doctors, it benefits about as many bankers as healthcare workers. There were better ways for the Government to tackle this problem. What other options were looked at to avoid the undue rewarding of those who it was perhaps less necessary to include than healthcare workers?

Dan Carden: The Minister said that 15,000 will stay in the workforce as a result of these changes. However, the changes have been criticised for actually complicating the pension system. Will he be reviewing the numbers

that stay in professions such as healthcare? If 15,000 stay in the workforce, how many others are simply benefiting in other sectors such as banking?

Nigel Huddleston: I thank hon. Members for their comments. We seem to have had a bit of a U-turn from some Opposition Members and some political parties. There was considerable support for these measures across multiple sectors. These measures will benefit swathes of the public sector. I have already given quotes and there are plenty more from swathes of the medical and health service industry. The Royal College of Surgeons, for example, found that 68% of consultant surgeons were considering early retirement because of the old pensions rules. I do not know what more evidence hon. Members need to be convinced that this is a proper and appropriate move.

Dan Carden: None of us disputes that this is a positive move for the public sector and for certain sectors of the economy, but perhaps the Minister could answer the question about those who perhaps are not so worthy.

Nigel Huddleston: The hon. Member is being rather selective. Swathes of the public sector will benefit: headteachers, police chiefs, clinicians, senior armed forces personnel, air traffic controllers, prison governors, senior government scientists, government-employed vets and so on. It is a point of principle that the tax system does not generally distinguish between occupations. To the point of the hon. Gentleman and others about timeliness, this is an issue that we needed to deal with immediately—not in three or five years' time. There was an appropriate measure, and we took it.

It goes without saying that some people have benefited from similar schemes in the past. The Leader of the Opposition had a unique deal from his time as Director of Public Prosecutions, which allowed him to avoid tax on his savings. It is only appropriate that, in order to make sure that we retain people in the workforce and encourage people to come back to the workforce, we make these changes and make them in a timely manner. That is the broader point of the policy area, as opposed to the specifics of these changes. They have been subject to considerable consultation.

The hon. Member for Ealing North mentioned that there are about 100 pages of legislation. That is true, but let us be very clear: this is a clear and transparent simplification that has been welcomed by large swathes of the public sector. The vast majority of the 100 pages of legislation he talked about remove references and concepts associated with the lifetime allowance. When we make changes, we need to remove references, and that was the bulk of the work.

As I said, this has been the result of extensive consultation. The Government have been consistently clear since the spring Budget of 2023 that the abolition of the lifetime allowance will be effective from April 2024. We have set out the timelines very clearly. We continued to work closely with industry, and HMRC will support the implementation of these changes. As I said, we have listened to stakeholder feedback and confirmed that we would not proceed with the previously proposed changes, for example to pension commencement lump sums and small lump sums. Once the changes have been made, they represent a significant saving for pensions.

Unlike the lifetime allowance excess lump sum, which is charged at 55%, the pension commencement excess lump sum is charged at the member's marginal rate. So the pension commencement excess lump sum is only paid in connection with the commencement of a pension. The pension commencement excess lump sum allows individuals entitled to receive more of their pension on commencement as a lump sum than is provided for by the standard pension commencement lump sum. As I said, overall, these changes are welcomed and are a simplification. I therefore commend the clause to the Committee.

Question put and agreed to.

Clause 14 accordingly ordered to stand part of the Bill.

Schedule 9 agreed to.

Clause 15

MPs' pension scheme etc: rectification of discrimination

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

10.30 am

Nigel Huddleston: Clause 15 makes changes in relation to the occupational pensions of Members of Parliament, Members of the Welsh Senedd and Members of the Legislative Assembly in Northern Ireland. It will ensure that these groups receive tax treatment comparable to the wider public sector when their pension schemes remedy age-related unfairness in past pension changes.

In 2015, the Government reformed public service pensions and offered transitional protections to those closest to retirement. The Court of Appeal later concluded that the provision of protections for older members but not younger members was discriminatory on the basis of age. The Government therefore introduced legislation to remedy this in 2022. The pension schemes for Members of Parliament, Members of the Welsh Senedd and Members of the Legislative Assembly were similarly reformed between 2015 and 2016, but the court judgement did not apply to them because of the distinct legal underpinnings of the other pension schemes. To ensure fairness, these schemes are voluntarily providing remedies to eliminate any age-related unfairness in line with broader public service pensions.

The remedies provided by the schemes are not retrospective for tax purposes. Therefore, legislative changes are needed to prevent members from incurring adverse tax consequences. The clause will allow the Government to make technical changes in secondary legislation. This will put members of these schemes in the tax position that they would have been in if any age-related unfairness had not occurred.

The Chair: I think we all declare an interest in this one.

James Murray: You beat me to it, Mr Paisley. I do not think this change will affect me personally, given when I was elected, but with an abundance of caution I declare an interest, as I am sure all Members would.

[James Murray]

As the Minister explained, clause 15 provides technical updates to pension tax legislation related to elected representatives. It will provide a new power to make tax regulations in secondary legislation to, according to the Government's explanatory notes,

"redress payments for age related unfairness caused by past changes to the pensions of members of Parliament, members of the Senedd and members of the Northern Ireland Assembly."

The changes are also designed to be capable of having a retrospective effect to ensure that individuals are, as far as possible, put in the tax position they would have been in had the discrimination not occurred. The Opposition will not be opposing this measure.

Nigel Huddleston: I thank the hon. Gentleman for his comments. Indeed, I believe most of those affected here in Parliament were elected prior to 2015. There has been consultation with the Independent Parliamentary Standards Authority and others on these changes. It is a matter of fairness to make sure this is aligned with the broader public sector.

Question put and agreed to.

Clause 15 accordingly ordered to stand part of the Bill.

Clause 16

Provision relating to the cash basis

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

The Chair: With this it will be convenient to discuss schedule 10.

Nigel Huddleston: Clause 16 and schedule 10 make changes to improve the experience of many small businesses when completing income tax returns by extending the eligibility for the cash basis, which is a simplified way for 4.2 million smaller, growing traders to calculate their profits and pay their income tax. The Government recognise the usefulness of full accruals accounts for many businesses, but for many smaller businesses the cash basis acts as a valuable simplification. By measuring money received and paid out and removing complex tax and accounting rules, the cash basis makes it much easier for many businesses to understand how their taxable profits have been calculated, reducing error and the likelihood of an unexpected tax bill. It also ensures that a taxpayer is not taxed on money that they have not actually received yet, helping cash flow and supporting businesses to manage their tax payments.

There are currently only 1.2 million users of the cash basis from the 4.4 million self-employed businesses, which is only a 29% take-up. Many more businesses could stand to benefit from the cash basis, but are prevented from doing so because of existing restrictions on who can use the simplified regime.

The changes made by clause 16 and schedule 10 completely remove limits on the size of businesses able to use the basis, interest reductions, deductions and loss relief available under the cash basis and set the simpler regime as the default option for small businesses. This increases the number of businesses that are able to use the cash basis and removes barriers preventing businesses from using the regime, encouraging more businesses to benefit from its simplicity.

New businesses that choose not to use the simpler cash basis in order to be able to claim relief for any losses available under the accruals basis will now be able to claim loss relief through the cash basis too. That particularly benefits new self-employed businesses, especially those set up by someone with an employment or other source of income.

These changes are expected, using a conservative estimate, to save small businesses a total of about £13 million per year in administrative burdens. Alongside these changes, and directly responding to consultation feedback, HMRC will be prioritising a review of its guidance on the cash basis, aiming to improve the understanding and awareness of this simpler regime.

James Murray: As the Minister outlined, clause 16 makes the cash basis the default basis for calculating profits of trade for the tax year 2024-25 and beyond. As members of the Committee will know, the cash basis is a method that businesses can use to calculate trading profits for income tax purposes. As things stand, businesses have to elect to use the cash basis, making it an opt-in regime, and the Government have noted that this measure seeks to make the cash basis the default, while removing the current turnover restriction rules entirely, as well as the interest deduction limit of £500 and the unavailability of some types of loss relief.

The Minister will know that the Opposition is supportive of a simplified tax regime that gives certainty to businesses and taxpayers. However, there are a number of areas of the clause that we would like clarified.

First, with the cash basis being made the default, does the Minister have any concerns about some businesses being unsuited to the new system? The Chartered Institute of Taxation has expressed concerns that conducting accounts on a cash basis fulfils the need to report to HMRC, whereas businesses that report on an accrual basis serve several purposes, including for loans and profitability. Could the Minister explain what assessment he has made of the suitability of the cash basis for the full spectrum of businesses, including small businesses?

Connected to that point, could the Minister explain what consultation he has carried out with businesses and sector groups since the autumn statement about the measure ahead of its implementation in 2024-25?

That brings me on to my next point, on guidance. A major reporting change of this kind will require a thorough information campaign, and appropriate and accessible guidance for businesses. That is particularly important for small businesses. What measures is the Minister taking to make sure that guidance is as simple as possible, is accurate and minimises the risk of inadvertent error?

Finally, and related, is the potential increased scope for fraud. As with new tax changes that relax restrictions on access, a small number of actors could spot an opportunity to reduce their tax liabilities. Could the Minister explain what assessment he has conducted of the possibility of fraud, and what steps he is taking to address that?

I note from the Government's policy paper that no additional staff have been allocated to support the policy change. In the apparent absence of any additional

staffing to support the introduction of this new regime, what plan is in place to ensure there are adequate resources for its implementation?

Nigel Huddleston: I thank the hon. Member for his comments. We should be very clear that the Government are not forcing businesses to use cash accounts. A business can still choose the method of accounting that best suits its circumstances, but the Government encourage businesses to use the simpler cash basis where appropriate. However, we of course recognise that many businesses will still benefit greatly from the advice and information provided by an accountant drawing up full accruals accounts, so the Government have set the cash basis as the default to make it easier for businesses to use the simpler regime. All a business will have to do to opt out of that is tick a box on their tax return, so it is fairly simple and straightforward in terms of choice.

On guidance, feedback during the consultation suggested improvements to HMRC and gov.uk guidance that would help many small businesses understand the cash basis. We have listened and will be prioritising a review. We will update the guidance for the cash basis as part of the HMRC small business guidance review, which we announced at spring Budget 2023. That review will be completed by April 2025. The Government recognise the need to update that guidance, particularly for businesses that do not have the support of an accountant or tax advisers, and HMRC is also looking at providing further support through specific communications about the tax bases.

As I said, we understand—and HMRC understands—that many businesses have been using the cash basis anyway, without electing to do so, and these changes will formalise much of that behaviour and make it easier for taxpayers to use the cash basis without the administrative burden of making an election to do so.

Because of that tax simplification, particularly for small businesses, we believe that these measures—clearly simplifying the tax system—will help boost productivity, increase business confidence and reduce the amount of time and money businesses spend on tax administration. The clauses and schedules support our commitment of simplification by making it easier for small businesses to use the cash basis and by expanding the number of businesses that are able to use it. I therefore commend these measures to the Committee.

Question put and agreed to.

Clause 16 accordingly ordered to stand part of the Bill.

Schedule 10 agreed to.

Clause 17

PAYE REGULATIONS: SPECIAL TYPES OF PAYER OR PAYEE

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

Nigel Huddleston: Clause 17 makes changes to address a potential overcollection of tax and national insurance contributions by HMRC to resolve an unfairness in the tax system. This will allow HMRC to set off taxes already paid by the worker and their intermediary against the pay-as-you-earn liability of another organisation in the supply chain, preventing double taxation and ensuring that the cost of the liability is shared more fairly between the parties involved.

The off-payroll working rules, commonly known as IR35, were first introduced in 2000. They set out that, where an individual is working like an employee, they should pay tax like an employee, regardless of whether they are working through their own intermediary. Under the current rules, where an organisation is found by HMRC to have incorrectly determined an off-payroll worker as self-employed when they should have been employed, it becomes liable for taxes and national insurance contributions that should have been deducted, at source, from the fee paid to the worker. Current legislation does not allow HMRC to rectify that by setting off taxes already paid by the worker and their intermediary against the PAYE liability of the organisation.

The changes made by clause 17 will give HMRC the power to set off taxes already paid by a worker and their intermediary against the subsequent PAYE liability of the organisation. That aims to address the potential overcollection of tax and national insurance contributions in cases of non-compliance with the off-payroll working rules. It also ensures that the cost of the liability is shared more fairly between the deemed employer and the worker.

James Murray: As we have heard from the Minister, clause 17, on PAYE regulations, aims to give HMRC the power to make regulations that will enable it to set off amounts of tax already paid by a worker and their intermediary, on income from engagements under IR35 rules, against a subsequent PAYE liability of their deemed employer. As the Government's policy paper on this matter sets out, the core aim of the measure is to address overcollection of tax and national insurance contributions where there are cases of non-compliance with off-payroll working rules.

We in the Opposition will not be opposing this clause. However, we note that the provision comes into effect from 6 April, and will also apply to deemed direct payments made as far back as "on or after" April 2017. The Chartered Institute of Taxation had argued for this set-off to be legislated for since the off-payroll working rules were first introduced seven years ago. Could the Minister explain why it has taken the Government so long to act after the problem was first identified by a respected industry body?

10.45 am

Carol Monaghan (Glasgow North West) (SNP): To follow on from that, many of us have had a number of people—constituents and otherwise—getting in touch to say that they have fallen foul of IR35. Are there plans to apply the measures retrospectively? If so, how far back are the Government planning to do that?

Nigel Huddleston: I thank hon. Members for their comments. As I say, the measures are separate from the broader debate on IR35, which we have all heard about as constituency MPs. The legislation is complex, and it is right that we work through these complex issues thoroughly to address them properly. HMRC has undertaken a significant amount of informal consultation with key stakeholders to explore a legislative solution to

[Nigel Huddleston]

resolve this issue. At the end of the day, we are introducing legislation to address concerns about the double taxation that some people face, which is blatantly unfair.

The Government are grateful for the constructive feedback we have had, which has resulted in the measures being included in the Bill. It is a positive outcome that addresses concerns raised by businesses and hon. Members that HMRC would collect too much tax, and that there are errors in complying with the off-payroll working rules. We have discovered that, so it is right that we have taken action. I therefore urge that the clause stand part of the Bill.

The Chair: Are you going to respond on the retrospectivity?

Nigel Huddleston: My understanding is that the measures will not be retrospective, but I will write to the hon. Member for Glasgow North West or explain more in a later response if I am incorrect.

The Chair: Thank you, Minister.

Question put and agreed to.

Clause 17 accordingly ordered to stand part of the Bill.

Clause 18

Carer's allowance supplement: correction of statutory reference

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

Nigel Huddleston: Clause 18 makes changes to ensure that the statutory reference under which the Scottish Government's carer's allowance supplement payments are made is corrected in income tax legislation, with retrospective effect. That will provide certainty to taxpayers.

When Parliament enacted section 12 of the Finance Act 2019, it intended to refer to the carer's allowance supplement as taxable social security income, payable under section 81 of the Social Security (Scotland) Act 2018. Instead, the listing in the Finance Act for the carer's allowance supplement refers to sections 24 and 28 of the Act. That is a technical drafting error in the legislation, which the amendment seeks to correct. The changes made by clause 18 retrospectively correct a drafting error in the legislation and do not affect the substance of the legislation. There will not be any impact on payments that have already been made or payments going forward. Nobody, therefore, will be financially impacted positively or negatively by these very specific changes.

James Murray: As the Minister set out, clause 18 makes a technical legislative correction to the reference to carer's allowance supplement payments in table A in section 660 of the Income Tax (Earnings and Pensions) Act 2003. As that was a technical drafting error, which the clause will correct, we will not oppose the clause.

Debbie Abrahams: May I absolutely confirm that there will be no retrospective tax collection deductions of carer's allowance? That is so important, given the issues around deductions.

Nigel Huddleston: The hon. Lady is right to highlight that—it is the very question that I asked. Nobody will be financially impacted by the change, which applies to a drafting error that has not been executed. It is a clarification purely and specifically on the legislation, as opposed to having any real-world impact on the finances. It is very important to get that point across, because we do not want anybody to be worried about this change. There is no change in circumstances or amounts. Clause 18 provides clarity on the correct statutory reference under which the Scottish Government's carer's allowance supplement payments are made.

Question put and agreed to.

Clause 18 accordingly ordered to stand part of the Bill.

Clause 19

Growth market exemption: qualifying UK multilateral trading facilities etc

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

Nigel Huddleston: Clause 19 widens access to the growth market exemption—a relief from stamp duty and stamp duty reserve tax—so that it better supports SMEs and growth businesses to raise capital. It does that by lowering transaction costs, which will support our economy by boosting growth in innovative sectors. The relief will now be available to smaller, innovative growth markets, instead of being restricted to markets operated by large stock exchanges.

The growth market exemption was introduced in 2014 with the aim of boosting investor participation in equity growth markets and improving the conditions for growing companies to raise equity financing. Initially, three UK markets and one Irish market were able to access the exemption. Since then, another 10 markets across the EU and European economic area have applied for and gained access to the exemption, meaning that UK SMEs have greater access to capital.

Previously, in order to be recognised by HMRC as a qualifying growth market, markets that are referred to as "multilateral trading facilities" had to be operated by a "recognised stock exchange" such as the London or Aquis stock exchanges. Once that condition was met, markets also had to meet one of two additional conditions: either the majority of companies on the market had to have a market capitalisation of less than £170 million, or the market's rules of admission had to require companies to demonstrate at least 20% compounded annual revenue or employment growth over the three years preceding their admission.

However, the requirements have not been updated since the exemption's introduction in 2014, despite considerable developments in how markets are regulated. Investment firms that are not of the same size and scale as the large stock exchanges can run multilateral trading facilities that are recognised as small and medium-sized enterprise growth markets by the Financial Conduct

Authority but, as a result of the current stamp taxes on shares legislation, are barred from accessing the growth market exemption.

The changes made by clause 19 allow multilateral trading facilities that are regulated by the Financial Conduct Authority and run by these smaller investment firms to access the growth market exemption, provided that they meet one of the two additional requirements. That will ensure fairness in the current application of the exemption and increased competition in the market, leading to greater choice for SMEs that are seeking to access finance. That will, in turn, boost growth in UK SMEs.

Clause 19 also updates the market capitalisation condition by increasing the level up to which a majority of companies listed on the exchange can be capitalised from £170 million to £450 million. That change reflects the modern market and demonstrates the Government's commitment to helping innovative SMEs to grow.

Tulip Siddiq: As the Minister said, clause 19 amends the qualifying criteria to increase access to the growth market exemption relief on any stamp duty or stamp duty reserve tax that is otherwise owed on trades made in UK incorporated companies. The Government have stated that these proposals will update the growth market exemption eligibility to reflect the modern market, ensuring that there is greater fairness in the application of the tax relief and giving greater choice for businesses considering where to list their shares for trading.

We in the Opposition are hugely supportive of efforts to boost our ailing capital markets and are committed to delivering a world-leading listings regime in the UK, building on recent regulatory reforms and ensuring that our scale-ups can access the equity finance they need. We are supportive of the objectives of the clause, but questions remain about what impact the changes will have in practice.

For example, it would be helpful to understand from the Minister how many additional growth markets will potentially be eligible for a stamp duty exemption due to the increase in the capitalisation threshold from £170 million to £450 million. By far and away the largest growth market the exemption applies to is the London stock exchange's alternative investment market, which, according to the latest data, had an average market capitalisation of £126 million in the summer of 2022. Given that the largest and most established market to benefit from the exemption appears to be well under the original threshold, it remains unclear what difference the change will make. What are the Minister's views on that?

We do not oppose clause 19, but it is a minor tweak that will not deliver the sea change in the availability of growth capital that British businesses urgently need. Does the Minister plan to do more to increase the availability of growth capital for our businesses?

Nigel Huddleston: I thank the hon. Lady for her comments and questions. Any market that meets the requirements will be able to apply to HMRC to take advantage of the exemptions. The UK's financial service industry is dynamic and innovative, so it is important that future markets are not restricted by legislation that has not been updated in almost a decade. It is also a question of fairness: it is right that smaller, innovative markets are not barred from the exemptions, for the reasons that she and I outlined. At the moment, there is one market that is likely to benefit—Archax, a digital asset market—but the point of the changes is that other markets could benefit in future and, because of the dynamism in such markets, we need to plan ahead. We cannot anticipate what may come up, so we do not want to restrict options for future growth.

Clause 19 updates the scope of the growth market exemption, reflecting changes that have taken place since its introduction back in 2014. The clause allows the exemption to meet its initial aims more effectively by ensuring fairness in its application, increasing competition, boosting liquidity and facilitating growth. I therefore commend the clause to the Committee.

Question put and agreed to.

Clause 19 accordingly ordered to stand part of the Bill.

Clause 20

CAPITAL-RAISING ARRANGEMENTS ETC

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

The Chair: With this it will be convenient to discuss schedule 11.

Nigel Huddleston: Clause 20 and schedule 11 make changes to ensure continuity in stamp duty and stamp duty reserve tax treatment following changes made by the Retained EU Law (Revocation and Reform) Act 2023 that took effect at the end of 2023.

Stamp duty and stamp duty reserve tax are charged on transfers of securities in UK companies, but not generally on the issue of new securities. The main rate for both taxes is 0.5%. A 1.5% higher rate was applied on the issue or transfer of UK securities into overseas clearance services or depositary receipt systems, to reflect the fact that subsequent transfers of those shares would not be subject to stamp duty or stamp duty reserve tax while the securities remained in those overseas systems and services. A 1.5% higher rate charge was also applied on issues and transfers of bearer instruments. A bearer instrument is a document that constitutes the rights of the holder of that instrument to the securities that the document represents.

Following EU and UK court decisions in 2009 and 2012, HMRC accepted that the 1.5% charge on certain transactions was incompatible with the EU capital duties directive. The incompatible transactions were the issue of securities into depositary receipt systems and clearance services, and certain related transfers known as transfers integral to capital raising. HMRC also recognised that the charge on the issue of bearer instruments was incompatible with the capital duties directive. UK legislation was not amended, because at the time taxpayers could rely on the direct effect of EU law. However, now that the changes in the retained EU law Act have taken effect, that is no longer the case, and UK legislation must therefore be amended to prevent the 1.5% charge from being reintroduced for those transactions.

Clause 20 and schedule 11 will maintain the current position by removing the 1.5% charge in domestic legislation on the issue of UK securities into overseas depositary

[Nigel Huddleston]

receipt systems and clearance services, and on certain transfers related to capital raising. They will also remove the 1.5% charge on issues of bearer instruments. The changes provide legislative certainty to businesses that there will be no charge on those transactions going forward.

11 am

Prior to its removal, the 1.5% charge on issues was regarded as an expensive obstacle for listed companies wishing to raise capital from overseas investors. It had a negative impact when such companies issued shares, including on the acquisition or takeover of other companies. By permanently removing the charge, the Government are supporting the competitiveness of UK capital markets and making it clear that we are open for business. The changes took effect on 1 January 2024, which ensured that the 0% charge continued seamlessly following the changes made by the REUL Act taking effect.

Tulip Siddiq: The Labour party supports the clause, which is a necessary intervention to ensure that UK companies previously able to rely on the direct effect of EU law are not left at a disadvantage to international counterparts when issuing UK shares and securities on overseas exchanges. The legal certainty and the removal of the potential 1.5% charge will be welcomed by UK firms considering listing on overseas exchanges. It is vital that our tax system remains internationally competitive.

However, our priority in government will be to overhaul our domestic capital markets to ensure that high-growth British companies critical to the future growth of the economy choose to list here in the UK instead of opting for exchanges in the US and Asia. The UK currently lags far behind competitor jurisdictions, and the Government must work in partnership with industry and regulators if we want to regain our status as a top global listings destination.

Although I do not have any issue with the exemption confirmed by clause 20 and schedule 11, I urge the Minister to ensure that, beyond recent changes to the listings rules, he prioritises listening to industry voices such as the Capital Markets Industry Taskforce about the solutions that are desperately needed to resuscitate our own domestic markets.

Nigel Huddleston: I will not stray into a broader debate; we will have that, I am sure, on Third Reading or at another point. I made my points on the broader economy earlier, but I gently request that the Opposition stop talking the UK economy and UK businesses down. By doing so, they are talking down the workers and companies in their own constituencies.

This measure is designed to ensure the competitiveness of the UK's code in relation to financial services, by providing certainty that unwelcome frictions will not be reintroduced for UK companies that wish to operate globally. I commend the clause and the schedule to the Committee.

Question put and agreed to.

Clause 20 accordingly ordered to stand part of the Bill.

Schedule 11 agreed to.

Clause 22

RATES OF TOBACCO PRODUCTS DUTY

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

Gareth Davies: The clause implements changes announced in the 2023 autumn statement concerning tobacco duty rates. The duty charged on all tobacco products will rise in line with the tobacco duty escalator, with an additional increase for hand-rolling tobacco to reduce the gap with cigarettes.

Smoking rates in the UK are falling, but they are still too high: around 13% of adults are now smokers. Smoking remains the biggest cause of preventable illness and premature deaths in the United Kingdom, killing around 100,000 people a year and up to two thirds of all long-term users.

We are investing in a range of measures to support smokers to quit, including an additional £70 million per year to support local stop smoking services, £15 million per year to fund new national anti-smoking campaigns, and £10 million over two years to provide financial incentives to support all pregnant smokers to quit. In a world first, we are also providing £45 million over two years to roll out the new national "swap to stop" scheme, supporting 1 million smokers to swap cigarettes for vapes. Our policy of maintaining high duty rates for tobacco products will support the Government's plans to reduce smoking to improve public health.

In the autumn statement, the Chancellor announced that the Government will increase tobacco duty in line with the escalator. The clause therefore specifies that the duty charged on all tobacco products will rise by 2% above retail prices index inflation. In addition, duty on hand-rolling tobacco will increase by 12% above RPI inflation. These new tobacco duty rates will be treated as having taken effect from 6 pm on the day they were announced, which was 22 November 2023.

Recognising the potential interactions between tobacco duty rates and the illicit market, the Government introduced tougher sanctions in July 2023, including penalties of up to £10,000 for any businesses or individuals who are caught selling illicit tobacco products. HMRC and Border Force will shortly be publishing an updated strategy to tackle illicit tobacco, with the aim of making further progress in reducing the size of the illicit market, tackling organised crime and reducing demand for illicit tobacco products.

The clause will continue our tried and tested policy of using high duty rates on tobacco products to make tobacco less affordable. It will help continue the reduction in smoking prevalence, supporting our Smokefree 2030 ambition, and reduce the burden placed by smoking on our public services.

James Murray: The clause provides for changes to the rates of excise duty on tobacco products, covering cigarettes, cigars, hand-rolling tobacco and other forms of tobacco, in addition to increasing the minimum excise duty on cigarettes. We understand that it also provides for changes to the simplified calculation in the Travellers' Allowances Order 1994. These changes, as the Minister said, took effect from 6 pm on 22 November. We have no questions about the clause.

Debbie Abrahams: Can I just ask how the clause compares with the policy of our international colleagues—New Zealand, for example?

Gareth Davies: I am grateful to the Opposition for their position on the clause. It is a mutual endeavour to ensure that we reduce smoking rates. We should take pride in this country that, over the last couple of decades, both parties, when in government, have overseen a reduction in smoking prevalence to some 13%.

On the specific question about international comparisons, I do not have the information available, but I am very happy to write to the hon. Member for Oldham East and Saddleworth.

Question put and agreed to.

Clause 22 accordingly ordered to stand part of the Bill.

Clause 23

Rates of vehicle excise duty

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

Gareth Davies: Clause 23 makes changes to uprate vehicle excise duty for cars, vans and motorcycles in line with the retail prices index from 1 April 2024. Vehicle excise duty is paid on vehicle ownership, and rates chargeable are dependent on various factors, including vehicle type, date of first registration and carbon emissions data. The Government have uprated vehicle excise duty for cars, vans and motorcycles in line with RPI every year since 2010, which means that rates have remained unchanged in real terms during that time.

The standard rate of VED for cars registered since 1 April 2017 will increase by £10. The rates for vans will increase by no more than £20, and motorcyclists will see an increase of no more than £6. The changes outlined will maintain revenue sustainability by ensuring that motorists continue to make a fair contribution to our public finances.

James Murray: Clause 23 provides for changes to certain rates of vehicle excise duty by amending schedule 1 to the Vehicle Excise and Registration Act 1994. We understand that the changes to rates will take effect for vehicle licences taken out on or after 1 April this year. We understand that the rates of vehicle excise duty for light passenger and light goods vehicles and motorcycles will increase in line with inflation, as has been the case since 2010. We have no questions on the clause.

Gareth Davies: I am grateful to the Opposition for their position and understanding.

Question put and agreed to.

Clause 23 accordingly ordered to stand part of the Bill.

Clause 24

Rates of air passenger duty

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

Gareth Davies: The clause sets the rates for air passenger duty for 2024-25. The rates were announced at the spring Budget and will take effect from April this year. The Government are uprating air passenger duty in line with forecast RPI rounded to the nearest pound. That will help to ensure that air passenger duty receipts are maintained in real terms and that airlines continue to make a fair contribution to our public finances. As is standard practice, the Government gave the industry more than 12 months' notice.

The short-haul international rates will remain frozen for 2024-25, benefiting over 70% of passengers. Following the 50% cut in air passenger duty for domestic flights in 2023-24, the rate for those flying in economy class will increase by just 50p to £7. The long-haul and ultra-long-haul economy rates will increase by £1. The long-haul and ultra-long-haul rates for premium economy, business class and private jet passengers will also increase. Overall, this means that air passenger duty rates will be frozen in real terms. I commend the clause to the Committee.

James Murray: As we heard from the Minister, the clause makes changes to air passenger duty. It increases the domestic reduced rate by 50p and the domestic standard rate by £1. In band B, the reduced, standard and higher rates will increase by £1, £3 and £7 respectively. In band C, the reduced, standard and higher rates will rise by £1, £2 and £6 respectively.

The new domestic band for flights within the UK was introduced by the Finance (No.2) Act 2023, and I would like to interrogate those figures more closely. The Minister may remember that we debated the new air passenger duty regime at the fourth sitting of the Finance (No. 2) Bill Committee on 18 May last year, when I asked him to explain the impact of the new domestic band on UK flights by helicopter and private jet. He helpfully clarified that there was no air passenger duty other than on fixed-wing aircraft, which meant that the duty did not apply to helicopter flights—news I am sure would have been met with relief in Downing Street. He also confirmed that private jets making domestic UK flights would be subject to a different, higher rate from other UK flights—perhaps he managed to slip that through without the Prime Minister noticing.

Let us consider the impact of clause 24 on domestic air travel. The truth seems to be that air passenger duty is going up on all UK domestic flights except for those taken by private jet, for which the tax is being frozen. At the same time, there is no change that we know of to the arrangements for helicopters, as they remain outside the air passenger duty regime. Can the Minister confirm that what this clause proposes in terms of domestic air travel is a tax rise on all flights within the UK except those made by helicopter or private jet, whose passengers will see a tax freeze?

Gareth Davies: I am grateful to the hon. Gentleman. I remember very well the exchange at the last fiscal event, and I note that since then, the leader of the Labour party has developed a new passion for flying in private jets courtesy of foreign Governments.

Let me try to address the hon. Gentleman's concerns and explain what is going on here. The industry is notified of air passenger duty 12 months in advance. It is uprated by a forecast of RPI and those rates are then rounded to the nearest pound. He asked a very reasonable question about how that shakes out in terms of the actual rates. It largely depends on how they are rounded

[Gareth Davies]

to the nearest pound; the actual rate is determined by whether the figure is rounded down or up. He pointed out particular types of aircraft and particular bands. In the instances that he described, the rates have been rounded down; others have been rounded up, which is why other rates have gone up. He is right that helicopters are not part of the APD regime, but they do incur fuel duty, and buying a helicopter incurs VAT.

Debbie Abrahams: Just to clarify, if notification is given 12 months in advance, does that mean that there will be a more progressive approach to taxation for private jets in this Budget?

Gareth Davies: The Bill implements the rate changes that were announced at the spring Budget last year, based on a forecast RPI, as I have described, but the principle that the hon. Lady talks about is absolutely right. We have in this country an established principle that the further someone flies, the more they pay. Long-haul flights are subject to a greater rate than short-haul flights, as are private jet flights, for which the rate is increased.

11.15 am

Debbie Abrahams: Just on private jets—

Gareth Davies: The rate on private jets is significantly more than any commercial flight passenger will pay.

Question put and agreed to.

Clause 24 ordered to stand part of the Bill.

Clause 26

VEHICLE EXCISE DUTY EXEMPTION FOR FOREIGN VEHICLES

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

Gareth Davies: Clause 26 enables regulations to be made exempting foreign vehicles, or foreign vehicles that meet certain conditions, from vehicle excise duty. In the first instance, the power will be exercised to provide for a three-year exemption in respect of Ukrainian plated and registered vehicles belonging to individuals granted visas under the various visa schemes introduced in relation to the conflict in Ukraine.

As of 27 November, around 193,900 Ukrainians had entered the United Kingdom since the beginning of Russia's illegal, unprovoked invasion of Ukraine in February 2022. The Government understand that a significant number have brought vehicles with Ukrainian number plates with them. Gov.uk guidance states that usually such vehicles must be registered and taxed with the Driver and Vehicle Licensing Agency if the keeper becomes resident or stays longer than six months. However, in advance of making regulations, the Department for Transport has already announced the exemption from VED for individuals in the UK under the family, sponsor and extension Ukrainian visa schemes driving vehicles with Ukrainian number plates.

The clause will ensure that individuals fleeing war in Ukraine who have not yet registered their vehicles in the UK do not face costs and administrative burdens associated with vehicle taxation and registration while they are temporarily in the United Kingdom. I commend the clause to the Committee.

Tulip Siddiq: I welcome clause 26, which gives the Government the power to exempt certain foreign vehicles from paying vehicle excise duty. I note the Government's long overdue plans to regulate for a three-year tax exemption for cars belonging to Ukrainian refugees arriving in the UK under a visa scheme due to the appalling conflict in their country. I am confident that I speak for all members of the Committee in supporting that change in position, but in reality the intervention has come far too late to prevent many refugees from paying eye-watering bills.

Many Ukrainians have been forced to pay thousands on expensive insurance policies or replacement car parts due to having non-compliant cars, despite the fact that other temporary UK residents, such as overseas students and workers, have had no such problems. Most disturbingly, we have heard examples of refugees who have decided to drive their vehicles back to Ukraine and abandon them in the middle of a war zone to avoid UK registration fees that they cannot afford. The Department for Transport and the Government acted shamefully slowly in addressing the problem, despite the efforts of colleagues from across the House and campaigners to bring it to their attention over the past year.

We welcome the fact that action has been taken and we support clause 26, but I think the Minister should apologise on behalf of the Government to Ukrainian refugees that such a ridiculous situation was allowed to go on for so long.

Drew Hendry: The SNP welcomes the clause, but I echo the final comment by the hon. Member for Hampstead and Kilburn: why has this taken so long?

I and many others have written to Ministers about the issue in order to make lives easier for people who have come here from Ukraine for safe haven. It is easy to forget the difficulties facing people who are fleeing a war zone and have come for the respite and hospitality that people have displayed—particularly in Scotland, where some 260,000 Ukrainian refugees are being sponsored at the moment. While welcoming this belated measure, I ask that the Government look very carefully at how they can make lives easier across the board for people who are flee war zones such as Ukraine and seek safe haven here.

It is very important that we keep Ukraine in our minds just now. It would be very easy for it to drift off the news agenda or out of our minds, but Ukrainians are still under attack every single day. We must keep them in our minds, in every part of our business.

Gareth Davies: Let me attempt to respond to hon. Members' comments. First, we should be very proud that our country has welcomed over 193,000 Ukrainians fleeing some of the most horrific circumstances imaginable. I completely agree with the hon. Member for Inverness, Nairn, Badenoch and Strathspey that we should not let the issue off the agenda or out of our minds. Just last

week, the Prime Minister announced additional funding for the Ukrainian Government and people. We should be proud of that.

On clause 26, it is right that we make the experience for Ukrainian people in the United Kingdom as simple as possible. I understand that colleagues would like this measure to have been implemented more quickly, but there are a number of administrative complexities that come with it. That is one of the reasons why the 150 people out of the 193,000 people who have already registered their vehicle cannot be included in this measure, but as I have said, we are providing support in other ways. On that basis, I commend the clause to the Committee.

Question put and agreed to.

Clause 26 accordingly ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned. —*(Robert Largan.)*

11.21 am

Adjourned till this day at Two o'clock.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

(Except clauses 1 and 2, schedule 1, clause 21, schedule 12, clauses 25, 27 and 31 to 34, schedule 13 and new clauses relating to those clauses and schedules)

Second Sitting

Tuesday 16 January 2024

(Afternoon)

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Clauses 28 to 30 agreed to.
Clauses 35 to 37 agreed to.
New clauses considered.
Bill to be reported, without amendment.
Written evidence reported to the House.

PBC (Bill 14) 2023 - 2024

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

Saturday 20 January 2024

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The Committee consisted of the following Members:

Chairs: †Ian Paisley, Mr Laurence Robertson

† Abrahams, Debbie *(Oldham East and Saddleworth)* (Lab)
† Antoniazzi, Tonia *(Gower)* (Lab)
Carden, Dan *(Liverpool, Walton)* (Lab)
† Davies, Gareth *(Exchequer Secretary to the Treasury)*
† Green, Chris *(Bolton West)* (Con)
† Hendry, Drew *(Inverness, Nairn, Badenoch and Strathspey)* (SNP)
† Howell, Paul *(Sedgefield)* (Con)
† Huddleston, Nigel *(Financial Secretary to the Treasury)*
† Largan, Robert *(High Peak)* (Con)
Mak, Alan *(Havant)* (Con)
† Mayhew, Jerome *(Broadland)* (Con)
† Monaghan, Carol *(Glasgow North West)* (SNP)
† Murray, James *(Ealing North)* (Lab/Co-op)
† Quince, Will *(Colchester)* (Con)
† Siddiq, Tulip *(Hampstead and Kilburn)* (Lab)
† Simmonds, David *(Ruislip, Northwood and Pinner)* (Con)
† Throup, Maggie *(Erewash)* (Con)

James Rhys, Kevin Maddison, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 16 January 2024

(Afternoon)

[Ian Paisley *in the Chair*]

Finance Bill

(Except clauses 1 and 2, schedule 1, clause 21, schedule 12, clauses 25, 27 and 31 to 34, schedule 13 and new clauses relating to those clauses and schedules)

2 pm

The Chair: Welcome back. I remind colleagues to pass speaking notes to *Hansard*. We are broadcasting.

Clause 28

Rates of landfill tax

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

The Exchequer Secretary to the Treasury (Gareth Davies): It is great to see you back in the Chair, Mr Paisley, and a pleasure to serve under your chairmanship. The clause increases the lower and standard rates of landfill tax, from 1 April 2024, in line with the retail prices index as forecast by the Office for Budget Responsibility at the time of the spring Budget 2023. Landfill tax is charged on material disposed of at landfill sites or unauthorised waste sites in England and Northern Ireland. The objective of the tax is to divert waste away from landfill, and support investment in more circular waste management options, such as recycling, composting and recovery.

Since 2000, landfill tax has contributed to a 90% decrease in local authority waste to landfill in England. Increasing the lower and standard rates of landfill tax by RPI in recent years has helped maintain a strong price incentive to divert waste away from landfill. The clause will increase the lower rate of landfill tax from £3.25 per tonne to £3.30 per tonne. It will increase the standard rate of landfill tax from £102.10 per tonne to £103.70 per tonne.

In conclusion, the clause increases landfill tax in line with RPI from 1 April 2024, to maintain a strong price incentive for diverting waste from landfill. I hope that it can stand part of the Bill.

James Murray (Ealing North) (Lab/Co-op): It is a pleasure to be back with you in the Chair, Mr Paisley. As we heard from the Minister, clause 28 is about rates of landfill tax. As he outlined, the clause seeks to increase landfill tax in line with inflation, to £103.70 per tonne for the standard rate; the lower rate will be £3.30 per tonne. The landfill tax was introduced in 1996 to encourage recycling, composting and recovery, and reduce landfill. It increased the cost of waste disposal at landfill to encourage waste producers and the waste management industry to switch to a more sustainable way of disposing of waste material. The tax was originally UK-wide, but has been devolved to Scotland from April 2015, and to Wales from April 2018.

We will not oppose the clause, but will the Minister provide an update, given that I raised the issue of landfill tax fraud during the passage of the last Finance Bill, in May 2023? As he may recall, we then discussed the most recent estimate by His Majesty's Revenue and Customs of the landfill tax gap—the gap between the landfill tax due and the revenue collected—which was £125 million in 2021. We recognise that at 17.1%, that gap was much larger than the overall tax gap for that year. He may recall that I asked how much of the £125 million tax gap identified in 2021 had been recovered by HMRC. He said that he would get back to me on that point, as he did not have the information in front of him. I wondered if he had it to hand now, so that he could put it on the record in Committee this year. I would also be grateful if the Minister shared with us whether HMRC has annual estimates of the landfill tax gap for years more recent than 2021.

Gareth Davies: I am grateful to the hon. Gentleman for that. I recall that exchange, and he is right to raise the issue of tax gap. Clearly, we all agree that we need it to be lower, and I assure him that at HMRC, every effort is being made to tackle the tax gap. I can update him; in 2021-22, the tax gap was 18.4%. As I say, HMRC is committed to continuing to tackle the gap, principally through two measures: first, through increased data sharing across Government agencies, and secondly, through the better use of intelligence-led interventions. Those two measures, particularly in 2022-23, recovered £280 million of compliance yield. If there are additional pieces of information and data that I do not have to hand, I am happy to follow up on those in writing.

Question put and agreed to.

Clause 28 accordingly ordered to stand part of the Bill.

Clause 29

Rate of aggregates levy

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

Gareth Davies: The clause increases the rate of aggregates levy from 1 April 2024 in line with the retail price index as forecast by the Office for Budget Responsibility when the rate was announced in the 2023 spring Budget. Aggregates levy is a charge on the commercial exploitation of virgin aggregate, which includes rock, sand and gravel. The objective of the aggregates levy is to encourage the use of recycled rather than virgin aggregate in construction. Returning to index-linking the aggregates levy rate following a period of rate freezes will ensure the value of this price incentive does not fall in real terms. The changes made by clause 29 will increase the rate of aggregate from £2 per tonne to £2.03 per tonne.

James Murray: As the Minister set out, the clause increases the rate of the aggregates levy in line with inflation. As the Government policy paper on this matter sets out, the aggregates levy was introduced on 1 April 2002. It is a tax on primary virgin rock, sand or gravel, which is mainly used for bulk fill in construction works. We understand the levy provides an incentive to aggregate producers and construction businesses to use recycled or secondary aggregate.

Interestingly, the rate of the levy has remained frozen at £2 per tonne since 2009. Could the Minister explain why the Government have chosen to raise the levy now,

after 15 years of it being frozen? We recognise, of course, that levy rates will need to go up from time to time, but I would be grateful if the Minister could share the Treasury's thinking behind the timing of this increase. It may, of course, be because there has been such high inflation under this Government in recent years that the increase in a nominal rate has become necessary. I would like to fully understand the Government's thinking on this, so I would appreciate if the Minister could also confirm what representations were made to the Treasury as it was considering the decision over this rate, and what data was provided to him in making this decision.

Gareth Davies: The hon. Gentleman raises an understandable and legitimate question that many have asked, and I am happy to provide an answer today. As he points out, the aggregates levy was introduced many years ago and, at its introduction, was designed and introduced with the intention of being index-linked to inflation. However, over a number of years, the tax was subject to a specific piece of ongoing litigation; as a result of that litigation, the Government decided over many years that it would be inappropriate to change the tax and revert to index-linking during that litigation period. As that litigation has now concluded, and a review of the aggregates levy has concluded on the back of that, the Government have decided that it is now the appropriate time to increase the tax and return to how it was originally intended: to index it to inflation.

Question put and agreed to.

Clause 29 accordingly ordered to stand part of the Bill.

Clause 30

RATE OF PLASTIC PACKAGING TAX

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

Gareth Davies: The clause makes changes to increase the rate of the plastic packaging tax from 1 April 2024 in line with the consumer price index. The plastic packaging tax is charged on plastic packaging that does not contain at least 30% recycled plastic. It was introduced on 1 April 2022, as part of the Government's resources and waste strategy. The tax provides an economic incentive to use recycled plastic rather than virgin plastic in packaging. It is designed to create greater demand for recycled plastic, which, in turn, will stimulate more investment in the collection and recycling of plastic waste, diverting it away from landfill and incineration. Increasing the rate of the plastic packaging tax in line with CPI will maintain the real-terms value of the price incentive to use recycled plastic in packaging. Clause 30 increases the rate of the plastic packaging tax from £210.82 to £217.85 per tonne from 1 April 2024.

James Murray: As we heard from the Minister, clause 30 raises the plastic packaging tax in line with CPI, and the change will take effect from 1 April. The Opposition have made clear throughout the introduction and the implementation of the plastic packaging tax that we are supportive of it as an important tool in tackling plastic pollution. The tax was introduced in April 2022 to provide an economic incentive for businesses to use recycled plastic in the manufacture of plastic repackaging. By applying such a tax on products that contain less than 30% recycled plastic, the tax was expected to create greater demand for recycled plastic, which would in turn stimulate increased recycling and the collection of plastic waste, diverting it from landfill or incineration.

As I set out in a Westminster Hall debate in October last year, we in the Opposition agree it is important to tackle less sustainable packaging products, including those from overseas. We also believe that it is important to build resilience here in the UK and that we have a clear, stable policy environment to encourage investment in our country. I was therefore concerned to note that, in response to the Government's recent announcement that they would consult on a new mass balance approach to chemical recycling, the British Plastics Federation said:

"The lack of clarity to date has prevented companies from investing in the UK and some have looked elsewhere to build facilities."

With the tax now having been in place for almost two years, what evaluation has the Treasury made of its success, including in building the domestic sector?

Gareth Davies: I am grateful to the hon. Gentleman and I am glad that he supports the taxation, which we were pleased to introduce in 2022. He is right to challenge us on the impact of the tax, and we have been clear that we intend to evaluate this when enough years have passed to be able to fully assess the impact. In December 2023, the Government came forward with a plan to evaluate the plastic packaging tax, and that is now published on gov.uk. I am happy to write to him with the provisions of that plan, which will be carried out to 2026.

The hon. Gentleman talked about the chemical recycling and mass balance approach. He should know that we engage very closely and extensively with industry ahead of fiscal events. On that specific point, we recognise that chemical recycling is a legitimate form of reprocessing plastic waste. However, following the constructive engagement with stakeholders that I described, and across the whole plastic value chain, the Government understand that is not currently possible for businesses to use chemically recycled plastic in packaging and claim a relief from the tax due to the way in which the recycled content is calculated. I assure him that we will continue to engage with the industry, and we know that it is a matter of great importance to it. My hope is that that can form part of the plan to evaluate PPT in due course as well.

Question put and agreed to.

Clause 30 accordingly ordered to stand part of the Bill.

Clause 35

ADDITIONAL INFORMATION TO BE CONTAINED IN RETURNS UNDER TMA 1970 ETC

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

The Chair: With this it will be convenient to discuss clause 36 stand part.

The Financial Secretary to the Treasury (Nigel Huddleston): Good afternoon, Mr Paisley. Clause 35 makes changes to improve the data collected by HMRC. That will enable HMRC to collect more accurate and timely information, helping to make tax easier to get right and harder to get wrong, and providing better outcomes for taxpayers and improving compliance. Clause 36 introduces a new

[Nigel Huddleston]

simplified and fairer system of penalties for the late submission of tax returns and late payments of tax, for those taxpayers who voluntarily join Making Tax Digital for income tax self-assessment from 6 April 2024.

Turning to clause 35 in a bit more detail, the Government's economic response to the pandemic was only made possible through the powerful use of data to make big policy decisions and deliver Government interventions. HMRC's information about employers, employees and the self-employed was key to delivering both the furlough scheme and its self-employed equivalent, the self-employed income support scheme. The pandemic also highlighted gaps where a lack of data meant that the Government could not provide support to specific groups. For example, in the initial phases of the self-employed scheme, some self-employed people were excluded because they had only recently started a business and HMRC did not have the data needed to identify them and their potential entitlement to support.

2.15 pm

Clause 35 will allow HMRC to improve the data it collects and will help the Government address some of those gaps, build a tax system more resilient to future economic crises and improve tax compliance. It will give HMRC more data to help develop and target digital nudges and prompts to positively influence changes in customer behaviour and help them to get their tax right first time.

The changes made by clause 35 will require employers, company directors and the self-employed to provide additional data to HMRC. All employers who operate pay-as-you-earn as part of their payroll will be required to provide more detailed information by specifying the number of hours employees are paid for. Employers already must provide this information within broad bands of the number of hours their employees are paid for, but now they will need to provide the actual number of hours paid.

Through self-assessment returns, taxpayers will be required to provide dividend income received from their owner-managed businesses separately from other dividend income, and the percentage share they hold in those businesses. Taxpayers should hold that information already. This change builds on the current requirement to report a global figure of total dividends received from all sources through self-assessment. Again, via their annual self-assessment tax return, the self-employed will be required to provide start and end dates of their self-employment.

We listened carefully to the views expressed in the public consultations. That is why, following initial feedback from stakeholders, the Government narrowed down the data items we proposed to collect from six to three. We are taking a measured and proportionate approach, and are collecting improved data only in areas where taxpayers already hold it or already provide it voluntarily through the tax system. This approach will minimise any additional administrative burdens. It will help both taxpayers and HMRC by enabling efficiencies that will allow HMRC to better help those who most need support.

On clause 36, the Government's new system of penalties was legislated for in the Finance Act 2021 and introduced for VAT-registered businesses from 1 January 2023. It replaces the current system of immediate financial penalties for late submission of a tax return and late payment of tax with a fairer and simpler regime. The changes made by clause 36 affect taxpayers who voluntarily join the Making Tax Digital for income tax self-assessment service from April 2024.

The new system penalises those who persistently fail to submit returns or pay tax on time, while being more lenient on those who make occasional mistakes. This will create a more consistent penalty regime for VAT and income tax self-assessment taxpayers, and a fairer system overall.

For taxpayers volunteering for the service from April 2024, the reformed penalties will be applied only where an annual filing or payment obligation is not met. They will not be penalised for the late submission of the quarterly updates required by Making Tax Digital. No taxpayers are required to join Making Tax Digital for income tax self-assessment until at least 2026, and that is not changing.

James Murray: As the Minister said, clause 35 makes changes to the types of tax return for which HMRC collects data. According to the Government's policy paper on this matter, the modifications are for the purpose of improving and enhancing the quality of the data HMRC collects. We understand that the changes are designed to enable HMRC to create regulations specifying additional information it considers relevant to the collection and management of tax.

We understand that HMRC intends to implement three new requirements. First, employers will be required to provide more detailed information on employee hours worked by real-time information PAYE reporting. Secondly, shareholders of owner-managed businesses will be required to provide the amount of dividend income received from their own companies separately from other dividend income, and the percentage share they hold in their own companies via their self-assessment return. Thirdly, the self-employed will be required to provide information on start and end dates of self-employment via their self-assessment return.

The Opposition recognise that this is a significant change, and it is clear from the Government's policy paper on this matter that it will also incur large costs for businesses. The one-off impact covering transitional costs for businesses is estimated to be £44 million, while the extra ongoing annual administrative burden is estimated to be £9.6 million. The Chartered Institute of Taxation has conveyed its concerns that it seems unrealistic that the average transitional costs to businesses of providing the data on employee hours will be just £18.42. Does the Minister believe that the costings are accurate for businesses that will need to plan for the new requirements?

Beyond the forecast costs to businesses, there is also the question of data gathering and its purpose. This clause gives HMRC the power to collect taxpayers' data. Is the Minister confident that the legislation provides appropriate authorisation for the purposes of the measure? The Institute of Chartered Accountants in England and Wales is concerned that it has not been fully explained why data concerning employee hours is relevant for the purposes of the collection or management of the taxes listed in section 1 of the Taxes Management Act 1970. The Institute believes that the legislation will not work

to obligate employers to report hours worked to hours paid, as hours worked are not needed for the collection and management of tax. I would be grateful to know the Minister's response to this concern.

We recognise that the timescale for introducing these measures is 2025-26, which will require HMRC to be ready and businesses to have got to grips with the necessary processes, guidance and software by then. What engagement has the Minister or HMRC had with businesses about this timescale, and has the Treasury considered drafting regulations for consultation prior to the legislation being enacted?

Clause 36 makes changes to the existing regulation-making powers that enable the Treasury to bring into force the penalties set out in schedules 24 to 27 of the Finance Act 2021. The new system that the schedules in the 2021 Act introduced will impose points-based sanctions for late submissions of returns and penalties for late payment of tax liabilities. We understand that the Government are planning for this system to come into effect with relevant self-assessment customers from 6 April 2026, through Making Tax Digital. Our understanding is that clause 36 will affect only volunteers who agree to test out the MTD system, which will therefore be before 6 April 2026. For the avoidance of doubt, will the Minister confirm that that is the case and make absolutely clear what penalties and sanctions such volunteers could face? Could he also confirm exactly what is meant, in the explanatory notes to the Bill, by the phrase:

> "Where a change in circumstances means that HM Revenue and Customs does not have the functionality to support a customer, they may be moved back into the existing penalty regime."?

There is a wider question about the timetable for delivering Making Tax Digital, which has slipped again and again. I would therefore be grateful if the Minister could make clear whether he has full confidence that the introduction of MTD for the self-assessment customers who are mandated for it is on track to happen by 6 April 2026.

Nigel Huddleston: I thank the hon. Gentleman very much for those questions and comments. I think he has a good understanding of the purpose behind the changes we are making, particularly in the context of the anxiety that many of our constituents face. We all had correspondence on this during the pandemic, when people were frustrated at not necessarily being able to get some of the support mechanisms for which they believed they were eligible because of that lack of information and data.

The macro point and the purpose behind the changes is well understood, and the hon. Gentleman is right to focus on the micro points. When it comes to the voluntary process, for example, which I will come on to in a moment, the whole point of having it is to learn before we make it mandatory. We expect and anticipate that we will need to learn from this experience, but going through that voluntary step first seems like a good process.

The hon. Gentleman mentioned the administrative burden on businesses as a result of this ask. We have chosen three out of the six because the information should be on hand or readily available already, so what we are endeavouring to do should be relatively straightforward. HMRC has been exploring with stakeholders how best to implement the proposals in a way that minimises burdens on businesses. No one wants to put a disproportionate administrative burden on businesses, but for the reasons that I outlined in the introductory comments, we see an upside to asking for the information. In practical terms, it will help nudging and supporting businesses to ensure that their taxes right. Should we face a situation such as the pandemic again, we will be in a much better position to understand the nature of businesses.

The hon. Member for Ealing North mentioned data and gave a total cost of £45 million for implementation of the measures. For the hours-worked data, the total estimated one-off cost to businesses is about £35 million. In subsequent years, the ongoing cost will and should be negligible. For the dividends data, the total estimated up-front cost is about £9 million; again, that remains consistent for subsequent years. For the start and end dates, there are negligible one-off costs, with total year-on-year costs estimated at about £600,000. Those costs are the current estimates based on the standard modelling approach and the measuring of administrative burden. We will of course keep a close eye on the costs.

I mentioned the variety of purposes and means by which that information could be useful, but the hon. Gentleman also made a point about information sharing, an issue that many stakeholders raised in the process of our updating this policy. I should note the work of the House of Lords Sub-Committee that investigated these issues and asked me similar questions not so long ago. I refer hon. Members to the answers I gave there, as well as further support. I want to provide the assurance, however, that there are strict laws about the sharing of data between Departments.

HMRC's ability to disclose the information it holds to anyone is restricted by the Commissioners for Revenue and Customs Act 2005. Only by acting in accordance with the provisions of the Act can HMRC ensure that information is disclosed in a lawful way. Section 18 of the Act provides that HMRC must not disclose HMRC information to anyone unless there is a lawful authority to do so, and that includes other Departments and their agencies, local authorities, the police or any other public authority.

As I said, I am happy to respond further to the hon. Gentleman or to make further comments if I have not answered all the questions. However, I commend the clause to the Committee.

Question put and agreed to.

Clause 35 accordingly ordered to stand part of the Bill.

Clause 36 ordered to stand part of the Bill.

Clause 37

Abbreviations used in the Act

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

The Chair: With this it will be convenient to discuss clause 38 stand part.

Nigel Huddleston: Finally, clauses 37 and 38 simply set out the Bill's legal interpretation and short title in the usual manner for such legislation. I commend them to the Committee.

James Murray: We have no concerns about clauses 37 and 38, you will be pleased to hear, Mr Paisley.

As this may be the last time I get to contribute to the debate today—

The Chair: Order. We still have the new clauses to debate.

James Murray: I am not intending to speak to any new clauses, so I thought to take this opportunity simply to thank you, Mr Paisley, for chairing, and to thank all the Clerks and House authorities. I thank all Members, Opposition Members in particular, and the third parties, including the Chartered Institute of Taxation, the Low Incomes Tax Reform Group, the Association of Taxation Technicians and the ICAEW, whose input has been invaluable.

The Chair: Thank you for those comments. I am sure people will appreciate what you have said. I also thank you for your contributions.

Question put and agreed to.

Clause 37 accordingly ordered to stand part of the Bill.

Clause 38 ordered to stand part of the Bill.

New Clause 1

Assessment of impact of the Act on compliance with climate change target

"(1) The Chancellor of the Exchequer must, within one year of this Act being passed, publish an assessment of the impact of this Act on the Government's ability to meet—

(a) the duty under section 1 of the Climate Change Act 2008 (the target for 2050), and

(b) its obligations and commitments under the Paris Agreement of 2015."—*(Drew Hendry.)*

This new clause would require the Chancellor to publish an assessment of the impact of the Act on the UK Government's ability to meet its duty to achieve Net Zero by 2050 and its obligations under the Paris Agreement.

Brought up, and read the First time.

Drew Hendry (Inverness, Nairn, Badenoch and Strathspey) (SNP): I beg to move, That the clause be read a Second time.

As we have heard today, the range of subjects we have covered has included air, road, shipping and much more, and yet the issue of climate change has not made a significant appearance, to the detriment of our proceedings. There is a climate emergency, and the public demand clarity on what is being done. The UK Government have shown time and time again that they do not take their published climate ambitions seriously and that they will simply, as they have demonstrated in recent months, do a U-turn on previous commitments and promises at the drop of a hat. Even their own former COP President says that they are not being serious on this issue.

2.30 pm

We know how damaging that is, not only from an environmental perspective but in the sense that the UK Government greatly undermine investor confidence in renewables across the nations of the UK. UK investment levels have fallen to 4.45%, compared with almost 10% worldwide. The UK cannot keep delaying and muddying the rising waters on climate change. The UK Government are shirking their responsibilities even as we face this emergency. Surely it is time that this Bill and every Bill that this House passes had a requirement to demonstrate that it is compatible with the UK targets, so when the appropriate time comes, Mr Paisley, I will press the new clause to a vote.

Nigel Huddleston: It will not surprise you to learn, Mr Paisley, that I respectfully disagree with many of the comments made by the hon. Member for Inverness, Nairn, Badenoch and Strathspey. The Government are—*[Interruption.]* As I said and as always, I disagree respectfully. The Government are fully committed to delivering on our legal obligations to reach net zero emissions by 2050. The net zero strategy and the "Powering Up Britain" publication set out the actions that the Government will take to keep the UK on track for its carbon budgets, and establish the long-term pathway to net zero. The UK has already made good progress, reducing emissions by 48% between 1990 and 2021, faster than any other G7 country.

The autumn statement delivered the cross-economy enabling environment for investment that will be vital to deliver the net zero transition. It did so with measures such as permanent full expensing for plant and machinery investments, accelerating grid connections, and reforming planning. The package provides long-term certainty for industry to invest in decarbonisation and supports firms through the transition.

The Secretary of State for Energy Security and Net Zero is responsible for upholding duties under the Climate Change Act 2008, but His Majesty's Treasury and HMRC consider climate change and the environmental implications of relevant tax measures, with a climate assessment published in all relevant tax information and impact notes. HMT and HMRC are exploring options to strengthen the analytical approach to monitoring, evaluating and quantifying the environmental impacts of tax measures.

Given all the work that is under way and the substantive work on these issues that has already taken place, I urge the Committee to reject new clause 1.

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

The Committee divided: Ayes 2, Noes 9.

Division No. 1]

AYES

Hendry, Drew
Monaghan, Carol

NOES

Davies, Gareth
Green, Chris
Howell, Paul
Huddleston, Nigel
Largan, Robert
Mayhew, Jerome
Quince, Will
Simmonds, David
Throup, Maggie

Question accordingly negatived.

New Clause 2

Assessment of impact of the Act on public finances and cost of living

"(1) The Chancellor of the Exchequer must, within six months of this Act being passed, publish an assessment of the impact of this Act on the following matters—

(a) public finances, and whether the UK Government is meeting its fiscal targets;

(b) the cost of living crisis on households across the UK; and

(c) lower income households."—*(Drew Hendry.)*

This new clause would require the Chancellor to publish an assessment of the impact of the Act on public finances and the cost of living crisis.

Brought up, and read the First time.

Drew Hendry: I beg to move, That the clause be read a Second time.

As the explanatory statement suggests, this is the opportunity for the Chancellor to publish an assessment of the impact of the Act on public finances and the cost of living crisis. The cold weather is really biting today across the nations of the UK, and people are having to turn up their heating to be able to simply survive. They are suffering already higher energy bills, boosted by the further 5% increase at the start of this month. The same families are struggling with soaring food costs, higher rents, higher mortgages and much more. The SNP's issue with the Bill lies primarily in what has been omitted: help for those struggling families.

The UK Government seem determined to completely ignore the realities facing people across the UK. For example, just a few days ago, it was revealed that a quarter of a million children could be lifted out of poverty if the UK Government took the simple and humane step of scrapping the two-child limit, with an additional 850,000 children pulled out of deepening poverty if the policy was removed. In the absence of such measures, and many others to support people suffering from the cost of living crisis, such as the £400 energy rebate that we called for, we believe that it is incumbent on the UK Government to report on the measures that they are taking and how they are affecting the cost of living, particularly in relation to rising household costs.

Nigel Huddleston: I afraid that we are going to have yet another phase of respectful disagreement with the hon. Gentleman.

New clause 2 would require the Government to report on the likely impact of the measures in the Bill on public finances and the cost of living. Numerous Departments and Government bodies already have mechanisms in place to systematically monitor and evaluate the impact of Government policy on public finances and households across the UK. Those mechanisms are effective and ongoing, making the proposed new clause redundant.

It is the role of the Office for Budget Responsibility to produce official forecasts for the public finances twice a year, usually alongside a fiscal event. Those forecasts are produced independent of Ministers, objectively, transparently and impartially, as set out clearly by law. Furthermore, when considering specific pressures on the cost of living, mechanisms are already in place to assess the impact of Government policies on households' personal finances. The Office for National Statistics plays a role in providing monthly updates through its "Cost of living latest insights" article, offering comprehensive data and showing trends.

In addition, our commitment extends to long-standing surveys and initiatives, including the family resources survey initiated in 1992; the living costs and food survey, which commenced in 2008; and the annual survey of hours and earnings, which has collected data since 1998. The Department for Work and Pensions also plays a crucial role with the annual publication of the "Households below average income" report, which monitors poverty and inequality trends across the UK, with emphasis on the wellbeing of the most vulnerable members of society.

Since 2010, His Majesty's Treasury has published an "Impact on households" report at major fiscal events, to scrutinise the distributional impact of Government measures on personal finances across income groups. Distributional analysis published at the autumn statement 2023 shows that the typical household at any income level will see a net benefit in 2023-24 and 2024-25 following Government decisions made from autumn statement 2022 onwards. Low-income households will see the largest benefit as a percentage of income. Furthermore, looking across all tax, welfare and spending decisions made since the spending round 2019, the impact of Government action continues to be progressive, with the poorest households receiving the largest benefit as a percentage of income in 2024-25.

We believe that the mechanisms currently in place are effective in providing the necessary insights into the impact of the measures proposed in the Bill. In the light of those efforts and commitments, I urge the Committee to reject new clause 2.

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

The Committee divided: Ayes 2, Noes 9.

Division No. 2]

AYES

Hendry, Drew
Monaghan, Carol

NOES

Davies, Gareth
Green, Chris
Howell, Paul
Huddleston, Nigel
Largan, Robert
Mayhew, Jerome
Quince, Will
Simmonds, David
Throup, Maggie

Question accordingly negatived.

New Clause 3

REVIEW OF PUBLIC HEALTH, INEQUALITY AND POVERTY EFFECTS OF ACT

"(1) The Chancellor of the Exchequer must review the public health, inequality and poverty effects of the provisions of this Act and lay a report of that review before the House of Commons within six months of the passing of this Act.

(2) The review must consider—

(a) the effects of the provisions of this Act on the levels of relative and absolute poverty across the UK including devolved nations and regions,

(b) the effects of the provisions of this Act on socioeconomic inequalities, and on population groups with protected characteristics as defined by the 2010 Equality Act, across the UK including devolved nations and regions,

(c) the effects of the provisions of this Act on life expectancy and healthy life expectancy across the UK including devolved nations and regions, and

(d) the implications for the public finances of the public health and NHS effects of the provisions of this Act."—*(Debbie Abrahams.)*

Brought up, and read the First time.

Debbie Abrahams (Oldham East and Saddleworth) (Lab): I beg to move, That the clause be read a Second time.

[Debbie Abrahams]

It has been a pleasure to serve under your chairship during today's proceedings, Mr Paisley. New clause 3 would compel the Chancellor to assess the impacts of the Finance Bill on poverty, inequality, and health and healthcare demand across the UK, and to lay a report before the House within six months of Royal Assent.

Let me expand a little on why the new clause is so important. This is the first opportunity I have had to come to a Finance Bill Committee to advance these arguments, although I have regularly made them on Report and Third Reading. The new clause partly reflects my experience as a former public health consultant and academic, and relates to one of the reasons that I became an MP. It is about tackling health inequalities. It is not about changing anything in the Bill; it is about understanding what its impact will be. It is about our not working in silos and understanding the Bill's impact on the NHS, education and so on. That is why I tabled it.

The new clause is also about transparency, to which the Prime Minister is very committed. It will have an important impact on the electorate's lack of confidence not just in the Government, but in politics and all politicians. It is important that we are seen to be transparent and to be evaluating the work that we do. We can do that in a prospective way that anticipates what the impacts will be.

Finally, although the Government have a massive commitment to levelling up, we are experiencing one of the biggest health divides since 1980. I refer to 1980 because that was when our real understanding of the relationship between poverty and health began. The Black report was in 1980, and it was followed by Dame Margaret Whitehead, my former colleague at the University of Liverpool, authoring "The Health Divide", which described the socioeconomic inequalities that drive health inequalities. Of course, that was in post-war Britain—a Britain with the NHS. Everybody thought that the NHS would be the saviour that would end all our health woes.

Evidence of the relationship between poverty and health has increased. "The Spirit Level", by Professors Pickett and Wilkinson, showed that this is a universal experience and not just one in the UK. Health is driven by inequalities in societies right across the world. Indeed, it is almost a universal law that most of the societies with the smallest gaps between rich and poor do better than other societies, not just in health but in social mobility, crime reduction, increasing trust and so on, which are things that I think all of us here would subscribe to.

2.45 pm

Then there is Professor Sir Michael Marmot's totemic 2010 work, "Fair Society, Healthy Lives", which set out six objectives that we as a country need to meet to address socioeconomic inequalities and the resulting health inequalities. He warned us in 2017, when he was monitoring the progress towards those six objectives, that we were one of the few developed economies in which life expectancy was flatlining. Then, in 2020, just before the pandemic, he published his 10-year review, which showed that life expectancy was not only flatlining but actually declining for women and in the most deprived parts of our country. We shared that unenviable state with the United States and Iceland; with us, they were the only advanced economies where life expectancy was declining. Indeed, that review was about not just our life expectancy but our healthy life expectancy—how long we could expect to live in good health and how long we would be active in the labour market. Finally, he noted that there was an even more stark north-south health divide.

Then covid hit. Would you believe it? It has not come out very much, but we saw exactly the same patterns of ill health, infection and death during the pandemic as we had seen before the pandemic in other conditions, such as heart disease. Sir Michael provided another update just last week in a report called "Lives Cut Short". He said in *The BMJ* just yesterday that

"if everyone had the good health of the least deprived 10% of the population, there would have been 1 million fewer deaths in England in the period 2012 to 2019. Of these, 148,000 can be linked to austerity. In 2020, the first year of the covid pandemic, there were a further 28 000 excess deaths."

As I said, I speak as a former academic who specialised in public health. To date, I have seen no evidence that policymakers are taking this issue on board and learning these lessons; indeed, we are failing to learn the lessons not only from an economic perspective but from the perspective of social justice. I urge people to watch a short film called "The Unequal Pandemic", which shows not only the human cost of this situation but the evidence behind it.

Regarding evidence, I know that the Ministers will be interested in the fact that the Northern Health Science Alliance has argued that the relationship between health and wealth must be looked at, and that health and wealth must be looked at together. The alliance has calculated that improving the health of people in the north of England to the level of people in the rest of England would increase productivity by £13.2 billion a year. It is, therefore, in the Chancellor's interest to do a full health assessment of all the measures in the autumn statement.

I am the chair of the all-party parliamentary group on health in all policies, which seeks to assess the health effects of Government policies. We have assessed a couple of Government policies already—people can see those assessments on my website—so I know that assessing the health effects of all Government policies is possible. It is not about primary data collection; it is about looking at secondary data and modelling it to see what the health impacts of policies are. It is possible to do this work.

Mr Paisley, thank you very much for your indulgence. Professor Sir Michael Marmot finished his piece in *The BMJ* by asking us to provide hope that we, as politicians, recognise and understand that we cannot go on like this. I agree with him. I will not press my new clause to a vote, but I urge Ministers to consider this matter seriously.

Nigel Huddleston: I should state at the beginning of my remarks that I completely understand the intent of new clause 3, because the hon. Lady is raising issues that are of great concern to hon. Members right across the House. However, she will not be surprised to hear that, once again, I respectfully disagree with her on the need for these assessments. We believe the proposed new clause is redundant because there are existing mechanisms in place to monitor and evaluate the impact of Government policy on public health inequality and poverty.

Debbie Abrahams: On that basis, I did ask a question at the autumn statement. In relation to the social security measures, I asked what were the anticipated impacts on the health of social security claimants. I have heard nothing back from anyone on that. If that evidence exists, what is it?

Nigel Huddleston: I shall respond to the hon. Lady on the plethora of analysis and support that goes on for a range of policy areas. We are not lacking in either interest in this area or consideration of impact. As I said, there are numerous Government Departments, bodies and other mechanisms already in place to systematically collect, monitor and evaluate the impact of Government policy across the UK.

The Department of Health and Social Care and its arm's length bodies are responsible for developing and evaluating policies to help people to live more independent, healthier lives for longer. As part of DHSC, the Office for Health Improvement and Disparities works across DHSC, the rest of Government, the healthcare system, local government and industry, to shift focus toward preventing ill health, particularly in places where there are the most significant disparities. DHSC also invests in research and evaluation through the National Institute for Health and Care Research, which delivers robust evidence to inform policy development and implementation, including evaluation of policies and research to fill longer term evidence needs and gaps.

The Treasury carefully considers the impact of its decisions on those sharing protected characteristics, in line with both our legal obligations and our strong commitment to providing fairness. We go beyond our legal requirements by publishing a summary of equality impacts for tax measures within the tax information and impact notes alongside the Finance Bill.

Various parts of Government, including from within the Cabinet Office's equality hub, promote the Government's commitment to levelling up opportunity and ensuring fairness for all. The hub includes the Government Equalities Office, the Race Disparity Unit, the Disability Unit, and the Social Mobility Commission, all of which provide valuable input.

As I mentioned in answer to new clause 2, since 2010 the Treasury also publishes an "Impact on households" report at major fiscal events, but I will not repeat the comments I made there. The "Households below average income" report also provides valuable input. For example, in 2021-22, there were 1.7 million fewer people in absolute poverty after household costs than in 2009-10, including 400,000 fewer children, 1 million fewer working-age adults, and 200,000 fewer pensioners. We believe the mechanisms currently in place are effective in providing the necessary insight, so I urge the Committee to reject new clause 3.

Debbie Abrahams: I beg to ask leave to withdraw the clause.

Clause, by leave, withdrawn.

Question proposed, That the Chair do report the Bill to the House.

Nigel Huddleston: On a point of order, Mr Paisley. Before you conclude your comments, I think this is an appropriate opportunity for me to make similar comments and thanks to those made by my opposite number. I agree with everything he said. I put on record my thanks to you, Mr Paisley, and your co-Chair, who did not have the opportunity to participate in this Bill; there will be other opportunities in the future.

Of course, I thank the Clerks and all officials who have worked on this Bill across multiple Government Departments, including His Majesty's Treasury and His Majesty's Revenue and Customs, but it goes well beyond that. I thank members of the Committee in this place, and also members of the House of Lords Sub-Committee for their input and work. I also thank all those stakeholders who have provided invaluable input. Some have provided specific input recently in the form of written submissions to this stage of the process, but many have participated over many years in extensive formal and informal consultations. I put on record our deep gratitude and thanks to all those who have taken their responsibilities and interests incredibly seriously, providing great input into this Bill to date.

The Chair: Thank you for those comments, Minister. We have had a brace of Ministers, shadow Ministers and Committee Clerks. We did not have a brace of Chairs, but we did have the Statler and Waldorf-esque Parliamentary Private Secretaries in a brace. Thank you all for this vital work that Parliament does. The line-by-line scrutiny of the Bill is serious work, and people taking their time to really do this line-by-line is appreciated. I know that the staff, Clerks and *Hansard* will be appreciative of your kind comments, Minister, and yours too, Mr Murray.

Question put and agreed to.

Bill accordingly to be reported, without amendment.

2.55 pm

Committee rose.

Written evidence reported to the House

FB01 Low Incomes Tax Reform Group—Clause 16 and Schedule 10—Provision relating to the cash basis

FB02 Low Incomes Tax Reform Group—Clause 36—Commencement of rules imposing penalties for failure to make returns etc

FB03 Chartered Institute of Taxation—Clause 16 and Schedule 10—Calculation of trade profits etc (cash basis)

FB04 Chartered Institute of Taxation—Clause 35—Additional information to be contained in returns under TMA 1970 etc

FB05 ICAEW Tax Faculty—Clause 14 Provision in connection with abolition of the lifetime allowance charge, and Schedule 9 Pensions

FB06 ICAEW Tax Faculty—Clause 35 Additional information to be contained in returns under TMA 1970 etc

FB07 Chartered Institute of Taxation—Clauses 13-15 and 17, relating to Employment Taxes and Pensions

FB08 Chartered Institute of Taxation—Clauses 3-7 & Schedules 2-6, relating to Creative Reliefs (Films, television programmes, video games etc)