

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE (NO. 3) BILL

(Except clauses 4, 7, 10, 19, 35 and 72)

First Sitting

Tuesday 10 May 2011

(Morning)

CONTENTS

Sittings motion agreed to.
Order of consideration agreed to.
CLAUSE 1 agreed to.
CLAUSE 2 under consideration when the Committee adjourned till this day
at half-past Four o'clock.

PUBLISHED BY AUTHORITY OF THE HOUSE OF COMMONS
LONDON – THE STATIONERY OFFICE LIMITED

£5.00

Members who wish to have copies of the Official Report of Proceedings in General Committees sent to them are requested to give notice to that effect at the Vote Office.

No proofs can be supplied. Corrigenda slips may be published with Bound Volume editions. Corrigenda that Members suggest 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 14 May 2011

STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY
FACILITATE THE PROMPT PUBLICATION OF
THE BOUND VOLUMES OF PROCEEDINGS
IN GENERAL COMMITTEES

© Parliamentary Copyright House of Commons 2011

*This publication may be reproduced under the terms of the Parliamentary Click-Use Licence,
available online through The National Archives website at*

www.nationalarchives.gov.uk/information-management/our-services/parliamentary-licence-information.htm

Enquiries to The National Archives, Kew, Richmond, Surrey TW9 4DU;

e-mail: psi@nationalarchives.gsi.gov.uk

The Committee consisted of the following Members:

Chairs: †MR ROGER GALE, MR JIM HOOD

- | | |
|---|---|
| † Aldous, Peter (<i>Waveney</i>) (Con) | † Lewis, Brandon (<i>Great Yarmouth</i>) (Con) |
| † Barclay, Stephen (<i>North East Cambridgeshire</i>) (Con) | † McCarthy, Kerry (<i>Bristol East</i>) (Lab) |
| † Blenkinsop, Tom (<i>Middlesbrough South and East Cleveland</i>) (Lab) | † McCartney, Karl (<i>Lincoln</i>) (Con) |
| † Blomfield, Paul (<i>Sheffield Central</i>) (Lab) | † McClymont, Gregg (<i>Cumbernauld, Kilsyth and Kirkintilloch East</i>) (Lab) |
| † Bradley, Karen (<i>Staffordshire Moorlands</i>) (Con) | † McGovern, Alison (<i>Wirral South</i>) (Lab) |
| † Creasy, Stella (<i>Walthamstow</i>) (Lab/Co-op) | † Mearns, Ian (<i>Gateshead</i>) (Lab) |
| † Crockart, Mike (<i>Edinburgh West</i>) (LD) | † Murray, Ian (<i>Edinburgh South</i>) (Lab) |
| † Crouch, Tracey (<i>Chatham and Aylesford</i>) (Con) | † Nash, Pamela (<i>Airdrie and Shotts</i>) (Lab) |
| † Dakin, Nic (<i>Scunthorpe</i>) (Lab) | † Parish, Neil (<i>Tiverton and Honiton</i>) (Con) |
| † Esterson, Bill (<i>Sefton Central</i>) (Lab) | † Phillipson, Bridget (<i>Houghton and Sunderland South</i>) (Lab) |
| † Gauke, Mr David (<i>Exchequer Secretary to the Treasury</i>) | † Sharma, Alok (<i>Reading West</i>) (Con) |
| † Glindon, Mrs Mary (<i>North Tyneside</i>) (Lab) | † Shelbrooke, Alec (<i>Elmet and Rothwell</i>) (Con) |
| † Goodwill, Mr Robert (<i>Scarborough and Whitby</i>) (Con) | † Smith, Julian (<i>Skipton and Ripon</i>) (Con) |
| † Greening, Justine (<i>Economic Secretary to the Treasury</i>) | † Wharton, James (<i>Stockton South</i>) (Con) |
| † Hanson, Mr David (<i>Delyn</i>) (Lab) | † Williams, Roger (<i>Brecon and Radnorshire</i>) (LD) |
| † Harrington, Richard (<i>Watford</i>) (Con) | † Williams, Stephen (<i>Bristol West</i>) (LD) |
| † Hoban, Mr Mark (<i>Financial Secretary to the Treasury</i>) | Wilson, Sammy (<i>East Antrim</i>) (DUP) |
| † Lee, Jessica (<i>Erewash</i>) (Con) | Simon Patrick, <i>Committee Clerk</i> |
| | † attended the Committee |

Public Bill Committee

Tuesday 10 May 2011

(Morning)

[MR ROGER GALE *in the Chair*]

Finance (No. 3) Bill

10.30 am

The Chair: Before I call the Minister to the move the sittings motion, I have a few announcements. Members of the Committee who have not already done so may remove their jackets if they wish to. Will right hon. and hon. Members ensure that all electronic devices and mobile phones are switched off? I remind the Committee that the use of laptops is not permitted in Committee and that electronic devices are not permitted for use for speaking notes.

Document boxes have been provided for Members to keep papers in between meetings, unless Members wish to take their papers with them, in which case they may take the box. It would be appreciated if Members could return the boxes to the storage cupboard at the end of the sittings. The Committee Room will be locked during the lunch break, so it will be perfectly possible for Members to leave their papers on their desks if they wish to do so.

I also remind Members that adequate notice should be given for amendments. Mr Hood and I do not intend to call starred amendments, including any starred amendments that may be reached during an afternoon sitting. I hope that that is all clear. If any Member has not engaged in the arcane process before and is unclear as to what is going on or why, please feel free to seek information from the Chair. We are, as the Inland Revenue likes to say, here to help you.

The Exchequer Secretary to the Treasury (Mr David Gauke): I beg to move,

That the Committee shall meet—

- (a) on Tuesdays at 10.30 am and 4.30 pm, and
- (b) on Thursdays at 9.00 am and 1.00 pm

when the House is sitting.

Thank you, Mr Gale. Before I speak to the motion, I would like to welcome you, Mr Gale, and Mr Hood as Chairs of the Committee. Both of you have experienced the excitement that can often occur in debates on Finance Bills, and I am sure that the Committee will benefit from your experience and wisdom in such matters. The Bill before us covers a wide range of issues, but I know that you will assist us in keeping our focus on the matters at hand. I would also like to extend my welcome to Mr Patrick, who will be assisting you.

It is a great pleasure to see enthusiastic participation from Opposition Members. Finance Bill Committees have occasionally lacked a certain eminence, but I am sure that the high quality debate in which we are about to engage will make this a year to be savoured. I am especially glad to see the right hon. Member for Delyn and the hon. Member for Bristol East, though I note

that the hon. Member for Nottingham East (Chris Leslie) has decided not to undertake the challenge of serving on the Committee this time. His absence will be keenly felt on both sides of the Committee. None the less, I am sure that the shadow Ministers will be ably assisted by their hon. Friends on the Opposition Benches, many of whom spoke during the Finance Bill debates downstairs.

For those for whom this is the first time engaging in the detailed scrutiny of such a Bill, I hope that they will find the experience as valuable as I first did. I would also like to thank the hon. Member for East Antrim, although he is not in his place at the moment.

I must not forget my hon. Friends who are sitting on the Benches beside me. While the Opposition have mustered only two shadow Ministers, we will be fully stocked, with my hon. Friends the Members for Fareham and for Putney assisting me through the sittings. I also wish to welcome my other hon. Friends, including some who made their maiden speeches in previous Finance Bill debates, including my hon. Friends the Members for North East Cambridgeshire and for Lincoln.

I am sure that many hon. Members are aware of the forthcoming nuptials of my hon. Friend the Member for Elmet and Rothwell, which surely leads me to welcome also my hon. Friends from our coalition partner. We can be sure that our partnership remains strong, no matter how bumpy the ride, and I look forward to the captivating and valuable contributions that they will provide.

At the beginning of the Committee on the previous Finance Bill, I said that that Bill was a product of consultation and deliberation. That is truer of this Bill than any before it. We published the majority of clauses in draft on 9 December for a period of technical consultation and received more than 200 responses. I thank the bodies that have worked with the Treasury and Her Majesty's Revenue and Customs in the preparation of the Bill, especially those who commented on the draft legislation. The Bill is better for it.

I am sure that hon. Members will take heart in the words of Gladstone—it is always good to quote a Liberal—when he said:

“Finance is, as it were, the stomach of the country, from which all the other organs take their tone.”

I know that hon. Members will approach our discussions with true hunger.

Mr David Hanson (Delyn) (Lab): Good morning, Mr Gale, and on behalf of the Opposition Benches I welcome you to the Chair, just as we will welcome your colleague, Mr Hood, in due course. Like the Minister, with whom I seem to have spent a considerable amount of time in Committee over the past 12 months, I welcome the Clerk and his team to our discussions. Let me reassure the Minister that although my hon. Friend the Member for Bristol East and I are the only two shadow Ministers present, I can say modestly that quality rather than quantity will keep us on board today. If either of the Minister's ministerial colleagues wish to leave the Room at any time, we would be more than happy for them to do so.

This is the sixth, or possibly the seventh, piece of financial legislation that we have dealt with in Committee over the past year alone, and this Bill contains 93 clauses

and 26 schedules. In the past, I recall the then Opposition criticising the complexity and scale of previous Finance Bills, so it is interesting to note that the Government have maintained the level of clauses and schedules in the legislation to be considered by the Committee. We will make key criticisms of the Bill, and we will table amendments to key clauses during our discussions. However, the Opposition are content with the sittings motion and we will support it.

As we scrutinise the legislation, I look forward to the contributions of my hon. Friends, some of whom are serving on a Public Bill Committee for the first time. We look forward to seeing whether we can help the hon. Member for Elmet and Rothwell to enjoy his marriage and—potentially—help the hon. Members for Bristol West and for Brecon and Radnorshire to enjoy their divorce from the coalition in due course. There will be occasions when, by natural inclination, the Liberal Democrats might be happier supporting the Labour Opposition than some of the measures in Bill, and we will see if we can tempt them to do so. In the meantime, I look forward to commencing the discussion on clause 1. I wish the sittings motion well, and look forward to spending the next 14 sittings with the Minister and other colleagues.

Question put and agreed to.

Ordered.

That the order in which proceedings are taken shall be: Clauses 1 to 3; Clauses 5 and 6; Clauses 8 and 9; Clauses 11 to 15; Schedule 1; Clauses 16 to 18; Clauses 20 to 26; Schedule 2; Clause 27; Schedule 3; Clause 28; Schedule 4; Clauses 29 and 30; Schedule 5; Clauses 31 and 32; Schedule 6; Clauses 33 and 34; Schedules 7 and 8; Clauses 36 to 44; Schedule 9; Clause 45; Schedule 10; Clause 46; Schedule 11; Clause 47; Schedule 12; Clause 48; Schedule 13; Clauses 49 to 52; Schedule 14; Clauses 53 to 64; Schedule 15; Clause 65; Schedule 16; Clause 66; Schedule 17; Clause 67; Schedule 18; Clauses 68 to 71; Schedule 19; Clauses 73 to 77; Schedule 20; Clauses 78 to 82; Schedule 21; Clause 83; Schedule 22; Clauses 84 to 86; Schedules 23 and 24; Clause 87; Schedule 25; Clauses 88 to 91; Schedule 26; new Clauses; new Schedules; Clauses 92 and 93.—(Mr Gauke.)

Clause 1

CHARGE AND MAIN RATES FOR 2011-12

Mr Hanson: I beg to move amendment 3, in clause 1, page 1, line 9, at end add—

‘(3) The Government will publish the terms of reference and timetable for its review of the additional rate of income tax and provide updates to Parliament on the progress of the review by 30 September 2011 then every six months until September 2014.’

Clause 1 deals with the rates of taxation if the Bill is approved, and sets them at 20%, 40% and the special rate of 50%. Amendment 3 was tabled in my name and that of my hon. Friend the Member for Bristol East and seeks clarity on the Government’s intentions for the 50p tax rate as set out in clause 1, and on the issues that were raised by the Chancellor of the Exchequer in the Budget speech. Those matters set in train a review that we believe requires further clarity, and we would also like further explanation about where the Government stand on the important matter of the 50p tax rate in future Budgets and the duration of this Parliament.

The amendment would require the Government to

“publish the terms of reference and timetable for its review of the additional rate of income tax and provide updates to Parliament on the progress of the review by 30 September 2011 then every six months until September 2014.”,

By that stage, I expect the review to have been completed. This matter is important and the Labour Opposition want to focus on it. It is important to debate it and to obtain a clear idea of the Government’s intention and proposals for the 50p rate of tax. That is in the Bill for consideration and approval today, but the Chancellor has indicated that he wants to review it in future. An article in *The Daily Telegraph*, which I obviously read every day and which is an important organ of communication to the masses, indicates that the Chancellor of the Exchequer—it refers to him as George Osborne—“is hoping to scrap the 50p top rate of tax in his Budget in 2013, on the back of evidence that the new higher rate does not make money for the Exchequer.”

The article, by Andrew Porter, says:

“The Chancellor has insisted that the rate is only temporary and he wants to offer traditional Tory supporters tax cuts well before the next election.”

That is the background to the amendment before us. We seek clarity from the Minister and, through him, from the Chancellor on the review, its progress, who will be involved, how it will be undertaken, why he seems to have pre-empted it by saying that he wants to scrap the tax rate by 2013, and on the general merits or demerits of the proposal in due course.

It is important to look at the history of the 50p tax rate to date, and I hope that you will allow me to do so, Mr Gale, because it is relevant to our discussion about the clause. Hon. Members will recall that when my right hon. Friend the Member for Edinburgh South West (Mr Darling) was Chancellor of the Exchequer he said in his pre-Budget statement on 24 November 2008 that it included some measures to raise revenue for future years. He said that among the options to raise funds, the fairest should affect those who had done best from the growth in the previous decade. He indicated that they were those with the highest incomes who had seen their earnings almost double since 1996 and would see them rise still further from April 2011, according to his then predictions. He intended to introduce a new income tax rate of 45% on incomes of more than £150,000, which would affect only the top 1% of incomes.

The pre-Budget report at that time indicated that the higher rate of 45% would be effective from April 2011. It estimated that the 45% rate would raise around £670 million in 2011-12. At the time, there was comment and discussion about that. Some commentators believed that it was a return to the redistributive taxes of the 1970s, some thought that it would not raise the money that the Chancellor predicted, and some thought that it was a good and positive development. The key point was that the Chancellor indicated that the potential to raise money via a higher rate was available and something he felt strongly about. The Trades Union Congress—this will interest my right hon. and hon. Friends—thought that that was a positive move, and discussions took place across the board with a range of feedback about the 45p tax rate.

In the 2009 Budget on 22 April 2009, my right hon. Friend the Member for Edinburgh South West announced two important revisions to the previous pre-Budget proposals for the rate of taxation. He said:

[Mr Hanson]

“I am not proposing to increase taxes on income for this year. However, as the economy recovers and wages start to grow again, it is right that we take additional steps. I believe that it is fair that” only

“those who have gained...should contribute more. Only those with incomes over £100,000 a year...will be affected. In November, I announced a new rate of income tax of 45 per cent. on incomes above £150,000—the top 1 per cent. of taxpayers. In order to help pay for additional support for people now and to invest in the future, I have decided that the new rate will be 50 per cent., and will come in from April next year—a year earlier.” [*Official Report*, 22 April 2009; Vol. 491, c. 244.]

10.45 am

The new income tax rates were set in the 2010 Budget so that from April 2010, a 50% additional rate of tax would apply on incomes above £150,000. Discussions took place and there was comment across the board on that proposal. The then Chancellor believed—rightly, in my view—that those who earn £150,000 or more should contribute more when we are tackling a deficit than those on lower incomes. Because of that, the Finance Bill proceeded with the proposal for a 50p tax rate.

I am pleased to say that because of the election being called, the Finance Bill was debated in its entirety over three hours on 7 April 2010 with little reference being made by the then Opposition to the new income tax structure; the Finance Bill was approved; and the new 50p rate of tax was brought into effect.

Indeed, during the general election campaign, the three major parties made no mention of any changes to the new higher rate of tax. The Conservatives did not mention it. I think that that was primarily because they did not want to be seen as the party that was supporting tax cuts for the richest members of society. I am not sure, but the Liberal Democrats probably wanted us to tax even more highly. The Labour party went into that election with the Budget proposals to ensure that we had the 50p tax rate as a permanent feature of the tax system.

Mr Gauke: I am fascinated to hear the detailed history of this measure. Will the right hon. Gentleman enlighten the Committee on the position of the Labour party in its 2005 general election manifesto on the higher rate of income tax?

Mr Hanson: I do not want to test your patience, Mr Gale. The reason why I am talking about 2010 is that we went into the election campaign with a Finance Bill that had not been contested by the then Opposition. They did not say that they wished to change the 50p tax rate. There was consensus in the House of Commons that the 50p tax rate should be introduced in 2010 to help with the deficit and to ensure that we were all in this together and that it was not the case that just some people in our community did not pay their share.

The coalition Government secured victory in the general election—even I have to accept the basic fact that that did happen last May. The new coalition Government published their coalition agreement and not a single mention was made of the 50p tax rate.

There was no mention of abolishing it, reducing it or increasing it. Not one mention was made of it in the coalition agreement.

Alec Shelbrooke (Elmet and Rothwell) (Con): I am listening to the argument carefully, but I am not quite sure what point you are trying to make. Could you enlighten us on that? Budgets are evolving things; they move forward. The words that you repeated of the former Chancellor of the Exchequer—

The Chair: Order. The hon. Gentleman has been here long enough now to know that he must address his remarks through the Chair.

Alec Shelbrooke: I apologise, Mr Gale; I will try not to make that mistake again.

The right hon. Member for Delyn was speaking about the previous Chancellor, who had made the comments relating to the income expected to be derived from the 50% tax rate, and about the arguments based on that at the time, but there is now evidence that it is not bringing in the same amount of tax revenue that perhaps a lower rate would. Surely the right hon. Gentleman cannot be saying that a Budget should be decided at the beginning of a five-year Parliament and no changes should be made to taxation even if certain circumstances present themselves, such as the 50% rate not generating as much income as perhaps it was thought it would.

Mr Hanson: I am grateful to the hon. Gentleman because he goes right to the nub of the argument that I will make in due course. The Chancellor has announced a review of the 50p tax rate and—unless that esteemed organ, *The Daily Telegraph*, has got it wrong—he has already

“insisted that the rate is only temporary and he wants to offer traditional Tory supporters tax cuts well before the next election.”

My purpose in referring back to the comments of my right hon. Friend the Member for Edinburgh South West and what happened at the end of the previous Parliament, when we decided to take steps to have a 45p tax rate and then a 50p tax rate—and the Conservatives did not oppose the 50p tax rate during the election—is to simply lay the ground for saying that we have some choices to make on deficit issues.

I will come on to those choices in a moment, but the Chancellor has already announced in his Budget that the 50p rate referred to in clause 1 will not exist in the future. He has also announced a review but, apart some very vague information, we know no details yet about how it will be undertaken, by whom, when, where or why. I will come on to that review in a moment. The purpose of the amendment is to get clear details of the review, how it will be undertaken and what steps it will take, so that we can ensure that it has transparency, clarity, objectives and a time scale.

At the moment, we are in a vacuum. The Chancellor has said that the 50p rate will go. He has pencilled in a date by which it will go—2013—but we do not know how that will be done. We need to know so that Parliament, and those people who take an interest in these matters outside Parliament, can scrutinise that process. I am grateful to the hon. Gentleman for his intervention because he has helped me to begin to clarify why we

want the amendment to be passed. Whatever the fate of the 50p rate, which we can argue about downstream, and whatever the debate about its fairness and other aspects, we need to have some clarity about how the decision will be made.

Bill Esterson (Sefton Central) (Lab): Surely the point is that this debate is about the future and what the Government's intentions are, not about the past. We need to understand the reasons why the Government are looking at the 50p tax rate in the way that they are. Is it, as *The Daily Telegraph* says, a pre-election tax bribe for the electorate, or is it about responsibility and reducing the deficit? That is why the amendment is so important. We need to understand exactly why the Government want to take such an approach, and the timing should be about good financial management, not a bribe for the electorate.

Mr Hanson: I am grateful to my hon. Friend for his point. There are several issues that we need to explore and I hope that my hon. Friends will assist later in doing so. One issue is the timing of the review. The Chancellor in his Budget speech on 23 March confirmed that there will be no change in the rates of income tax for the coming year. That fact is reflected in clause 1. However, he suggested that the case for the 50p rate should be re-examined once we have comprehensive data on the amounts of money it has actually raised for the Exchequer in its first year. That is perfectly reasonable, and I give the Chancellor the benefit of the doubt on that. It is reasonable that we consider the level of resources that the 50p rate raises. But as a result of spin to the papers, the headlines on the same Budget speech discussions stated: "George Osborne: 50p rate could be scrapped by 2013." Already we have an indication that the direction of travel is to scrap the 50p rate by 2013, probably 18 months before an election. Is that about an election win, deficit management or income generation? Or is that simply about the fact that the Chancellor is not clear about what the review consider, when, how, by whom and where. That is why we have tabled the amendment.

Ian Murray (Edinburgh South) (Lab): Will my right hon. Friend indicate to the Committee whether he thinks the Chancellor may, in fact, increase the rate?

Mr Hanson: I would be very happy to consider the benefits of that. Labour Front Benchers have a very clear position: we support the 50p rate for the duration of this Parliament and our taxation proposals will be in the manifesto ready for the next election. We can debate those proposals at that time.

The Chancellor has said that he wants a review of the 50p rate to be undertaken by some vague date—potentially 2013—and yet he has not been clear about how, where, when and for what purpose. In due course, I will explain the challenges that will also be faced by ending the 50p rate. We already know the direction of travel. In answer to my parliamentary question on 26 April 2011 and to that of my hon. Friend the Member for Glasgow North East (Mr Bain) on the same day, the Minister said:

"The Government believe the 50% rate could do lasting damage to the UK economy if it were to become permanent."—[*Official Report*, 26 April 2011; Vol. 527, c. 323W.]

Why are we having a review? If the Minister believes that the 50% rate could do lasting damage to the UK economy if it were to become permanent, does that not pre-empt the outcome of the review? Does that not pre-empt the decisions that the review might take? Why are we investing time and energy in a review when the Minister has already said that the 50% rate could do lasting damage to the economy?

The amendment indicates that we want the Minister to give us terms of reference, a timetable and updates on the review. We want to know how much the review will cost and why it is being undertaken. We want to know when he will make an announcement and end the vacuum. We will have this 50% rate until such time as he decides that he does not want to have it. He will base the rate—going back to the point made by the hon. Member for Elmet and Rothwell—on evidence-based decision making on the level of income that the tax raises. I fear that that is not evidence-based policy making at all, but dogma-based policy making on the basis that the Government do not like the 50% tax rate, do not want it and, ultimately, will ensure not that we are all in this together but that some people are in it a little bit less than others.

Richard Harrington (Watford) (Con): Perhaps the right hon. Gentleman could explain his point to us. Apparently, his case is that this particular request for the terms of reference, the timetable and review to be published is not dogmatic, although he believes that the reason the review is being held is dogmatic. On his case, does he then think that there should be a formal publishing of terms of reference and timetable for every review that the Treasury does about every piece of tax or for every piece of legislation?

Mr Hanson: I am a great believer in transparency, and I would have thought that the hon. Gentleman appreciated it as well. At the moment, we have some 275,000 50p top-rate taxpayers who do not know whether they will pay that top rate of tax for one, two, three or four years—for the duration of this Parliament. The review that has been thrown on to the table has no clarity about its terms of reference, objectives or time scale. The Chancellor and the Minister have said that the tax rate is damaging. We could have a self-fulfilling prophecy of people deferring and fiddling around with various taxes to ensure that they do not pay the 50p tax rate over the next two years.

There are many issues that are creating a vacuum. Will the Minister clarify a number of simple points? If he announces to the House of Commons, as the Chancellor of the Exchequer has done, that a review will be undertaken by HMRC, it is incumbent on him to say to the House, "This is the time scale. This is who will undertake it. This is when it will report. This is how you put evidence into it. This is when we will make a decision for a future Budget on whether that 50p tax rate stays or goes."

Ian Mearns (Gateshead) (Lab): Something that has bemused me about the Government's proposal on the 50p tax rate is that as the Government's attitude towards the whole economy is to get rid of the deficit over the life of the Parliament, what is particularly special about this year as opposed to any other year within the life of this Parliament with regard to the 50p tax rate?

Mr Hanson: That is a very good point and one that I will return to shortly. All the Budget proposals by Treasury Ministers—and the Opposition—are about choices. They have to choose which taxes to raise and which to leave. We are told that we are all in this together, and we are told that there is a deficit that needs to be tackled. There certainly is a deficit that needs to be tackled—let us not shy away from that. We can have a wider debate on that at some point if you wish, Mr Gale, but the key point is this: what choices are the Government making to tackle that deficit?

11 am

This year, in clause 1, the Government support a 50p tax rate that will raise some money. I would welcome the Minister's latest estimate of how much money that will raise. In future years, however, they are creating that vacuum. One Government option under review is to reduce the tax rate to 40p while, at the same time, raising other taxes that will hit other people in our society in a different way. From answers to written questions that I have tabled, we think that that option will do lasting damage. The Government are making a political choice, which we need to explore before we give our support, or otherwise, to the clause in due course.

Nic Dakin (Scunthorpe) (Lab): My right hon. Friend is setting out with great clarity the advantages of the amendment for open and transparent Government. I am certain that Government Members will welcome that when they make their contribution, because that will help, rather than hinder. Does he agree that another area that the review will undoubtedly look at is the threshold at which people begin to pay, or do not begin to pay, that higher level of tax?

Mr Hanson: Indeed. That is a very important point. The key point, ultimately—this is why it is important to set out a formal review of procedures—is that I need to know exactly how, when and where the Government are establishing that review on the tax rate, so that we can have a debate and come to a conclusion on whether we should reduce the tax rate to 40% and, if so, on what basis.

I do not want to repeat myself, but it is important to mention something at this point. The Minister stated in a written answer to a written question that I tabled:

“The Government believe the 50% rate could do lasting damage to the UK economy if it were to become permanent.”—[*Official Report*, 26 April 2011; Vol. 527, c. 323W.]

Why does that matter? In 2011-12, some 275,000 people will pay the 50p tax rate. In the north-east region, which is ably represented on the Opposition Benches today by my hon. Friends the Members for Gateshead, for Middlesbrough South and East Cleveland, for Houghton and Sunderland South, and for North Tyneside, 5,000 people will pay the higher rate of income tax. In the north-west region—

Mr Gauke: I am looking forward to Wales.

Mr Hanson: I am coming to Wales. There are a lot of regions in this country and I assure the hon. Gentleman that I will get to them all before the debate is finished. In the north-west region, represented by my hon. Friends

the Members for Wirral South, and for Sefton Central, there are 18,000 higher rate taxpayers. In Yorkshire and Humberside, which is represented on the Opposition Benches by my hon. Friends the Members for Scunthorpe and for Sheffield Central, some 13,000 people paid a higher rate of tax. In the east midlands, 12,000 people paid the higher rate of tax; in the west midlands, 15,000 people. In the east of England, there are 34,000 people on the higher rate of income tax.

Mr Gauke: Additional, not higher.

Mr Hanson: I am grateful to the Minister for his admonition. Some 34,000 people in the east of England, and 94,000 people in London pay the additional rate of tax. In the south-east, 67,000 people pay the additional rate of tax. In the south-west, represented by my hon. Friend the Member for Bristol East, that figure is 17,000. In my own area, Wales, 4,000 people pay the higher rate of tax. In Scotland, which is represented by my hon. Friends the Members for Cumbernauld, Kilsyth and Kirkintilloch East, for Edinburgh South, and for Airdrie and Shotts, some 16,000 people pay the additional rate of tax. If the hon. Member for East Antrim were here today, he would find that 4,000 people in Northern Ireland pay the additional rate of tax.

Alec Shelbrooke: For the sake of clarification, will the right hon. Gentleman outline whether those people are actually paying the tax, whether they are projected to pay the tax, or whether there is a greater number of people who should be paying the tax and that those are the people who are actually paying it? I am slightly unclear about how much tax avoidance there may be within those figures.

Mr Hanson: These are people who, according to the Library, qualify for the additional rate in 2011-12—275,000 across the whole of the United Kingdom.

Alec Shelbrooke: So these are people who would qualify but are not necessarily paying the tax?

Mr Hanson: The Library note indicates that 275,000 people are eligible for the additional rate of tax at this rate. The point I am making, and the only reason I make those points about the regional areas, is that in the north-west, where 18,000 people pay the additional rate of tax, there are some 3.2 million taxpayers. In the eastern region, where 34,000 people pay the additional rate of tax, there are fewer taxpayers across the board. There are fewer higher rate taxpayers in the constituencies of my hon. Friends the Members for Wirral South, and for Sefton Central than in the eastern region where there are fewer taxpayers as a whole.

The Financial Secretary may smirk, but the point is quite simple. This is a choice. If the tax cut goes ahead in 2013, it will give a tax cut to more people in the east than in the north-west. We are clearly not all in this together. [*Interruption.*] Hon. Members may not like the point, but in the constituency of my hon. Friend the Member for Gateshead, 5,000 people pay the additional rate of tax out of a population of 1.2 million. In the south-east, 67,000 people will pay out of a population of just over 4 million. More people pay it because there

are more people who are better off in the south-east than there are in my hon. Friend's region. If the Government choose to reduce that taxation to 40% it will be money potentially lost to the Exchequer. We can debate that in due course—[*Interruption.*] The Exchequer Secretary is heckling from a sedentary position. Would he like to elucidate?

Mr Gauke: Yes, I would. I was merely pointing out the right hon. Gentleman's history. He served as Parliamentary Private Secretary to Tony Blair. I wonder what Tony Blair would make of this speech.

Mr Hanson: The former Prime Minister had enough confidence in me to make me a Minister for 11 of his 12 years in office. The next Prime Minister had enough confidence in me to make me a Minister for three of his years in office, so I am sure that they were well aware of my views on these matters as a whole.

The simple point I am making to the Minister is that we are talking about a political choice. Ultimately if the choice is made to reduce the 50p rate to 40p—we do not yet know when, where and how, which is the purpose of the amendment—the benefits of the reduction will be felt more strongly in London, the south-east and the east than in Scotland, Wales, the north-west, the east midlands, the west midlands and Northern Ireland. That may not be a politically palatable point for some Government Members, but if we are all in this together, the tax cut choice that is potentially being made by the Government for future years will disproportionately benefit people in certain regions. We happen to represent around the room today, with the honourable exception of my hon. Friend the Member for Walthamstow, regions that will be disproportionately hit by that tax cut.

I do not have constituency figures. I wish I did, but the Library cannot provide them. I suspect that my hon. Friend the Member for Walthamstow will have fewer of the 94,000 higher additional rate taxpayers in London in her constituency than there are in the constituency of the Cities of London and Westminster, where we are today. I am only guessing but I might be correct, and I hope that my hon. Friend will concur. The point I am making, which is valid for all our arguments, is that if we are to have a review that looks at the income that will be lost or gained by this tax progressing for the next few years, it should also look at the impact on regional disparities and at the other taxation that might have to rise to meet the Government's deficit reduction plan and which will hit people disproportionately across all regions of the UK.

Alec Shelbrooke: I find the right hon. Gentleman's argument incredible. First, to make a serious point, the Government have introduced plans that differentiate between different regions to provide a stimulus for business and to try and move business populations, apart from that in the south-east, to other parts of the country. Secondly, however, I will follow the right hon. Gentleman's argument and give a spurious analogy. As there are more Manchester United fans in Surrey than elsewhere, if Manchester United were given a 10 point reduction, it would affect more people in Surrey than in Manchester. That is a nonsensical argument. The right hon. Gentleman cannot seriously suggest that, in order

to balance out taxes, we should have a different tax regime for each region of the country. We are the national Government.

Mr Hanson: The hon. Gentleman is missing the point. He needs to recognise that, as of today and, indeed, under clause 1, we have a proposal for a 50p tax rate that applies across the whole of the United Kingdom. I support that, and, although I would not want to speak for them, I suspect that all my hon. Friends support that, too. Indeed, the Government support that, because it is in clause 1. However, according to the Chancellor, we are going to abolish the 50p tax rate in 2013. We do not yet know, which is why we have tabled the amendment, how much that has been considered, but we believe that he wants to abolish it in 2013. The simple point that I am making is that, when the tax rate falls from 50p to 40p, the benefits of the reduction in taxation will be disproportionately spread across the United Kingdom. There will be people in London, the south-east and the east who will get more benefit from that tax cut than in the north-east, Yorkshire, Scotland, Wales and other regions that are represented across the Committee today.

Karen Bradley (Staffordshire Moorlands) (Con): Does the right hon. Gentleman agree that if the additional tax rate is not raising tax revenue, the regions that receive a disproportionate amount of tax revenue will be disproportionately affected by that?

Mr Hanson: That is one of the interesting points. Again, I am looking at this issue in the round. I am simply saying that that is one option in 2013 that could have a disproportionate effect. We want to see the evidence, which is why I hope that the hon. Lady will support my proposal, because it says that we should have terms of reference, a timetable for the review and updates to Parliament on progress. In that way we can see what the HMRC revenues are and what progress is being made, and we can make a judgment based on revenue rather than what we appear to have already, which is dogma. I refer again to the article in *The Daily Telegraph*, which says:

“The Chancellor has insisted that the rate is only temporary and he wants to offer traditional Tory supporters tax cuts well before the next election.”

If that is the case, let him say so. Let him just ditch the review and just do it. If the review is evidence based, however, as the hon. Lady seems to want it to be, she should support the amendment, so that we can see what the evidence is, so that we can monitor it and so that it is not just a case of a rabbit being pulled out of the hat in the 2013 Budget that says, “Here's a tax cut of 10p in the pound to the top 275,000 taxpayers, which predominantly goes to London, the south-east and the east.” That is my point, and I hope that the hon. Lady will reflect on that when she considers voting on the amendment.

Stephen Williams (Bristol West) (LD): The right hon. Gentleman is talking about the geographical and political distribution of temporary tax rates. Would he remind us of the political impact of, and which section of society was affected by, the last Budget of the right hon. Member for Kirkcaldy and Cowdenbeath (Mr Brown), who doubled the rate of income tax from 10% to 20% for the poorest people in society?

Mr Hanson: I fear, Mr Gale, that you would rule me out of order if I went down that particular track. The hon. Gentleman will remember that my right hon. Friend the Member for Kirkcaldy and Cowdenbeath made amendments to the 10p tax rate, reviewed it and admitted that it was a mistake. To be honest, I am trying to stop the Minister from bundling into further mistakes by doing that in future.

Stella Creasy (Walthamstow) (Lab/Co-op): If we look at this review, it might be worth considering that 2013 is the year in which 40% of the Budget cuts will take effect, affecting areas such as mine, which are not likely to have many higher rate taxpayers, but we know that those cuts are coming. The Government may wish to reflect on the impact that reducing the rate at that point in time is having on unemployment and the cost of benefit take-up, and on the Exchequer.

11.15 am

Mr Hanson: My hon. Friend makes a valuable point, and I support her assertion.

On 5 April 2012, the family element of child tax credit will drop by £545 for families earning more than £26,000 a year; the working family tax credit will be reduced by £180 for people working less than 30 hours, and by £254 for people working more than 30 hours; the 50-plus element of tax credit will be abolished, which means that those who work between 16 and 29 hours will lose £1,300; child benefit will be frozen, which will cost about £100 to £240 across the board, and it will be abolished for higher rate families in 2013; benefits and tax credits will rise according to the consumer prices index rather than the retail prices index, which will mean a loss of about £200 to households; in January 2013, child benefit will be cut by about £1,000; and in 2013 there will be a loss of working families tax credit of about £390.

A range of changes will be made in 2013, and that links to the amendment. We suggest a review with a timetable and terms of reference so that the matter can be considered in detail. For the hon. Member for Staffordshire Moorlands, we suggest making it evidence-based rather than basing it on dogma. We suggest considering all these points clearly, because in 2013 there will be severe challenges to the living standards of many people on middle and low incomes. However, people on higher incomes—there are only 275,000 of them—will find themselves paying less tax; they will pay 10p in the pound less on the additional rate, and the Chancellor has indicated that he wants to do that now. What is the point of having a review over the next three years if the Chancellor has already said what he wants to do? The purpose of the amendment is to put some framework to that review, so that we can track it, possibly in a productive way.

Brandon Lewis (Great Yarmouth) (Con): The right hon. Gentleman speaks with a focus on and an interest in the regional impact. As a strong believer in understanding where we have come from in order to have a better feeling of where we are going, I am curious to know whether he believes that the previous Government went out of their way deliberately to target the south-east and east of England.

Mr Hanson: No. What the previous Government tried to do was ensure that those who were able to bear the burden fairly did so, and people on £150,000 and more are in a position to bear some of the burden much more ably than those on lower incomes. If the hon. Gentleman asked me a straight question about choosing between a 50p tax rate and cutting child benefit, I know which choice I would make, because we need to consider how to spread the burden of difficulties that we face in a fair and equitable way.

Bridget Phillipson (Houghton and Sunderland South) (Lab): Does my right hon. Friend agree that it is notoriously difficult to predict what will happen as a result of tax changes? That is why the Government should hold a review to consider all the evidence. If there is evidence of people deliberately avoiding paying the 50% rate, it should be considered but, as we heard, hard-pressed families across the country face massive cuts, and it would be wrong of the Chancellor to press ahead without considering what the impact will be.

Mr Hanson: That brings us back to the amendment, which is about terms of reference, the timetable and updates to Parliament. I am concerned to ensure that we take an evidence-based approach. I give credit to the hon. Member for Staffordshire Moorlands for this, but information may ultimately show that we do not gain revenue through the 50p but lose it. I do not know whether that is true, but I want to know how and when the assessment will be made. I also want to ensure that we do not have what is effectively a three-year vacuum, in which individuals do not know what the position is and can make alternative tax arrangements or look elsewhere. It is important that we have clarity.

That is important for two other reasons. I shall refer first to that august organ of the media, *The Guardian*, which on every occasion is accurate and factual in its reporting. On Sunday 27 March 2011, it ran the headline, “Cable confirms ending of 50p tax rate”. That was very helpful. Again, forget the evidence, forget the discussions during the next three years, forget the review and the points about whether that policy raises or does not raise money. The Business Secretary “confirms ending of 50p tax rate”. Interestingly, the headline goes on to say, “and reveals ‘mansion tax’ plans.” The article says:

“The business secretary, Vince Cable, has confirmed the 50p rate on tax will be abolished”.

The article does not say “may”, “could”, “possibly” or “on evidence”. It says the rate “will be abolished”. It goes on to say that he

“revealed the government would consider bringing in a ‘mansions tax’ to ensure the wealthiest pay their way.”

Who am I not to believe the Business Secretary, a key member of the Government and a key supporter of the Exchequer Secretary? Who am I not to believe him? If he says that it “will be abolished”, presumably it “will be abolished”. If he says that it “will be abolished” and the Government are considering

“bringing in a ‘mansions tax’ to ensure the wealthiest pay their way”,

presumably the Government are considering that measure as part of the ongoing review about which we know little and of which we have no details.

When the Exchequer Secretary responds, will he confirm what the Business Secretary said? Perhaps he could also explain whether this issue is part of his consideration of the alternative to a 50p tax rate, because that information would form some of the review's terms of reference.

Paul Blomfield (Sheffield Central) (Lab): My right hon. Friend is generous in giving way. It is helpful of him to make the point that the Government are clearly thinking about different tax proposals. A moment ago, he referred to the regional variations in the impact of the higher rate. Does he agree that the terms of reference should include, for example, the impact of VAT, which has hit hardest many of those in the poorest and lower to middle-income families in some of the constituencies that Labour Members represent? It would be helpful if the terms of reference were debated fully, so that we have the opportunity to make those sorts of points.

Mr Hanson: I am grateful to my hon. Friend, because he makes an interesting point. The terms of reference for the abolition of the 50p rate should include an assessment to determine whether such a move raises the money that it is claimed it will raise. That is a key first principle.

The terms of reference should also consider whether a choice is made between that tax and other taxes, assessing whatever level of income it raises versus that raised by other taxation. There should also be an assessment of how that tax impacts on sectors of our community. I have talked about regions. Not all of the London region, the south-east region and the east region is wealthy and prosperous. There are a range of options to be chosen by the Government when it comes to taxation.

Jessica Lee (Erewash) (Con): Following the logic of the right hon. Gentleman's argument and considering alternative options, is he considering increasing the higher rate of tax? Where would it end—80%, 90%?

Mr Hanson: I am grateful to the hon. Lady for putting that question. I can give her a very clear answer to it. As the Opposition, Labour supports the 50p tax rate being available for the duration of this Parliament. *[Interruption.]* I cannot be any clearer than that. I will say it again in case the Exchequer Secretary missed it, as he was talking. We support the 50p tax rate for the duration of this Parliament. The hon. Lady, the Ministers and the rest of the UK will have to wait for our manifesto for the next election, to see what rate of taxation we support in future parliamentary elections. It may have escaped the Exchequer Secretary's notice, but we are in opposition at the moment. We can be very clear about what we want to do now and in the future we will take an offer to the electorate about future levels of taxation, based on the economic circumstances at the time.

Alok Sharma (Reading West) (Con): So it could go up.

Mr Hanson: The hon. Gentleman says that. I cannot be any clearer than to say that we support the 50p tax rate for the duration of this Parliament. We will make a decision on levels of taxation for the next manifesto; that decision will be in the next manifesto, and we will fight that election on that particular policy.

Bill Esterson: It would be helpful if Conservative Members who question whether the 50p tax rate raises more or less than lower rates of tax were to present their evidence today, as this debate is so crucial and timely. I am curious about what the Chancellor believes, given his statement about maintaining the 50p tax rate in his Budget and the reasons he gave, which were about fairness. The question for Government Members is, is it about fairness or is it a question of which tax rate raises the most revenue?

Mr Hanson: I am grateful to my hon. Friend. We have been very clear on our tax proposals. The leader of the party, my right hon. Friend the Member for Doncaster North (Edward Miliband), and the shadow Chancellor, my right hon. Friend the Member for Morley and Outwood (Ed Balls), have said clearly that they want the 50p rate maintained for the duration of this Parliament. We will have to make decisions based on the economy in due course. The Minister will be among the first to know when we produce our manifesto.

Alison McGovern (Wirral South) (Lab): It is a pleasure to speak under your chairmanship, Mr Gale. Does my right hon. Friend consider that evidence should be at the core of this debate, as my hon. Friend the Member for Sefton Central said, and that the murmurings we have heard from Government Members show that the Government want to force this as a matter of dogma, rather than as a question, as our amendment suggests, of doing what is right for the country on the basis of the optimum level of taxation that can be brought in?

Mr Hanson: My hon. Friend makes the key point that this is about evidence. The purpose of the amendment is to ask for clarity. We are not asking for very much. I am asking for the review's terms of reference and timetable, and for updates to be given to Parliament. We are not saying to the Minister, "Make a decision." We are simply asking, "On what basis are you making the decision? Over what time scale are you making it? Who is advising you about it? Are you taking into account the information that the hon. Member for Staffordshire Moorlands was so helpful in bringing to the table? Are you taking into account the points that my hon. Friend the Member for Sheffield Central made about other taxation issues?"

Is the Exchequer Secretary reflecting on what the shadow Business Secretary—I mean the Business Secretary; I still think of him as the shadow, as he is still a sort of shadow in government—is saying about the business tax and the fact that there is a mansion tax proposal? What are the terms of reference for this review?

Nic Dakin: I think my right hon. Friend makes a good point when he emphasises the need for transparency. It is quite proper to speculate about what might happen. We have heard much of that in the debate so far today. However, at the end of March the Deputy Prime Minister said that a modified version of the mansion tax would be introduced—I am quoting from *The Daily Telegraph*—"once the economy was recovering and those on lower middle incomes were 'breathing more easily'".

That plays into this debate. The Deputy Prime Minister said that it would be a different sort of mansion tax from the one that was promised before the election. That emphasises again the importance of being clear about how this review is taking place. There is speculation

[Nic Dakin]

about these ideas, and the public have a right to understand how they are being considered. I think my right hon. Friend is doing well to spell out these issues.

Mr Hanson: I would not have raised the issue of the mansion tax at all had it not been raised by Ministers and linked to the abolition of the 50p tax rate. I originally quoted *The Guardian* of 27 March, but let me bring Members up to date. *The Independent on Sunday* on 8 May had the headline, “Lib Dems tell PM, You must rein in the Chancellor”.

As part of the discussion on that—and who am I to disbelieve what briefings are given by Ministers to *The Independent on Sunday*?—the Business Secretary has said, referring to policy decisions:

“We have to make sure that the coalition does not stray into policies of the Conservatives when it is not agreed coalition policy.”

The article continues:

“He once again raised his pet project to impose a ‘mansion tax’ on the most expensive properties as a way of financing Mr Osborne’s plans to scrap the 50p rate of tax.”

There is also a direct quote from the Business Secretary:

“There is a lot of unfinished business in the coalition agreement”.

11.30 am

That article was published on Sunday. The Minister needs to tell us whether the mansion tax is being considered as part of the terms of the review of the abolition of the 50p rate. Two Liberal Democrat Members—the hon. Members for Brecon and Radnorshire and for Bristol West—are present in Committee today. Perhaps they can help. I would be happy to take an intervention from them on whether they believe that the mansion tax is a better way of ensuring that the richest people in the community “pay their way.” Do they see that proposal as a replacement for the 50p rate?

Do the terms of reference include a discussion about things such as the mansion tax? I do not know. The Business Secretary is indicating that the issue is on the table. He is saying that, if the 50p rate is removed, it should be replaced by the mansion tax. On a point of clarity, I am not sure whether we would support such a tax. It has its attractions in some parts, but I do not think that it would be workable, feasible or practical. I do not think that the Liberal Democrats think it would be either, which is why they turfed the policy overboard previously. [Interruption.] Well, we will look at that, but the key point is that I do not know whether the mansion tax is being considered by the Exchequer Secretary as part of the terms of reference.

On the review, I asked the Chancellor of the Exchequer “what the terms of reference are for the HM Revenue and Customs review of the 50 pence rate of income tax.”

It was a straightforward question, which I would have thought would be easy to answer by saying, “The terms of reference are as follows: A, B, C, D and E.” The answer that I received from the Exchequer Secretary was:

“The Chancellor has asked HMRC to assess the revenue raised by the 50% rate using relevant self-assessment data.”—[*Official Report*, 26 April 2011; Vol. 527, c. 323W.]

That does not give clarity on the terms of reference. It simply says that the Chancellor has asked HMRC to make the assessment, but why has he done that?

The Chancellor has made great play of the establishment of the Office for Budget Responsibility, whose terms of reference include examining budget responsibility across the board. In a helpful note on its website, headed, “What we do”, the OBR says:

“We produce forecasts for the economy and public finances. We publish five-year forecasts twice a year in our Economic and fiscal outlook (EFO) publication. Our spring EFO is published at the same time as the Budget and incorporates the impact of any tax and spending policy measures announced in it.”

It goes on to say:

“We judge progress towards the Government’s fiscal target... We assess the long-term sustainability of the public finances... We scrutinise the Treasury’s costing of Budget measures... In support of these activities, we undertake a variety of research projects through the year.”

It notes that it publishes briefing material and provides regular briefings, and that it looks at the monthly public finances.

Why has the Chancellor not submitted the review of the proposed tax change in 2013 to the OBR? It is an organ of Government that is independent and designed to look at such matters in a fair and effective way. I do not understand why he has asked HMRC to conduct the review. Does he anticipate—this goes to the heart of the amendment—that the information from HMRC will be public, will be shared with the OBR, and will be open to public scrutiny in the House of Commons and elsewhere? I am at a loss as to why HMRC is doing the review—we do not know any of its other details—when the OBR has been established for that very purpose.

How will the Exchequer Secretary ensure that, between now and 2013, there is transparency, with external scrutiny, and that information is publicly available? What public information on the progress of the review during the two and a half years does he expect? What instructions have Treasury Ministers given to HMRC, or to any other agent of the Government, about the review and the team carrying out the review? When will they report and to whom? Will an interim report be made public? Are there really no formal terms of reference for the review? If there are, why does not the Exchequer Secretary simply publish them as per the amendment before us today? Will the Treasury, the OBR and HMRC assess behavioural responses that will lead to changes in other taxes, owing to the 50p rate? The measure cannot be seen in isolation, as my hon. Friends have pointed out.

I make no comment other than to put it on the record that, on 22 February, Duncan Weldon, a *Guardian* writer on economics, indicated that he believes the 50p tax rate is paying dividends:

“The latest public sector borrowing figures have revealed an unexpectedly large surplus for January 2011. The Treasury repaid £3.7bn last month, surpassing expectations”.

He goes on to say:

“The most likely explanation is that higher income tax receipts partially represent the new 50p rate kicking in and raising revenue.” He believes that the 50p rate is contributing towards that rate of repayment.

As part of the review, I want to know whether external bodies—outside agencies—can submit evidence about the effectiveness or otherwise of the 50p rate in relation to the level of taxation that it is allegedly

bringing in. That would answer the point made by the hon. Member for Staffordshire Moorlands and would provide an opportunity for the Committee to scrutinise those issues across the board.

I do not wish to detain the Committee for ever on these points, but it is important that we get some answers from the Exchequer Secretary about the long-term plan for this particular taxation proposal. When we come to the clause stand part debate shortly, we will be asked to endorse the 50p tax rate for this year. Therefore, the Minister must believe that the 50p tax rate is raising money this year, or he would ask us to reject it now. We are being asked to accept that it will be in existence for the next 12 months. Although we have heard it from the Chancellor only in a throwaway comment in the Budget statement, we are being asked to accept that there will be a review. We need to know very clearly the terms of that review. We need to know who can contribute to that review and on what basis the Exchequer Secretary will make decisions in 2013.

Will the Exchequer Secretary justify why he has already apparently set out his stall in favour of the abolition of the 50p rate in 2013, irrespective of the evidence, by saying that it should not be a long-term tax, that it is damaging to the economy and does not raise income? He seems to be facing both ways at once in trying to kick it long to show that he is being fair in making an assessment, while at the same time sending a signal out to everyone that he wishes to abolish the tax and have the 40p rate for all. That links back to the points that I made earlier. Such a choice potentially has a differential impact on incomes across the United Kingdom. That choice is being made at a time when we are making other difficult choices that are hitting a range of people across the UK in different ways. In my view, the choice should be made on the principle of evidence. We strongly believe that we can raise money from this tax and that it should be in place for the duration of this Parliament. We will look at the evidence and make a judgment for the next Parliament on the basis of that information. The Exchequer Secretary has done the opposite. He has said he does not believe that this is a fair tax or that it is right to have it, and he will try to concoct a review, about which we know little, to justify that in retrospect and to move to abolition in 2013.

There is a clear division between the Government and the Opposition, and I hope we will be able to explore it in some detail. For these purposes, however, I hope that the Exchequer Secretary will accept the amendment, which makes no judgment on the 50p tax rate, but simply says, "Publish the terms of reference and the time scale and make sure we do not have a vacuum on these important issues."

The Chair: Before we proceed, I should say that although the shadow Minister was entirely in order throughout his remarks, he and others who have served on Committees that I have chaired will be well aware that I take a fairly relaxed view of stand part debates. Members may choose to have them at the beginning or the end of our deliberations on a clause, but not both. By the time the debate on the amendment is concluded, I shall probably take a view that clause 1 has been adequately aired. Fourteen Members have intervened to date, so I caution the Committee that there may well not be a stand part debate.

Mr Gauke: It has been a great pleasure to listen to the right hon. Member for Delyn move amendment 3, which seeks further information on the Government's plans to assess the revenues from the additional rate of income tax. As the 50% rate was introduced by the previous Government, I can understand why he is interested in establishing whether it raises the revenues they estimated it would.

As the right hon. Gentleman will be aware, the Government assess the revenues from all taxes on an ongoing basis. The Chancellor's Budget statement to the House on 23 March simply highlighted the fact that he has asked Her Majesty's Revenue and Customs, as part of that ongoing work, to see how much the additional rate actually raises. HMRC will look at all the available evidence about the impact of the 50% rate, including data from the 2010-11 self-assessment returns, which will become available next year.

To answer one of the right hon. Gentleman's questions, HMRC is undertaking the review because it is important that all the information available on the 50% rate is considered, and only HMRC can analyse individual self-assessment returns, because they contain confidential taxpayer information. That is why HMRC has been asked to perform this role.

In looking at the issue, HMRC's main challenge will be to isolate the impact of the additional rate from other factors. In light of that, it will conclude its analysis as soon as it is practical to do so. Its findings will then be used to inform the Government's wider thinking on taxation policy, with any announcements made by the Chancellor as part of the annual Budget process in the usual manner.

Of course, the Government keep all taxes under review and reserve the right to announce changes at the appropriate time. Indeed, tax changes are generally made at Budgets. Given that, there is no reason to accept the amendment, and I ask the right hon. Gentleman to withdraw it.

Let me also say a word or two about transparency. It has to be acknowledged that the Government have substantially increased the transparency of the Budget forecasting process with the introduction of Office for Budget Responsibility. We have ensured that independent outside experts can make assessments of the forecasts and projections in the Budget. We have made substantial advances in that respect, and the OBR will be involved in future Budgets, ensuring that projections are as accurate as possible by providing some independent analysis. There has, therefore, already been a substantial increase in transparency.

Given your strictures, Mr Gale, perhaps I can say a word or two about clause 1 generally. The Government are committed to creating a fairer tax system that provides greater reward for work and aspiration while supporting the public finances. This year will see the largest ever increase—£1,000—in the personal allowance, which is introduced in clause 3, to which we will turn shortly. That represents the first step in our commitment to increase the personal allowance to £10,000 and will remove more than 800,000 people from income tax altogether.

Alec Shelbrooke: Drawing on the shadow Minister's comments about the cut in the basic rate being of greater benefit to those in the south, surely the comments

[Alec Shelbrooke]

just made by the Exchequer Secretary demonstrate how this Government have done more for the poorest regions in the country than any previous Government.

11.45 am

Mr Gauke: I am grateful to my hon. Friend, who made a good point. The increase in the personal allowance will benefit people up and down the country. I regret the tone of the—[*Interruption.*]

The Chair: Order. I am sorry to interrupt. I appreciate that the Opposition Whip needs to brief his flock on occasions, but there is a limit to how long I am prepared to allow him to wander around the room.

Mr Gauke: I was making the point that it would be a pity if the debate on taxation matters became one in which we pit one part of the country against another. That does nothing for the unity of the United Kingdom, although I appreciate that the Labour party has not achieved much on that front over the past few weeks, in Scotland in particular.

Alison McGovern: I am interested in the Exchequer Secretary's point that it is a mistake to pit one part of the country against another. Is he saying, therefore, that the economy functions universally similarly throughout the country and that the Government have no role in measuring the impact of their taxation policy in different parts of it?

Mr Gauke: No, the economy does not act universally. There are different conditions in different parts of the country. Not long ago, in our debates on the National Insurance Contributions Bill, in which we proposed an employers' holiday for some parts of the UK and not for others, the Opposition argued that we should apply it to every part of the country. We therefore recognise that different parts of the economy have different circumstances.

I am not sure that it is profitable for the Labour party to claim that some policies will favour the south-east against the north-east and so on. I fear that that fails to understand the importance of a successful, entrepreneurial, dynamic economy for the whole of the United Kingdom, which is what we seek to achieve.

Ian Mearns: I am grateful for the Exchequer Secretary's recognition that there are differential impacts of national policy on different parts of the country. In taking that on board, there is no resulting differential approach by the Government in managing the economy on a national basis—or very little evidence for that. Such evidence would be gratefully received, certainly by my constituents.

Mr Gauke: I touched on the NICs holiday policy, which is available to new businesses in the north-east but not to those in the eastern region, for example, where my constituency lies. We have made attempts, but my broad point is that a strong, dynamic economy benefits the whole of the UK and would enable us to pay for the public services that we need to apply throughout the UK. It would be a pity for the Labour party to fall

into merely representing one region versus another, but it is not for me to advise it on how it goes about the business of opposition.

Turning back to the 50% rate in the context of the clause, we believe that now is not the right time to remove that additional rate, when we have a freeze in public sector pay and are taking tough decisions on welfare and public spending. However, in an age when businesses, capital and people are increasingly mobile, our income tax system must be internationally competitive. High tax rates send a negative signal to individuals and businesses that are looking to work and invest in the United Kingdom. The Government believe that a 50% rate would do lasting damage to the UK's economy if it became permanent.

Mr Hanson: If the Exchequer Secretary wishes to keep the tax rate this year, will he say—to answer the question of the hon. Member for Staffordshire Moorlands—how much revenue the Exchequer expects to bring in through the 50p tax rate?

Mr Gauke: Projections were made under the previous Government when the 50% rate was introduced. The Chancellor announced in the Budget that HMRC will review those projections and the information that had come in. Clearly, there was considerable uncertainty about the projections made under the previous Government. I am not saying that they were made in bad faith, by any means. I think that they were done in good faith, but there is clearly a range of views. Some economists argue that the rate could be a lot less; some argue that it could be a lot more.

The fact is that there is uncertainty about the behavioural impacts of the 50p rate, such as to what extent it will increase tax avoidance, to what extent it will mean more people leaving the UK or not entering the UK and to what extent it will result in people retiring earlier. Significant questions can be asked. Indeed, if we were to consider a purely static analysis of the 50% rate, we would get three times the amount projected by the previous Government. However, within the figures is the assumption that there will be considerable behavioural changes, but when there are assumptions on such a scale, there is considerable uncertainty, which is why we want to look at the data when they come in—a task that HMRC will perform.

Bill Esterson: It would be helpful if the Minister clarified again the reasons for keeping the 50p tax rate. He did not say whether he agreed with the Chancellor's saying that it was about fairness and that those on much lower incomes were making sacrifices. Equally, is the rate being kept to help with deficit reduction or not? My third point ties in with what my right hon. Friend the Member for Delyn said: is it not better to analyse the likely impact before making decisions rather than leaving the matter uncertain? From what the hon. Gentleman has just been saying, he is far from clear about the impact of keeping the 50p tax rate.

Mr Gauke: As for whether it is better to do the analysis before than afterwards, I accept that up to a point, but if it is possible to conduct an analysis when we have seen what has actually happened, it is likely to be better informed—and that is what we propose to do. I was clear about the reason for keeping the rate at such a level when there is a freeze in public sector pay and

when we are having to make some very difficult decisions. It is fair that it continues, but we recognise that, if it remains in place on a permanent basis, it could do lasting damage to the UK's competitiveness.

Ian Mearns: As the Exchequer Secretary has emphasised the uncertainty of the impact, despite the oversight of the Office for Budget Responsibility, has he not outlined the case for the amendment?

Mr Gauke: Well, I have outlined the case for HMRC to look at the data early in 2012, which is exactly what it will do. The fact is that tax decisions are announced in Budgets. Decisions about the 50p rate will be announced in a Budget, and that will be informed by HMRC's analysis, as the Chancellor outlined in his Budget speech, and which I am reiterating today. The amendment would not add anything. I urge the right hon. Member for Delyn to withdraw it, and I urge my hon. Friends to reject it should he press it to a Division.

We want to stress that the 50p rate is a temporary measure and it could be damaging. That is not a particularly "ideological" position—I think that was the word the right hon. Member for Delyn used—after all, it is consistent with the position that the Labour party took in 1997, 2001 and 2005, although it did not maintain that manifesto position after the 2005 general election; I recognise that it took a different position in 2010. Some Labour Members may notice what 1997, 2001 and 2005 have in common compared with 2010 as far as their party is concerned, and I will let them draw their own conclusions. It seems to me that a party that does not recognise the need for the UK to have a competitive tax system is not doing itself any favours.

Ian Murray: I think everyone on the Committee understands the need for a competitive tax system in this country, but would the Exchequer Secretary not concede that, particularly in the current climate, we also need a fair tax system? When the poorest are being hit hardest, discussions about the 50p tax rate being temporary send out the wrong message.

Mr Gauke: It sends out absolutely the right message to say that the 50p rate is temporary. We face particular circumstances at the moment in which everyone has to make considerable sacrifices due to the state of the public finances left by the Labour Government. We recognise that, and in these circumstances, we are not rushing to remove the additional rate of income tax. We want to explore the facts further and how much revenue it is raising, but in the longer term, in a globalised world in which it is more important than ever that the UK is competitive, a 50p tax rate, which is higher than that of most of our competitors, clearly puts us at a competitive disadvantage. Were we to signal that it was permanent, which I think is the Labour party's position, it would not do the UK any favours as we go around trying to attract businesses to invest in the UK and to get the best and the brightest to locate here. It does not serve any part of our society to be uncompetitive in this field.

Stella Creasy: The Exchequer Secretary has made an eloquent case for his concerns about bringing the best and the brightest to the UK, but could he also tell us his

thoughts on damaging family income? I wrote to the Treasury when the announcement was made about cutting child benefit to highlight the many families in my constituency in Walthamstow who, by dint of London weighting, found themselves tipping into the higher income bracket. If they had two or three children, they lost £3,000 or £4,000 a year. I wrote to ask whether, if the measure was just about addressing the deficit, the Government would commit to reviewing it in 2015. I got no response to that, yet the Government are making a clear commitment on the 50p tax rate due to the damage it might do to Britain's competitiveness. Will the Exchequer Secretary make a statement to the Committee about the impact of the damage that the cut in child benefit is doing to families in places such as Walthamstow and other areas of London? Given the case he makes today, will the Government also review the cut?

Mr Gauke: I do not want to test your patience at any great length, Mr Gale, but the decision on child benefit will affect households in the highest 20% of income. We recognise that it is a tough decision; it is an example of the tough decisions that we have to make due to the state of the public finances. The hon. Lady is perfectly entitled to make her case, although I worry that the right hon. Member for Delyn will argue that there are fewer higher rate taxpayers in other parts of the country compared with London, so were we to change our policy, it would favour London and the south-east over the rest of the UK. I wait to hear that argument.

The hon. Lady raises a fair point in that the child benefit policy was a tough decision, but we have to find savings somewhere, and that saving applies to more prosperous households than most.

Stella Creasy: I seek clarification because the people in Walthamstow I am talking about are, for example, bendy bus drivers, who, because of London weighting, find themselves just tipping over into that category by £1,000 or £2,000. Will the Exchequer Secretary confirm that the Government care more for the people they might attract from overseas? The 50% tax rate might affect bankers, but it also affects bendy bus drivers and nurses working overtime in our NHS who live in London and find themselves tipping into that category. Let us be clear about the Government's priorities.

12 noon

Mr Gauke: The point on child benefit is that we have to reduce the deficit, which means making some tough decisions. If the 50p rate becomes a permanent part of our tax environment, in the long-term it would, at the very least, damage our competitiveness and we would raise less in tax. If we have an uncompetitive tax system that drives businesses and high earners out of the UK, we would have less to spend on public services and on child benefit. That is a simple economic lesson that needs to be relearned from time to time, but it remains a fact of life.

Nic Dakin: I thank the Exchequer Secretary for being so generous in giving way.

Are not the points being made by my hon. Friend the Member for Walthamstow and by the Exchequer Secretary exactly the same? Different tax changes affect people's

[*Nic Dakin*]

behaviour. People's behaviour to avoid the tax rate that affects child benefit is the same as that to avoid the 50p tax rate. They should both be treated the same.

Mr Gauke: If the hon. Gentleman is making a case that the dynamic impact of the changes on child benefit will be considerable, we are not persuaded by that. We do not think that the evidence supports that. A lot of evidence suggests that a marginal rate of 50% on high earners is more likely to have a behavioural impact.

On clause 1 and amendment 3, it is necessary to review the facts. More evidence will come to light as a consequence of the self-assessment returns for 2010-11, which are likely to be filed in particular during January 2012. That evidence will enable us to be better informed. It seems right that any decisions on additional rates should be informed by that analysis, although it is clear that over the longer-term a permanent tax rate of 50% would be damaging. Any decisions on the additional rates would be made in a Budget and legislated for in a subsequent Finance Bill. This Finance Bill does not withdraw the additional rates. If and when that happens, I am sure a future Committee will debate it at some length.

Ian Mearns: The point made by my hon. Friend the Member for Walthamstow, which the Exchequer Secretary himself echoed, is that the relaxation of the 50p rate would disproportionately benefit one part of the country: London and the south-east of England. In London and the south-east of England there would be 161,000 beneficiaries of such a relaxation; in the rest of the United Kingdom there would be only 138,000 beneficiaries. Obviously, a relaxation of the 50p tax rate would have disproportionate benefits and detriments.

Mr Gauke: But if that is the right thing to do, and if that is what the evidence points to, additional sums would be raised in taxation by a more competitive regime. Such sums would enable us to fund public services throughout the UK. That is the argument we are making. It was accepted by the Labour party in previous years, and the Labour party may want to reconsider it a little more closely than it appears to be doing at the moment.

The overriding priority of the June 2010 Budget was to reduce the fiscal deficit and bring the public finances back under control. Clause 1 introduces income tax for 2011-12, and in doing so supports the Government's fiscal objectives. As well as asking the right hon. Member for Delyn to withdraw the amendment, I encourage the Committee to support clause 1.

Mr Hanson: I am afraid the Minister has not helped me come to a conclusion on the matter, and I wish to examine it further. The Minister said he had no indication yet of how much revenue has been raised in real terms by the 50p proposal in the years 2010-11. That is subject to further consideration by HMRC when self-assessment tax forms come in. However, the Minister and his colleagues have already said that they believe it to be a damaging tax. My point is this: the Minister has made a judgment based on his dogmatic view of the 50p tax rate, rather than on evidence, income or even where that income, if there is any, will come from in future years.

Mr Gauke: The right hon. Gentleman talks about evidence. On what evidence did the Labour party in 1997, 2001 and 2005 believe that it was right not to raise the higher rate of income tax?

Mr Hanson: Well, we could continue that discussion for a long time. In the years of the Labour Governments, up to the banking crisis, we had increasing investment and jobs, and increasing public sector investment, which created jobs and employment. Therefore, we were able to maintain a lower tax regime, because we had strong public sector-led investment. As the Minister is aware, there was a worldwide banking crisis, which impacted not just on the UK but elsewhere. Therefore, we have lost revenues due to higher levels of unemployment and a range of other reasons. The Government at the time felt that a key task was to raise £1.1 billion from that additional rate. Unlike the current Government, we thought we should all be in it together.

Mr Gauke: I have listened carefully to the right hon. Gentleman's argument. It seems that the reason why the Labour Government did not have to raise the higher rate of income tax in those years was that public spending was high, if I understood him correctly. When public spending is high, one does not need to raise taxes. It is still not clear to me why in 1997 the Labour party felt it was good to say that higher rate income tax should not go above 40%, given the position set out by the right hon. Gentleman today.

Mr Hanson: We have taken a view on the economy. In 1997, the Labour Government felt that they could strengthen the economy, and build jobs and public services, by a range of measures that did not include that particular one. In the time of deficit and crisis, we believed that we could recoup additional income. The estimate was of £1.1 billion for 2010-11, and a further £2.4 billion each year until 2014-15. That would be £10.7 billion in total, from that level of taxation of a group of people, who, I remind the Committee, number around 275,000 out of the total UK population.

Ian Mearns: Does my right hon. Friend agree that, judging by the Minister's response to the debate and the questions he put in interventions, he has already determined that the 50p tax rate will be relaxed very soon?

Mr Hanson: That is the key point of the debate. The purpose of the amendment is to have clear terms of reference and a timetable, so that the decision that the Minister takes on the 50p tax rate for future Budgets—I accept not for this one—is based on evidence. If the evidence shows that the 50p tax rate means that we have reduced income, the Labour party would not support that. The purpose of the tax rate was to ensure that we spread the income generation across income levels. The estimate of £10.7 billion up to the next election is money that can be raised from one portion of society to spend on important projects elsewhere. It is important to do that and make that assessment. The Minister seems to have already taken a decision that he is against the 50p rate as a matter of principle, and will not take into consideration the evidence that Members have seen about its impact on income generation as a whole.

Bill Esterson: Does my right hon. Friend agree that it would be helpful if the Exchequer Secretary intervened on him soon to clarify that point and to put on the record, once and for all, whether the Government intend to reduce the 50% tax rate, regardless of the evidence, or whether they will be guided by the evidence that they have received?

Mr Hanson: That is an extremely good point. Perhaps the Exchequer Secretary will make it clear—either in an intervention or after I have finished—whether, if the evidence shows that the 50p tax rate raises an amount of money that is anywhere between £1 billion and the estimated £10.7 billion, he will still reduce the top rate. That would be an interesting discussion to have on a future finance Bill.

Bridget Phillipson: My concern is that, although the Exchequer Secretary has said that if additional money is raised the Government may retain the 50% tax rate for longer, there is also talk about the competitiveness of the UK tax system in attracting business. I understand that point, and I entirely agree that the UK needs a competitive tax system, but I am not clear what measures the Exchequer Secretary will use to judge the effectiveness of that versus the income generated through the 50% tax rate.

Mr Hanson: My hon. Friend makes a very valuable point. It is incumbent on the Exchequer Secretary to tell the Committee exactly what he believes, as a matter of principle, about the 50% tax rate. The purpose of the amendment is to set a framework to assess whether the 50p tax rate should be retained after a future date. We have taken a principled view that it should be kept for the duration of this Parliament, because assessments made by the previous Labour Government showed that it would raise £10.7 billion over the next three to four years.

The Exchequer Secretary has said, through the Chancellor of the Exchequer, that he wishes to see the 50% tax rate end in 2013, irrespective of the evidence—that is effectively what he has said.

Mr Gauke: No.

Mr Hanson: Well, if the Exchequer Secretary wishes to clarify that point, let him do so.

Mr Gauke: The position is very clear. The Chancellor reiterated in his Budget speech the point made by the right hon. Member for Edinburgh South West when he introduced the 50p rate that it was a temporary measure and that, were it to be permanent, it would do lasting damage to the British economy. We have also said that HMRC will review the data in early 2012 and that any decisions will be guided by those data, so our position is very clear.

Mr Hanson: That is not exactly what the Chancellor of the Exchequer has said publicly about the Government's position. He has said—and in his responses to me, the Exchequer Secretary has said—that it will be a damaging tax in the long term. On what evidence has he made that assertion? What evidence does the Exchequer Secretary

have today that his assertion is true? Will he intervene now to explain what evidence he has from his Treasury officials that the tax is damaging in the long term? I will give him the opportunity to intervene on that point.

Mr Gauke: The fact is that the UK's additional rate of tax is higher than that of most of our competitors. Our assessment is largely the same as the one made by the Labour party in 1997, 2001 and 2005—that high rates of marginal tax damage the UK's competitiveness and do lasting damage to our economy in the long term. Labour was right during those years; it is wrong now.

Mr Hanson: The Committee will note that that was not evidence but opinion. To date, we have heard no evidence that the 50p tax rate is achieving the objectives that the Exchequer Secretary is concerned about or that it is deterring individuals from outside the United Kingdom from settling here. The purpose of the amendment is to ensure that we have some clarity on those points.

I still worry that, although we will undoubtedly approve clause 1 and accept the 50p tax rate for today, the terms of reference of the review—of which we still have little detail—may generate a conclusion in 2013 that is skewed towards the initial indication of the Chancellor's view. My concern is that as a result of that conclusion we might not be able to raise the level of revenue that we could through the 50p rate, which will be damaging to the economy, and we would give a tax break to people in certain parts of the United Kingdom and not in others.

12.15 pm

Ian Mearns: My right hon. Friend makes a very good point. Does he agree that the logic of what the Minister has said might lead us to wonder why the Chancellor did not relax the 50p tax rate in his Budget speech? The Minister has provided no evidence to support its retention, but it is in the Budget speech and is part of this year's Budget.

Mr Hanson: Exactly. My hon. Friend makes an extremely good point, because, again, in this year's Budget we have the 50p tax rate. The Minister could make an assessment on the basis of previous Labour Governments' assessments of how much money has been raised from that tax rate, but he persists in saying that the Government want to abolish it. They want to have some justification for doing so, however, so that they do not appear to be benefiting only the richer sections of our community at a time when everybody else is facing child benefit cuts, high levels of unemployment, working tax credit freezes and massive public spending cuts. A certain sector of our community would be not only insulated but given a tax handout, which would not play well in the first year of a three-year austerity Budget.

The Minister has already said that he believes the tax rate should go. He is hoping, effectively—this is the point that my hon. Friend the Member for Gateshead is making—that in three years' time the review, about which we still know little, will provide evidence to indicate that the 50p tax rate will lead to a loss of revenue and therefore should be scrapped. The Minister hopes that that will be the case, but he has already

[Mr Hanson]

indicated that he wants the tax rate to go. My hon. Friend the Member for Sefton Central and I have asked him whether he would keep it if it was shown in three years' time to have raised money. Will he answer that question now? If this tax is shown still to raise money in 2013, does he intend to keep it? Will he intervene on that point?

Mr Gauke *indicated dissent.*

Mr Hanson: The Minister has declined to intervene on that point. Whatever the outcome of the review in 2013, I believe that he intends to scrap the 50p tax rate as a sop to the 275,000 people who are affected by it, about whom Members have expressed some concern, who are predominantly still in London, the south-east and the east. For the record, I am not arguing for differential taxation across the United Kingdom; I am simply saying that Ministers' decisions will have a different impact on different parts of the United Kingdom. Reducing the tax rate from 50% to 40% will disproportionately benefit people who live in London, the south-east and the east. It will undoubtedly benefit people in my constituency; there must be somebody who earns more than £150,000 in my constituency, but there are not many such people. In other constituencies there are many more, which is why the Minister needs to reflect.

Alison McGovern: My right hon. Friend has pointed to some of the complexities that are involved in this decision. Does he agree that the Government need to consider that companies, in deciding where to locate, or businesses, in deciding to move, do not consider only the top rate of tax? They may consider the whole picture of taxation. Our plea for evidence, demonstration and facts relates not only to the top rate of tax that we are debating in clause 1 but to the interplay between that rate of tax and other taxation. It relates to the general impact that that has on society and on whether the UK is therefore a good business prospect globally.

Mr Hanson: My hon. Friend makes a valid point. I would have thought that people locate to the United Kingdom because of issues of quality of life, and because of skills, businesses and other important things. People live in London because it is a vibrant, dynamic city with lots to offer, not only because of the rate of taxation. People live in the constituency of my hon. Friend the Member for Edinburgh South, because of the great opportunities there, which are not only related to the level of taxes. The banking industry and financial services sector industry are thriving not only because of the level of taxation in Edinburgh. I cannot imagine people upping sticks from Edinburgh with the financial services sector, simply because the level of tax remained at 50p.

Ian Murray: I am tempted to say that independence for Scotland might drive them away, but that would be ruled out of order.

The Chair: It would.

Ian Murray: I nearly used the word "divorce" as well.

One aspect that has just been mentioned, about where people locate big businesses and where employment is generated, is key. The Institute for Fiscal Studies, as my right hon. Friend will remember, drew a profile of this Government's choices, in terms of their austerity budget and tax policies, and the only thing that kept the graph moving towards the top decile paying the most was the 50p tax rate. Therefore, if there is a lower proportion of the additional taxpayers in Scotland—and indeed, in Edinburgh—than there are in the east, south-east, or in London, that means that the poorest in my constituency are paying a disproportionate amount for the mistakes that have been made by the very people who should be paying this 50p tax rate. Does my right hon. Friend agree that it would be very good to see a proper profile of who is paying the most in order to pay down the deficit?

Mr Hanson: Indeed, and I remind my hon. Friend that there are some 16,000 additional rate taxpayers in Scotland, compared with 18,000 in the north-west, 34,000 in the east, and 94,000 in London. It is important to reflect on that point, because if a decision is made by the Exchequer Secretary, income may well be forgone. The previous Labour Government planned to raise the figure that I mentioned earlier, which was about £10 billion. We do not yet know, because the Exchequer Secretary has not been clear with us as to what that level has been in the past year, but if it is proved that income has been generated and if the tax is ultimately reduced, that income will either have to be found through additional funds being raised from other people in society, as my hon. Friend has said, or through additional public expenditure cuts. The Government have to make that choice.

I do not know what the terms of reference for the Exchequer Secretary's review are, which is why I support amendment 3. I do not know whether he is taking into account issues to do with other choices of expenditure, in the event that the 50p tax rate is shown to generate income. For the record, the Minister has steadfastly refused to answer the question whether he would abolish the tax if it was proved to raise money. My fear is that the review will not take into account the other impacts of potential taxation or public spending cuts, in the event that the 50p tax rate proves to be one that raises income.

Nic Dakin: I am listening carefully to my right hon. Friend's argument. Does he feel that if it is a genuine evidence-based review, which the Government have assured us that it will be, and it clearly demonstrates that the tax rate raises more money than changing it would generate, clearly it would stand?

Mr Hanson: That is the point that we are making to the Exchequer Secretary, and it is important that we reflect on those matters very strongly.

Bridget Phillipson: The Exchequer Secretary has made it clear that even if this is proven to work, inasmuch as it raises additional revenue, we could still end up in the

position of having nebulous, vague political arguments about competitiveness, even if by his own measure of raising revenue that 50p rate has been proven to work.

Mr Hanson: Indeed. One of the worries that I have, which I think supports what my hon. Friend has said, is that we may end up with a self-fulfilling prophecy. Given what the Chancellor and the Exchequer Secretary have said, individuals will now expect the 50p tax rate to go in 2013. They will make arrangements to move their resources into other areas or pay deferred taxation, using accountancy to achieve that objective. That will ensure a self-fulfilling prophecy over that period, and the issue of not raising revenue that the hon. Member for Staffordshire Moorlands mentioned might come to the fore. I think that the Exchequer Secretary needs to reflect on that strongly.

I was also concerned not to hear from the Exchequer Secretary any detailed comment on whether the Business Secretary has initiated discussions on the mansion tax as part of the review. I go by what I read in the papers, so I would welcome an indication of whether the review will consider other forms of taxation, such as the mansion tax, for those in the richer sectors of our community as part of the income generation that he seeks from the Bill.

I would be grateful if the Exchequer Secretary answered those points, but if he wants to make any response on the other points, I will happily listen to it. Also, I ask him once more why he has not indicated that the OBR is doing the review.

Mr Gauke: I answered that.

Mr Hanson: Well, I do not think that he answered it to my satisfaction. I fear we are coming to a conclusion on that point. I hope that the Exchequer Secretary will accept the amendment, and I urge my right hon. and hon. Friends to support it.

The Chair: The question is—

Nic Dakin *rose*—

The Chair: Order. Conventionally, the Chair will not take an intervention after the person who moved the amendment has wound up. I am afraid that that is standard practice. I have endeavoured to ensure that all hon. Members have had the opportunity to intervene at some length, which is in order, but I must draw the line now. The hon. Gentleman may wish to bear that in mind for the future.

Question put, That the amendment be made.

The Committee divided: Ayes 14, Noes 16.

Division No. 1]

AYES

Blenkinsop, Tom	McCarthy, Kerry
Blomfield, Paul	McClymont, Gregg
Creasy, Stella	McGovern, Alison
Dakin, Nic	Mearns, Ian
Esterson, Bill	Murray, Ian
Glendon, Mrs Mary	Nash, Pamela
Hanson, rh Mr David	Phillipson, Bridget

NOES

Aldous, Peter	Hoban, Mr Mark
Barclay, Stephen	Lee, Jessica
Bradley, Karen	Lewis, Brandon
Crockart, Mike	Sharma, Alok
Crouch, Tracey	Shelbrooke, Alec
Gauke, Mr David	Wharton, James
Goodwill, Mr Robert	Williams, Roger
Harrington, Richard	Williams, Stephen

Question accordingly negated.

Question put forthwith (Standing Orders Nos. 68 and 89), That the clause stand part of the Bill.

Question agreed to.

Clause 1 accordingly ordered to stand part of the Bill.

12.30 pm

The Chair: Members will probably have been made aware through the bush telegraph of the sad news that David Cairns, the hon. Member for Inverclyde, has died. I mention that now because, as is custom and practice, the Speaker will make a statement at the start of the afternoon's sitting in the Chamber, and I am sure that Members will wish to be present.

Mr Hanson: On a point of order, Mr Gale. May I thank you for that announcement? We became aware of the news during the debate, and it was one of the reasons why I was not minded to continue the discussion on the amendment for very long. I served with Mr Cairns in Northern Ireland for two years, and hon. Friends here in the Committee were good friends of his. We mourn his passing, and certainly want to pay tribute to him in due course. He was a very committed Member of the House and served his constituency extremely well, and we are very sad and sorry about his passing.

Mr Gauke: Further to that point of order, Mr Gale. May I associate myself and my colleagues on this side of the Committee with the right hon. Member's remarks? David Cairns was a very popular Member of this House and well-respected by both sides, and our thoughts are with his friends and family at this difficult time.

The Chair: The points made by the two Front-Bench spokespeople are a matter of record, and I am sure that their expressions of sorrow and condolence will be shared by all Members.

Before we proceed, for the benefit of Members who have not served on a Committee before, let me make it absolutely plain that the duty of whoever is in the Chair is to protect the interests of Back Benchers as far as possible—we always endeavour to accommodate Members who wish to speak. However, there is a convention that once the mover of an amendment has been called to wind up the debate no further contributions are taken. I say that simply because if Members wish to speak they should rise and make that clear to whoever is in the Chair before the Front-Bench spokesman—from either side, depending on who has moved the amendment—is called. I hope that that is clear, because I would not wish people to feel that they were unable to participate.

Clause 2

BASIC RATE LIMIT FOR 2011-12

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

Mr Gauke: Clause 2 sets the basic rate limit for income tax for the 2011-12 tax year. The limit set this year ensures that the gain from the personal allowance increase for 2011-12 is focused on the low and middle-income taxpayers who need it most, and it is set in such a way that the majority of higher rate taxpayers pay the same amount of tax and national insurance contributions as planned by the previous Government.

The clause reduces the basic rate limit by £2,400 to £35,000 in 2011-12 which, when combined with the £1,000 increase in the personal allowance introduced by clause 3, means that the higher rate tax threshold for 2011-12 is reduced by £1,400 in cash terms, to £42,475. Together with the corresponding adjustments made to keep the national insurance upper earnings and profits limits aligned with the higher rate tax threshold, that means that the majority of higher rate taxpayers pay the same amount as planned by the previous Government.

The coalition Government are committed to creating a fairer tax system that rewards work, with real-terms progress every year towards increasing the personal allowance to £10,000. The £1,000 increase in the personal allowance introduced by clause 3 represents the first step towards that £10,000, and will benefit 23 million individuals, removing more than 800,000 people from income tax altogether. However, we had also to ensure that increasing the personal allowance by £1,000—the largest increase ever—was consistent with bringing the public finances back under control. Accordingly, we have made the adjustment in clause 2 to focus the benefits on people on low and middle incomes—the right decision for a fair and sustainable change.

The overriding priority of the June 2010 Budget was to reduce the fiscal deficit. At a time when we are asking so much of so many, it is right to reward the efforts of people who choose to work by increasing the personal allowance, but equally, it is right to focus the gain from the increased allowance on those who need it most. The change in the basic rate limit does exactly that.

Mr Hanson: As the Minister said, clause 2 sets the basic rate limit for income tax at £35,000. Subsection (1) replaces the existing amount of the basic rate limit in section 10(5) of the Income Tax Act 2007, which is £37,400, with the figure of £35,000 for 2011-12. Subsection (2) disapplies the indexation provisions for the basic rate limit for 2011-12 as a whole. As the Committee will know, an individual's taxable income is charged to tax at the basic rate of tax up to the basic rate limit. The basic rate limit is subject to indexation—an annual increase based on the percentage increase to the retail prices index. Parliament can override indexed amounts through the provisions in the Finance Bill.

The basic rate limit for 2010-11—the year until April of this year—was £37,400. Had that been indexed, it would have become £39,200. Because of clause 2, it is now at £35,000, which means that we have dragged into the higher rate of taxation an increased number of individuals across the board. The clause sets the basic

rate limit at £35,000 in 2011-12. That follows the announcement in the June Budget that the basic rate limit would be reduced below the figure in the plans that the coalition Government inherited, in order to ensure that the increase in personal allowances was targeted on basic rate taxpayers. That links to clause 3, which we will discuss shortly.

The reason why I am testing the Minister on this matter is that I want an indication from him not only of the impact on those people who will now be subject to higher rate taxation, but of the implications of that higher rate taxation in relation to a range of other measures in due course. The Institute for Fiscal Studies has estimated that the reduction in the basic rate limit will mean that an additional 750,000 people are dragged into the higher rate tax bracket. I would welcome from the Minister an indication of his assessment of the number of people who are now being put into the higher rate tax bracket who would not have been in it had this change not been forthcoming, because those individuals will pay a higher level of tax and that will have a knock-on effect on a range of other issues, which I will explore in a moment.

Ian Murray: My right hon. Friend will perhaps go on to talk about this, but one of the key issues that has been raised, certainly with me in my constituency, relates to those individuals who earned £36,000 to £37,000 a year and were in the lower rate tax bracket, but who now, because of this sleight of hand by the Chancellor, have gone into the higher tax bracket and are in danger of losing their child benefit. Could my right hon. Friend comment on that?

Mr Hanson: My hon. Friend anticipates the discussions that we intend to have on this clause. The Minister did not really touch on those issues in his introductory remarks. That sleight of hand—that was a useful phrase that my hon. Friend employed—means that whatever number of individuals are brought into the higher tax bracket will be affected in 2012 and 2013 by a range of other measures that apply to people in the higher tax bracket. My hon. Friend mentioned one example—child benefit. Clearly, individuals with children will lose their child benefit in 2013 when the Government remove child benefit from households with a higher rate taxpayer. The Government are not only breaking the universality of child benefit, but ensuring that those individuals who are higher rate tax payers do not receive child benefit. Clause 2 means that a number of people—we have determined that it could be about 750,000, but I would welcome the Minister's assessment of the number in due course—on relatively modest incomes of £35,000 to £43,000 are being dragged into the higher rate tax bracket and will therefore find themselves subject to the loss of benefits in a range of other areas.

The Minister will know that it is not only child benefit that is affected. Last week on the Floor of the House we discussed clause 35, "Reduction in childcare relief for higher earners", which effectively reduces the level of child care tax relief for higher earners. Before we agree on the clause, the Minister should examine how many individuals will be affected in other ways, downstream or in other years, by the changes.

As the Government have confirmed, it is estimated that about 160,000 additional households that currently qualify for child benefit will be dragged into paying the

higher rate of tax. I accept that a considerable number of households on relatively modest incomes will benefit from the provisions in clause 3 and the higher threshold, but they will then find themselves in the higher tax bracket. In 2013 they will lose benefits such as child benefit, which is essential for child care and child support, particularly in a single-parent household.

I would like to tease out the Minister's assessment of what impact those changes will have on the wider level of benefits downstream in 2012 and 2013. Will he give the Committee some indication of what modelling has been done and what savings have been made? What will the impact of the changes be for those people who currently receive child benefit, and who perhaps thought that they would continue to receive it even when they heard in the press that it was being removed for higher earners? Some of those people will now be pulled into the higher earning category, and they will lose child benefit and child care vouchers and tax relief accordingly.

The Treasury has estimated that 20,000 additional people in single-income families will pay the higher rate of tax from April 2011, and 15,000 from April 2012. It is important for the Minister to give the Committee his assessment of the impact of the legislation, particularly with regard to single people. The clause will bring additional people into the higher-rate tax bracket, and I want to know whether an assessment of the measure has been made, including a breakdown of how many single people and couples will fall into that extra category, along the lines of the Treasury figures. What is the Minister's assessment of how the changes in clause 2 will affect people in 2013? There will be those who believe that they are paying the lower rate of taxation but who, if clause 2 is agreed, will find themselves paying the higher rate. In due course—in two years' time—they will find that they also lose child benefit.

In my view, a modest income of between £35,000 and £40,000 a year might well be earned by a junior police officer, a junior teacher or a junior local government worker. There will certainly be people in the private sector on relatively modest incomes who find themselves dragged into the higher rate tax bracket because of the measures in the clause, and that will lead them to lose child benefit in 2013. Has the Minister had cross-governmental discussions with colleagues from the Department for Work and Pensions or the Department for Business, Innovation and Skills about the impact of the legislation on potential employment opportunities for single parents, both male and female? The marginal difference between the higher rate of tax and the loss of child benefit may mean that people are not able to afford the child care that could keep a single person at work in the community, particularly in metropolitan areas such as London.

Ian Mearns: The point outlined by my right hon. Friend will affect tens of thousands of households up and down the country and appears to be more than mere prestidigitation on behalf of Ministers. It will be a devastating blow for the many people for whom we have coined the phrase “the squeezed middle”. It will affect the potential income of families, particularly those with children, who will also lose their child benefit. The measure is stunning, and I apologise to my hon. Friends, because I had not spotted it coming.

Mr Hanson: It is key that the Minister assures the Committee that he can give us details on the numbers of people who will lose out in future benefits, such as child benefit, because of the measures. If the Committee accepts the clause, we will ensure that a large number of people are brought into higher rate tax. At some point in future, therefore, those people will lose access to child benefit and, in particular, to child care vouchers.

Mr Gauke *indicated dissent.*

Mr Hanson: The Minister shakes his head. Perhaps he wants to intervene to explain how people who will be new higher rate taxpayers under the clause will not lose out in 2013. If he can explain that, I shall be very happy.

12.45 pm

Mr Gauke: I shall explain why I am shaking my head by returning to clause 35 and the child care vouchers, which we debated last week. To clarify, under the policy that is implemented by clause 35—which was introduced, after all, by the Opposition—higher rate taxpayers will get, essentially, the same tax relief as basic rate taxpayers. Without the changes under clause 35, higher rate taxpayers would continue to get greater tax relief than basic rate taxpayers.

Mr Hanson: I accept that. We touched on that matter in passing and the Minister knows that we supported clause 35 last week and before that. Can he answer the question on child benefit? He has an opportunity to do so now. How many people will lose child benefit because of the impact of clause 2? Can he tell the Committee now how many people in all our constituencies will wake up on a date in 2013 and find themselves no longer receiving child benefit?

Mr Gauke: I will respond to the right hon. Gentleman—

Mr Hanson: Oh, the Minister will respond in due course. It is worth while his doing that, because people fear that the clause, as portrayed by him, is very much linked to clause 3, which we will discuss shortly. Clause 3 raises the level of personal allowance to approximately £7,500, with an objective, set in the coalition document, to raise it to the Liberal Democrats' aspiration of approximately £10,000.

In his introductory remarks on clause 2, the Minister said that the increase in personal allowance has been paid for, in part, by the change in the allowance in clause 2—it has helped to support the funding of clause 3. Does he expect to extend the provisions in clause 2 still further between now and 2013? Does he expect to include more people in the higher rate tax bracket to achieve the aspiration in clause 3, and to achieve the future aspirations to the £10,000 limit? We will debate those matters in detail when we discuss clause 3, but they link significantly to my points on the impact of clause 2.

To conclude, I want the Minister to tell us two things. First, what assessment has he made of the number of individuals who will be deemed to be higher rate taxpayers because of clause 2? Secondly, what assessment has he made of that higher rate taxpayer inclusion on people's ability to access benefits, such as child benefit, in 2012 and 2013? He needs to make clear to the Committee the

[Mr Hanson]

impact of all those measures, because today we are simply faced with clause 2, which makes no mention of the fact that higher rate taxpayers will lose child benefit in 2013. It makes no mention of the arrangements for working families tax credit and other benefits, which will change as a result of the higher rate taxpayer status in 2013.

It is particularly important for us to hear the Minister's assessment of how many women the measure will affect. How many women, many of whom depend on child benefit, will be brought into the higher tax rate? Within that, how many single women will be affected by the change in clause 2? He will find that individuals will lose out on future benefits because of the change. It is incumbent on him to talk about not just the clause, but its knock-on impact on others in society as a whole.

Mr Gauke: Let me see what I can say in response to the questions asked by the right hon. Gentleman. Clauses 2 and 3 will ensure that the benefit from the increase in the personal allowance is focused on those who pay basic rate income tax. To be fair to him, he did not fall into the trap, as some have, of saying that there will be an income tax increase for those paying higher rate income tax, as the reduction in the basic rate merely counteracts the benefit that would otherwise apply to the increase in the personal allowance.

The right hon. Gentleman asked what the number of losers will be. To put it more precisely, he asked how many people will become higher rate taxpayers as a consequence of a reduction in the basic rate limit. Compared with the plans that we inherited, an additional 385,000 people will become higher rate taxpayers in 2011-12. Around two thirds of them will be better off under the overall approach because they will experience the full benefits of the increase in the personal allowance without experiencing the full loss from the reduction in the basic rate limit. He may be interested to know that I am able to provide a regional breakdown of those numbers. I will not give that to the Committee on this occasion, but the information is available if he wants it.

Perhaps I can provide some clarity on one or two of the comments that suggested that people earning £36,000 will start paying the higher rate of tax. That is not how the income tax system works. Individuals start paying the higher rate from £42,475. That threshold represents the sum of the personal allowance, which is £7,475, and the basic rate limit of £35,000. We have also announced our plans for the following year. As we want to focus on encouraging work across the piece, and we do not need to keep the measure limited to basic rate taxpayers, we are not reducing the basic rate limit in the same way, so we will not bring more people into the higher tax rate.

I know that you, Mr Gale, will not want us to engage in a lengthy debate on child benefit. The right hon. Gentleman asked a number of factual questions, not all of which I am in a position to answer. However, at a time when we have to make difficult decisions, it is not fair for people on low incomes to continue subsidising the child benefit of those earning much more. As I said, it is right to focus the gains of the personal allowance increase for 2011-12 on low and middle-income taxpayers. The changes to personal tax thresholds announced in the June 2010 Budget mean that the majority of higher

rate taxpayers will pay the same amount of tax and national insurance contributions as planned by the previous Government.

The right hon. Gentleman is asking me for a considerable breakdown. We are some way away from the changes in child benefit. I am not sure that it helps hugely to give figures here about changes in the current personal rate limit in order to assess the impact that they will have in January 2013. I do not intend to be detained on this particular subject.

Mr Hanson: Does the Exchequer Secretary not accept that this is an important point? The Committee needs to know what impact these proposals will have before it can approve clause 2 today. The impact will be that a number of people—I would welcome clarification on the number—will be brought into the higher rate of tax and, therefore, under current Government policies will lose child benefit in 2013. It is important that the Committee sees this figure before it considers accepting the clause. It is an implication of the clause that has not been considered before our discussion today.

Mr Gauke: The 2012 Finance Bill will put in place the relevant thresholds that will apply in January 2013. We still have to legislate on the child benefit changes, and there will be plenty of opportunity to debate their impact later. Additional people will be paying this tax as a consequence of the changes. It is estimated that the figure is 385,000, two thirds of whom will still be gaining from the overall package of changes in income tax. Increasing the personal allowance demonstrates the Government's commitment to make sure that work pays and to reward those who choose to work.

Mr Hanson: In that case, I will carry on for a moment. We also need to know another key fact, which has not been touched on by the Minister. How many single people do the Treasury estimate will fall into the higher rate tax band as a result of the changes under clause 2? A single person who falls into the higher rate tax band under the proposals in clause 2 may not qualify for child benefit in 2013. Two individuals with a joint income that is £25,000 more than that of the single person will, under the current Government proposals, receive child benefit in 2013. At the moment, only higher rate taxpayers are losing out under the proposals on child benefit. I accept that child benefit is a separate issue, but there is a causal link. If an individual becomes a higher taxpayer, they will, under Government proposals, lose child benefit. If need be, we will continue until 1 o'clock and the Minister can reflect on this in the three hours between now and the next sitting. It is incumbent on him to bring back to this Committee his assessment of the number of single people who will be paying a higher rate of tax as a result of clause 2 and who will be losing child benefit under the proposals for 2013. We need to know that figure before we can agree on this clause.

Stella Creasy *rose*—

The Chair: Order. For the benefit of *Hansard* and the record, I was not entirely clear whether the Exchequer Secretary had sat down and this was an intervention.

Mr Gauke: I had sat down.

Stella Creasy: I thank my right hon. Friend the Member for Delyn for giving way. Do his points not raise further concerns about the different measures on household income and individual income? I am thinking of some of the problems that we are seeing both in this Bill and in the child benefit proposals. I notice a recurring pattern here. In a number of Committees that I have sat on with my right hon. Friend and the Exchequer Secretary, there has not been enough data effectively to scrutinise some of these concerns. I hope that the Exchequer Secretary will listen to my right hon. Friend's

points and acknowledge the need to provide better information about the distinction between measures affecting households and those affecting individual income—there is also London weighting to consider—because of the consequences that will be felt by many households and individuals across the country as a result.

Mr Hanson: Well—

1 pm

The Chairman adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till this day at half-past Four o'clock.

