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)

Second Sitting

Tuesday 10 May 2011

(Afternoon)

CONTENTS

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

£5·00

PBC (Bill 175) 2010 - 2012

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

The Committee consisted of the following Members:

Chairs: †Mr Roger Gale, †Mr Jim Hood

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

Simon Patrick, *Committee Clerk*

† attended the Committee

Public Bill Committee

Tuesday 10 May 2011

(Afternoon)

[Mr Jim Hood *in the Chair*]

Finance (No. 3) Bill

Clause 2

Basic rate limit for 2011-12

4.30 pm

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

Mr David Hanson (Delyn) (Lab): Good afternoon, Mr Hood, and welcome to the Chair for this afternoon's sitting. You will, undoubtedly, chair future sittings and it is a pleasure to serve under your chairmanship and that of your co-Chair, Mr Gale.

This morning, we discussed clause 2, which changes the basic rate limit from £37,400 in 2010-11 to £35,000 for 2011-12. The key point is that, had that been indexed for 2011-12, the figure would have been, in my estimation, about £39,200 for the basic rate. There is a difference, therefore, between the current basic rate, proposed by clause 2, of £35,000 and the potential index rate of £39,200. Before we finished this morning, the purpose of our discussion was to test the Minister on the impact of that change on those taxpayers who will now fall into the higher rate—there will be several of them—as well as the knock-on effect in two years' time, in 2013, on the number of individuals entering the higher tax rate. They will have to—*[Interruption.]*

The Chair: Order. I am sorry if the right hon. Gentleman is interrupting a discussion on the Government Benches, but I would hope that the Government would listen to his speech.

Mr Hanson: I am grateful for your assistance, Mr Hood. In fairness to the Ministers, I was summarising our discussion before our break at 1 o'clock, but I appreciate your support.

The Chair: The right hon. Gentleman is wrong if he assumes that the purpose of my interjection was to support him—far from it. I am insisting that Standing Orders are adhered to and that, when Members are on their feet and addressing the Committee, others—not just those on the Government Benches—do not have conversations. He should not assume that I was supporting him. We should stick to the Standing Orders.

Mr Hanson: I am grateful, Mr Hood. I did not in any way mean political support, but support for the Committee. I think that I should quit while I am ahead, because I would not wish to cross you on such matters so early in your chairmanship.

Before our break, I mentioned two issues that the Minister needed to reflect upon, and I would now welcome his view on them. What is his assessment of the number of people who will now enter the higher tax rate as a result of the proposed change to drop to £35,000? We have had some estimates and I would welcome his confirmation of the situation. That leads me to the impact of the tax changes in two years' time on things such as child benefit for individuals who now pay a higher tax rate as a result of the clause. How many of the new entrants to the higher tax rate are single parents? Has the Minister made an estimate of the number? Some individuals who now fall into the higher tax rate will be denied universal child benefit in 2013, because they have joined that higher tax rate, but others who earn a lower rate of pay but who are in a partnership with someone who may well earn more money will not be removed from universal child benefit in 2013, because they will be taxed as an individual and not as part of a collective partnership.

I and my hon. Friends believe in the principle of the universality of child benefit and we will stick to that principle during the course of this Parliament. Before we discuss clause 2 and potentially take a vote on it, we need some clarity from the Minister about its impact downstream, especially on people who paid into the system believing that they would receive benefits, such as child benefit, at a later stage and who believed—until this provision was produced in the Budget—that they were lower rate taxpayers and not higher rate taxpayers, but who now find themselves in the higher tax band.

Bridget Phillipson (Houghton and Sunderland South) (Lab): Perhaps I can illustrate the point that my right hon. Friend is making by giving the example of a constituent who contacted me. She earns a sum that currently puts her in the higher tax band. Her husband is terminally ill and they have a small child, so she is set to lose her child benefit at the point that she most desperately needs it. She finds that to be an unbearable burden on her family. I am sure that we sympathise with her for the position that she is in, as she does not regard herself as a wealthy woman and she is now responsible for providing the income for her whole family.

Mr Hanson: My hon. Friend makes a very valuable point about the impact that the child benefit cut will have, in due course, on higher rate taxpayers. There are people today who would not have been in the previous higher tax band of £37,400. Because there has been a reduction to £35,000, those individuals are now in the higher tax band. They could well be single parents, or they could be people who, in due course, will have additional parental responsibilities because of bereavement. They are individuals who at one point were not in the higher tax band but now, because of clause 2, they will be in that band.

Can the Minister say how many of those individuals there are? What assessment has he made to establish how many of them are single parents, who will face an even heavier burden than other people when they lose their child benefit because of this change? How many people will lose other benefits because of the proposals in clause 2? The level for the higher tax band is set at £37,400, as opposed to £35,000. That sum of £37,400 is a significant amount of money but, even with the allowances on top, it is not a king's ransom. It is an average income for many people in society today. That £2,500 loss, from £37,400, plus the loss of indexation, which means a total loss of around £4,200—bringing more people into the higher tax band—means that there is a real squeezed middle who are paying for the Government's deficit choices. When we debated the last clause we talked about the 50p tax rate, which is being removed from people who earn a significantly higher level of income than those who are being squeezed under the proposals that are before us today.

Ian Murray (Edinburgh South) (Lab): My right hon. Friend makes a vital point. In considering clause 1, we discussed at length how the 50p tax rate might be removed in 2013. That would be around the same time that all the new thresholds will kick in, so that people lose their child benefit. So the Government will be saying to the highest earners, "Here's a tax cut", while they are saying to everyone else, "We are taking more money from you". Does my right hon. Friend think that that is really the way that the Government should be working?

Mr Hanson: My hon. Friend makes exactly the point that we spent some time this morning—around two and a quarter hours—discussing in relation to clause 1 and the amendment to it that we tabled, as well as the point that I am making now. Although the two changes will never equate and the money raised from one measure will not equate to the money forgone in another measure, there is a real change of policy whereby people on a higher level of income are taxed at a lower level and people on middle incomes are being squeezed. They will not only lose more in taxation, because of the changes in clause 2, but they will not qualify for benefits, such as child benefit, in 2013. We in Labour support universal child benefit.

There are some estimates from Government regional offices, quoted in *Hansard* on 30 March, that indicate the number of people who will enter the higher tax band this year compared to the number for last year, for each of the regions of the UK. Those estimates quoted in *Hansard* come from a parliamentary answer. Of those people, how many are entering the higher tax band because of rising levels of salary and how many are entering it because of the reduced levels of allowance that we are discussing today? For example, the figures quoted in *Hansard* on 30 March for the north-east region will be of interest to many Members in the Committee. Last year in the north-east, 80,000 people were in the higher tax band and this year there will be 100,000 people in the higher tax band, an increase of 20,000. We need some indication from the Minister about how many of those changes are because of rising salary levels, and how many are due to the fall in the allowance set out in clause 2. My hon. Friends the Members for Gateshead, for Middlesbrough South and East Cleveland and for Houghton and Sunderland South will take an interest in that figure because we need to know the impact of the change.

Figures for the north-west show 59,000 more people in the higher tax band in 2010-11. That may be because of increasing salary levels in Wirral South, but it may also be that some people will have moved into that higher rate tax band because of the changes proposed in the legislation. I could give a range of figures, but it is estimated that a total of 600,000 extra people across the country will move into the higher tax band, including 90,000 in London and the constituency of my hon. Friend the Member for Walthamstow. There will be 47,000 such people in Scotland and the constituencies of my hon. Friends, the Members for Edinburgh South and for Airdrie and Shotts. Were he present, the hon. Member for East Londonderry (Mr Campbell) would have discovered that in Northern Ireland an extra 11,000 people will be going into the higher tax band.

In conclusion, we demand a greater level of clarity on the two big issues of how many people will move into the higher tax band because of the changes to the legislation, and how many of those will be disadvantaged because of the changes to child benefit. All those people will be affected, but we need a breakdown of how many single parents and others will be disadvantaged in real terms, so that we can see the impact of the clause before voting for or against it.

The Exchequer Secretary to the Treasury (Mr David Gauke): First, may I say what a great pleasure it is to serve under your chairmanship in a Finance Bill Committee once again, Mr Hood? It is not a new experience for me, but it is a pleasant one none the less. I will try to address some of the concerns raised by the right hon. Member for Delyn. To some extent, we went around this track this morning, and I have already tried to respond to some of his points.

The right hon. Gentleman highlights the number of people who will be brought into the higher rate tax bracket as a consequence of clause 2, compared with what would have happened had the basic rate limit been uprated along with RPI. It is a perfectly fair question, and I am sure the right hon. Gentleman would not have wanted to give the impression that the previous Government intended to uprate those limits by RPI—they planned to freeze the basic rate limits and increase the personal allowance by less than indexation, as announced in the 2008 pre-Budget report. As a consequence, the most relevant numbers are those that compare the plans we inherited with what we have done. As I made clear this morning, the basic rate limit has been reduced rather than increased to ensure that the benefit of the increase in the personal allowance goes to basic rate taxpayers, not to those who pay the higher rate. That difference means that there will be 385,000 extra higher rate taxpayers, compared with the plans of the previous Government.

The right hon. Gentleman—as I thought he might—had some regional numbers. I fear that I may have tempted him down that line of argument when I said that I could provide him with regional figures for the 385,000 people who are now in the higher rate tax band but would not have been under the plans of the previous Government. The numbers are 12,000 for the north-east, which the right hon. Gentleman mentioned; 58,000 for London; 8,000 for Northern Ireland; and 38,000 for the north-west. Those were the areas that he particularly highlighted but I can provide him with the full figures. The point I made this morning is that two thirds of those people would still gain from the personal tax package. They would be better off because they would experience the full benefit of the personal allowance increase without experiencing the full loss of the reduction in the basic rate limit.

4.45 pm

The second matter on which the right hon. Gentleman spoke was the inter-relationship with child benefit. Again, I made the point this morning that that is still 18 months or so away. Trying to consider these numbers at that level of detail will probably not be terribly helpful or accurate. However, as we announced at the time of the spending review, the withdrawal of child benefit from families including a higher rate taxpayer will affect about 1.5 million families. That estimate included the impact of the rise of the personal allowance and the consequent reduction in the higher rate threshold introduced under the Bill, which was announced in June's emergency Budget by my right hon. Friend the Chancellor. It was therefore part of the baseline on which the child benefit changes were assessed. The reduction in the higher rate threshold in April 2011 to £42,475 does not therefore create any losers in addition to the 1.5 million already announced as a result of the withdrawal of child benefit from families with a higher rate taxpayer.

Bill Esterson (Sefton Central) (Lab): The Minister rightly sets out the number of families affected by the changes in the higher rate threshold and child benefit. He seems to accept that a large number of people will lose out from the changes, but when we add the VAT increase that took place at the beginning of January, he should accept that middle-income families are paying much more than they did before the changes made by the Government. As a result, families on not huge sums of money are being made to pay a big contribution towards paying off the deficit.

Mr Gauke: The last words that the hon. Gentleman spoke, about paying off the deficit, or reducing the deficit, are important. We have to reduce the deficit. Choices need to be taken to achieve that, but we cannot get away from the fact that we have to reduce it. Only 13% of earners are higher rate taxpayers. All sections of society have to make a contribution, but it should be clear to Opposition Members that if we say that higher rate earners are not to play a role, it will have to be picked up by someone else.

The Government are determined to do it in as fair a way as possible; we should not target the poor, and believe that those with the broadest shoulders should bear the greatest burden. Yes, it involves making tough decisions. Nobody wanted to have to make the decisions on child benefit that we did, but we have to reduce the deficit. It is easy for the Opposition to say that they are against this or against that—against any type of proposal—because their constituents will understandably be upset about difficult decisions that have an impact on them. None the less, a sensible Government have to take those tough decisions, and I regret the fact that we have not received the support of the Opposition, which I believe we should receive.

Ian Mearns (Gateshead) (Lab): Does the Minister accept that the consolidated impact on some households of the benefit change and the change in tax allowance could be as much as £1,700 a year?

Mr Gauke: I do not wish to downplay the significance of what we have to do to reduce the deficit, but it is an indication of the size of the problem and the size of the deficit that we inherited. However, it might be worth pointing out the cumulative impact of the tax, tax credit and benefit reforms introduced in the last Budget and earlier Budgets by both Governments but being implemented by this Government. The top decile will see the largest losses. I am not sure that Members on either side of the Committee would think that that was wrong, but it involved some tough decisions, and some people being hit hard.

We must remember, when considering clause 2, that the reduction in the basic rate limit needs to be looked at alongside clause 3 and the personal allowance increase. We have made significant steps to take a large number of people out of income tax to reduce the income tax liability for some 23 million individuals who are basic rate taxpayers. That is something of which the Government are proud.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Clause 3

Personal allowance for 2011-12 for those aged under 65

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

Mr Hanson: I am grateful for the opportunity to discuss clause 3, and to put it into the context of the debate on the Budget and incomes. Clause 3 sets the personal allowance for those aged under 65 at £7,475 for 2011-12. That is a rise from £6,475 in 2010-11. Subsection (2) disapplies the indexation provisions for the allowance for 2011-12.

Individuals are entitled to a personal allowance for income tax that depends on an individual's age and income. Income tax personal allowances are also subject to indexation—an annual increase based on the percentage increase to the retail price index. Parliament can override those amounts, and provisions in the Finance Bill can do that. The clause allows for a rise from £6,475 in 2010-11 to £7,475 in 2011-12. I need not remind the Committee that that benefits everybody who is a taxpayer, no matter what their level of income. It benefits those on higher rate taxation and those on lower rate taxation. It does not benefit those individuals who pay no taxation at all, such as pensioners or the unemployed.

The increase in allowance of approximately £1,000 was set out in the June Budget, which also set out the fact that the personal allowance would increase by a further £630 in 2012-13, with an equivalent £630 reduction in the basic rate limit to leave higher rate thresholds unchanged. Those measures will come into effect in the next financial year and are not included directly in these clauses. It is an estimate that the Treasury has made. Will the Minister confirm the estimate of the number of individuals who will benefit from those changes? We believe that approximately 880,000 people will be taken out of income tax altogether, but I would be grateful if he confirmed his assessment and understanding of the number of people who are taken out of income tax as a result of the proposals in clause 3.

It has been claimed that 60% of those who are taken out of tax will be women. I would welcome the Minister's assessment of that in relation to clause 3. In addition, my understanding is that HMRC estimates that approximately 23 million basic rate taxpayers will gain, on average, by around £117 per annum. However, I would like to test the Minister. I nod my head to the Liberal Democrat members of the Committee— the hon. Members for Brecon and Radnorshire and for Bristol West—who pressed hard for that trajectory in the coalition agreement. The price of that has been their support of some very unpalatable Government measures that have been introduced elsewhere. Clause 2 proposes that the allowance should rise to £7,475 by 2011-12. The hon. Members for Bristol West and for Brecon and Radnorshire would like to see the personal allowance rise to £10,000 by the next election under the coalition deal. I would be interested if the Minister gave some indication of its trajectory, not only for this year under clause 3 but for future years towards the objectives of Liberal Democrat Members.

I would also welcome some indication from the Minister of the net impact of all this. The provisions in clause 3 cannot be taken in isolation. The Lord giveth and the Lord taketh away. The Government have increased the personal allowance this year from £6,000-odd to £7,475, which is of great benefit to those who pay income tax. However, we also have to face a rise in VAT, a freeze in child benefit and cuts in working family tax. Will the Minister explain to the Committee how those feature across the board, and what impact they will have on the benefits of the clause, which he will undoubtedly trumpet?

Paul Blomfield (Sheffield Central) (Lab): Does my right hon. Friend agree that the narrative developed for taking this position on personal allowances was that it would help the very poorest? However, the Institute for Fiscal Studies pointed out that in 2009-10 only 62% of the adult population had a high enough income to pay income tax. It went on to say that these tax cuts are not targeted well enough to help the poorest.

Mr Hanson: My hon. Friend makes a valid point. In fact, he pre-empts what I was about to say. I confirm what he said. The Institute for Fiscal Studies said that in 2009-10, only 62% of the adult population had a high enough income to pay income tax.

In supporting the clause, and effectively supporting the forgoing of taxation that would otherwise have been raised, we need to assess not only the provisions in clause 3 but the impact of other changes on the community at large. For 38% of the adult population who do not pay income tax, there are VAT on rises on petrol, on white goods and on other goods across the board, there are changes in pension levels resulting from changed calculations, and possible changes being made downstream to the winter fuel allowance. Many of these changes will impact on individual incomes, and clause 3 is being promoted with the strong support of the Liberal Democrats as a way to take people out of tax. Clause 3 may take people out of some income tax, but it does not take them out of taxation; 2.5% on VAT is just as important to families as being lifted out of some portion of income tax by the proposals before the Committee.

Ian Murray: The Red Book and the documents produced by the Office for Budget Responsibility clearly show that the Government are giving with one hand, with the increase in the tax allowance, but that with the other they are taking away with a host of other taxes. Over time, the Government's figures for the reindexation of thresholds from RPI to CPI show that although they will be giving away £1.2 billion they will take back £1 billion. Over time, the thresholds will be eroded.

Mr Hanson: My hon. Friend makes a sound point.

I simply ask the Minister to explain the impact of clause 3, and on whom it will impact. I also ask him to consider clause 3 in a wider context. Will it make a difference to the tax take for society at large, and will the Government's tax proposals make an overall difference for individuals in our community? As my hon. Friend the Member for Edinburgh South says, we need to consider not only the proposed changes to the indexation of thresholds; we also need to consider the clause in the light of all the other tax changes before agreeing to support it. It is a benefit to those who pay tax, but it is being paid for by sleight of hand in other ways, and people feel that they are having to pay through indirect taxation. I would welcome the Minister's views on that, as well as his overall view of the net impact not just of these tax changes, but others on individuals who will be affected by the changes in clause 3.

5 pm

Is the Minister committed—this will be of particular interest to the hon. Members for Bristol West and for Brecon and Radnorshire—to meet the trajectory towards £10,000 by the end of this Parliament? Is it a one-off, in which case we can support it—or not, depending on our view of the clause—or is it part of a strategy to continue to raise thresholds over the next two to three years to the level requested by the Liberal Democrat coalition partners?

Ian Mearns: I am interested in teasing out what the Government's attitude will be to national insurance down the line. There are proposals on the table to consolidate national insurance rates with general taxation rates. If that were to happen, people on pensions, who have a pensionable income that would be taxable, would then become liable to a part of the tax burden that they do not have to pay at present. That, in conjunction with the future progress of the proposals under discussion, would be interesting.

Mr Hanson: I am sure that the Minister will comment on that point and the time scale for the amalgamation of tax and national insurance. My key point relates to the Liberal Democrat proposal for a trajectory towards a £10,000 personal allowance. I do not want to test your patience by returning to clause 2, Mr Hood, but it raised the basic rate limit to ensure that we included more people in the higher rate of taxation. Clauses 2 and 3 are intrinsically linked by that provision. By raising the level, does the Minister see a trajectory over the next three to four years towards the £10,000 that the Liberal Democrats wish to see, or will it be ruled out by further higher rate threshold reductions, which will mean that other individuals, who are on a moderate income in the £35,000 to £43,000 tax bracket, will pay for it?

On clause 3, what is the Government's long-term strategy on tax allowances? Can the Minister give the Committee an overall figure in relation to the tax and benefit changes, so that we can assess what the clause means in relation to value added tax and other changes being made by this Government?

Mr Gauke: Clause 3 supports the Government's aim of creating a fairer tax system by rewarding the efforts of those who choose to work and by supporting millions of taxpayers on low and middle incomes. As we have heard, it increases the personal allowance by £1,000 in cash terms, from £6,475 in 2010-11 to £7,475 in 2011-12. Compared with plans inherited from the previous Government, that will lift more than 800,000 individuals out of tax altogether, and it will mean that 23 million basic rate taxpayers have an average real-terms gain of £160 a year, equivalent to £200 a year on average in cash terms.

Mr Hanson: Will the Minister give way?

Mr Gauke: I will provide clarification during the course of my remarks, if the right hon. Gentleman is prepared to bear with me. The clause represents the first step towards meeting our long-term objective of increasing the personal allowance to £10,000 which, as the right hon. Gentleman has pointed out, was a Liberal Democrat policy at the general election and one that was signed up to in the coalition agreement. The agreement notes that we are committed to making real-terms increases towards the £10,000 target ever year. Those increases will be announced as part of the Budget process. Clearly, we are already making substantial progress towards meeting that target. The personal allowance increases announced to date will take 1.1 million people out of tax altogether. Including the announcements in the June 2010 Budget and the March 2011 Budget, 23 million basic rate taxpayers will gain.

In the recent Budget, the Chancellor announced the next step. The clause relates to 2011-12, but from 2012-13 we will see an increase of £630 in the personal allowance. As I said, in total, the Government's action will take 1.1 million individuals out of tax from April 2012. Compared with the previous Government's plans, 23 million basic rate taxpayers will benefit by an average of £210 a year in real terms.

Ian Murray: I appreciate the complexity of this particular issue. The Minister mentioned 23 million taxpayers, and he said that 1.1 million taxpayers will be taken out of the tax system altogether. However, he is talking about that in cash terms, whereas the indexation of the 2010-11 figure of £6,475 would have been £310. Is that figure of 1.1 million people on top of that, or are we talking about a £1,000 cash-terms increase rather than the £690 figure that it would be if we take out the indexation for the particular year?

Mr Gauke: This is compared with the plans that we inherited from the previous Government. Another way of looking at it is to say that if we had stuck with the plans we inherited, an additional 800,000 individuals would be paying income tax. I hope that is helpful to the hon. Gentleman.

In fact, may I be slightly more precise about the numbers? The right hon. Member for Delyn asked a perfectly fair question when he said that he understood that the number of people who would be taken out of tax was 880,000. That was the assessment that we made in the June 2010 Budget. Because September's inflation was higher than forecast, the real-terms increase in the personal allowance was less than it would have been previously. As a result, our latest estimate is that 830,000 individuals will be taken out of tax in 2011-12, compared with the figure under the plans that we inherited.

Mr Hanson: I am grateful to the Minister for those revised figures, which are welcome. For the record, they show that 50,000 fewer individuals will be taken out of tax. However, the Minister should also clarify that we are talking about individuals who are being taken out of income tax, because tax is still levied on all those individuals through VAT and other measures that he is aware of.

Mr Gauke: Yes, the right hon. Gentleman is right. Those individuals are being taken out of income tax. However, I want to respond to the point made by the hon. Member for Sheffield Central. He asked whether these people are really the poorest people. They are low earners, earning roughly between £6,500 and £7,500. They are striving in difficult circumstances, and it is right that we should seek to give them help. They should be encouraged and I imagine that that approach will have the support of all members of the Committee.

I was asked about the percentage of people being taken out of income tax who are female. That percentage continues to be 60%.

Ian Mearns: Has there been any estimate of the additional tax burden that those same individuals will bear as a result of the increase in VAT? Do you have some figures on that, so that we can do a real comparison of the real-term effects on those people's livelihoods?

The Chair: Order. I do not have any figures, but I am sure that the Minister has.

Ian Mearns: I beg your pardon, Mr Hood.

Mr Gauke: I was looking to you, Mr Hood, to help me.

I will attempt to answer the hon. Gentleman. As I have said a number of times already in our debates, we face a very difficult fiscal situation and we need to make tough decisions. If we look at the accumulative impact of the tax, tax credit and benefit reforms introduced by the Budget, and at previous fiscal events, we will see, as I said earlier, that the top decile has the largest losses. That is the case across the income distribution, in cash terms and as a proportion of net income. The same results apply across the expenditure distribution. When we also factor in public service changes, the top 20% of households will make the greatest contribution towards reducing the deficit, because a percentage of their income benefits in kind from public services. The Government are trying hard to ensure that we do this fiscal consolidation in as fair a way as possible.

The hon. Member for Gateshead raised the issue of bringing together national insurance contributions and income tax. The Chancellor made a statement that we are looking at the operation of those two revenue sources to see whether there is a way of improving them and operating them together. However, he also made it absolutely clear that the two taxes would continue to exist and that national insurance contributions would not be levied on over-65s or on any other sources of income, such as savings and dividends. I want to make that clear in case Members have people visit their constituency surgeries concerned that they are about to be hit by a significant increase in tax because they believe that national insurance contributions are going to be levied on pensioners' incomes. That is not the Government's intention and I am sure that all hon. Members will provide appropriate reassurance.

Ian Mearns: I am grateful to the Minister for that, but will he go further and include occupational pensions?

Mr Gauke: Yes, that is also part of the plan. We do not intend to extend national insurance contributions to additional sources of income, so I can provide that reassurance.

The hon. Member for Edinburgh South made a point about the indexation of tax increases and the argument that, somehow, the personal allowance increase will be taken away by changes to indexation. Across this Parliament, the combined effect of personal allowance increases this April and next April will be worth significantly more than any losses from the switch to CPI. We also have to bear in mind that there will be further significant progress in future years and Budgets towards our target of a £10,000 personal allowance. The costs for future above-RPI increases in the personal allowance are not included in that calculation. I hope that that provides reassurance.

In conclusion, this is a very worthwhile step. We are making significant progress in helping a lot of low earners. As I said, 23 million people in this country will benefit from the increase at a time when we have to make difficult choices. We do not deny that, but we are providing support to those people who are struggling, getting out to work and putting in the effort. It is unfair that people who earn relatively small amounts of money should be caught up in the income tax system. The clause enables us to reduce that pressure and take substantial steps to help those people, and I hope that it will stand part of the Bill.

Mr Hanson: I want to put to rest some myths. This change benefits low earners, but it also benefits everybody in this room. It benefits high earners. It benefits everybody.

Mr Gauke: That is not the case. As the right hon. Gentleman made clear earlier, clause 3 is intrinsically linked to clause 2, which reduces the basic rate limit. That means that those of us who are higher rate earners, including all members of this Committee, will not benefit from the personal allowance increase set out in clause 3. It is targeted at basic rate taxpayers only.

5.15 pm

Mr Hanson: I accept what the Minister says, but the measure effectively benefits people other than those on low incomes. The people who will benefit from the legislation are not those earning £6,000 or £7,000 but have higher incomes. The increase in the personal allowance is offset by the rise in VAT and other taxation measures across the board that have been brought forward by the Minister in other legislation.

Bill Esterson: The other point that my right hon. Friend might come to concerns the link between clauses 2 and 3. Although low-income earners will benefit from clause 3, which is important to help people out of tax, for members of the Committee and anyone who earns more than the higher rate tax threshold, the link between clauses 2 and 3 will have no effect because they will not lose out through the changes in clause 2. The measure affects many people, but the only losers are those at the threshold of the measures in clause 2. It is important to recognise that that group in the middle is disproportionately affected by the legislation.

Mr Hanson: In my view, the measures we are discussing will impact strongly on people in the middle income group. We are not, however, going to oppose clause 3 today.

Stephen Williams (Bristol West) (LD): The right hon. Gentleman seems to be getting confused, as are some of his colleagues, about tax bands, average earnings and the squeezed middle, and he seems to be having some problem with his definitions. Average earnings in our country are £23,348—that is in the private sector, which is lower than the public sector. We are talking about a higher rate tax band that starts at £43,000. That does not affect the squeezed middle.

Mr Hanson: I am sure that many people in the hon. Gentleman's constituency will be very interested in what he has said. My point is that the changes in clauses 2 and 3 should not be taken in isolation from each other or other changes made to taxation. The savings that people will make through the higher threshold will be offset by other changes to taxation, although that has not been mentioned in detail by the Minister.

Those changes include the increase in value added tax, to name but one—the hon. Gentleman stood in the election on a platform of not raising VAT, but he has voted to raise it, which may not help his bid for re-election. In part, he has achieved his objective of a trajectory towards a £10,000 threshold, but at the same time he has broken election pledges on other matters such as value added tax, which are worthy of discussion as part of the package surrounding clause 3. The Minister will not face a Division on clause 3. I am grateful for his comments and for the discussions that we have had about the clause.

Question put and agreed to.

Clause 3 accordingly ordered to stand part of the Bill.

Clause 5

CHARGE AND MAIN RATE FOR FINANCIAL YEAR 2012

Mr Hanson: I beg to move amendment 4, in clause 5, page 2, line 24, at end add—

'(4) The Chancellor shall, before 30 September 2011, lay before the House of Commons an assessment of the impact of this section on—

(a) banks (as defined by section 2 of the Banking Act 2009);

(b) all other sectors to which corporation tax applies.'.

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

Mr Hanson: Last week on the Floor of the House we debated the reduction in the main rate of corporation tax from 27% to 26% for the financial year 2011. Clause 5 sets the level of corporation tax for 2012 at 25% on profits above £1.5 million, following the announcement in the 2011 Budget of an additional 1% cut. The amendment is important, because it reflects many of the concerns that have been expressed to me about the impact of corporation tax on businesses, particularly on banks. Most analysts believe that banks will gain most from the move to cut corporation tax further.

We had a discussion last week on the Floor of the House, in which we said that we believed that we should have a competitive tax regime and that the corporation tax cut will help to achieve that. However, as we said then, we have concerns that that tax cut is being paid for in large part by the slashing of the investment allowances by £2.6 billion. That is an issue that we will return to when we discuss later clauses. Of course, we will not discuss clause 10, which we discussed on the Floor of the House last week.

I want to discuss this change in corporation tax with the Minister, because it could penalise companies, particularly manufacturing companies, that invest, so as to offer tax cuts that will disproportionately benefit the banks. We discussed that issue last week and amendment 4 is designed to give the Chancellor an opportunity to consider the impact, especially on banks, of clause 5 in particular and, more broadly, the impact of the corporation tax cut.

The Institute for Fiscal Studies has said:

"The largest beneficiaries from the package of measures will be high-profit, low investment firms".

Such firms include financial services firms. We will discuss the cuts to allowances later, but the IFS said that they

"will have the largest impact on those firms with capital-intensive operations".

Such firms include manufacturers. Those quotes are from the "green budget" for 2011 that the IFS produced.

Tom Blenkinsop (Middlesbrough South and East Cleveland) (Lab): My right hon. Friend makes a valid point. Later in the Bill, there are clauses that show that capital allowances to manufacturers are being cut. But there are not just those cuts to consider. The Government have their carbon floor pricing agenda, whereby £2 billion will be raised from manufacturing—at the expense of the steel and chemical industries, for example. The Government are currently lauding those industries as this period's great economic success even though that success is largely due to foreign consumption and a low-value pound.

Does my right hon. Friend agree that by imposing such a price on carbon and unilaterally undermining our own manufacturing sector in comparison with the rest of Europe, we are on dangerous ground in terms of protecting this country's manufacturing future?

Mr Hanson: I agree with my hon. Friend and I am grateful to him for his intervention on that point.

Through the amendment, I want the Minister and his colleagues to make an assessment of the impact—as a whole—of the corporation tax measures in clauses 4, 5 and 6 on the various sectors of the economy, so that we can see what impact those changes have on manufacturing, financial services and other sectors. There is a real need for us to kick-start the economy and we must ensure that we use corporation tax in a way that does that.

Last week, the Minister had my support for the measures in clause 4 that relate to the cut in corporation tax, and he has my support for measures that will encourage growth. However, the OBR has now revised downwards its November 2010 forecast for growth in the near term, so the growth figure forecast for 2011 is now 1.7% rather than the original forecast of 2.4%. The OBR is saying that we have higher levels of inflation and greater squeezing of consumers' disposable income, and therefore we have weaker consumer growth.

Nic Dakin (Scunthorpe) (Lab): I want to reinforce the point that my hon. Friend the Member for Middlesbrough South and East Cleveland made about manufacturing. Tax is all about choices. My right hon. Friend the Member for Delyn is calling for a review of corporation tax. It would be interesting to see how corporation tax can benefit—or fail to benefit—manufacturing. We need our manufacturing base to develop and there are choices to be made in that regard, so I welcome what my right hon. Friend is saying.

Mr Hanson: I am grateful to my hon. Friend for that intervention. What I want from the Minister is a justification of these rates and some indication to the Committee about how the proposals in clause 5 for charges to corporation tax for next year will help to improve the economy's potential for growth, to get us out of the situation that we are in now after the Government have introduced measures such as the increase in VAT, the huge cuts in public spending across the board and the squeeze on incomes both this year and next year, including further squeezes on child benefit, working families tax credit and other benefits. How will the measures in clause 5 help economic growth? The measures on corporation tax rates for next year will arrive in the middle of the major cutbacks that the Government are making in public spending across the board. We will see continued reduction in demand from those who work in the public sector, because of job insecurity and a lack of spending into the private sector. We need to look at how we use the measures to create a strategy for future growth. When we consider the clause, I want to hear from the Minister how we can develop that strategy for growth and how the measures in clause 5 for next year indicate that we will do that. They are inextricably linked with the later detrimental measures on capital allowances, which I want to discuss in due course.

The latest Office for National Statistics release states that GDP fell by 0.5% in Q4 of 2010, and we face a situation where we have higher levels of inflation and lower levels of growth, VAT is up and oil prices are rising. I need to know from the Minister how the measures in clause 5 will impact on those issues in the future to ensure that we help to generate the necessary employment in the private sector to compensate for the public sector job losses that we will face in regions of the members of the Committee and beyond.

The OBR's March 2011 forecast has provided an overview of its labour market forecast. This is a direct quote from the report, which states that

"the labour market is likely to weaken further over the next few months before strengthening as economic growth picks up",

but unemployment is still

"forecast to rise from its current 8.0 per cent to 8.3 per cent of the labour force by the second quarter"

of this year, and it could rise still further. The report continues:

"The claimant count rises from 1.45 million to 1.56 million by the second quarter"

of this year, with the potential to fall back to 1.18 million by 2015. I need to know from the Minister how the corporation tax rates in clause 5 are likely to impact on that economic situation.

Ian Mearns: My right hon. Friend makes an interesting point, because earlier today we were discussing different impacts in different regions of the country. We have already seen—this is before the impact of significant cuts to public expenditure in regions such as the north-east has actually kicked in—a situation where unemployment in the north-east of England increased by 11,000 against a national reduction of 17,000. That is clear evidence of the differential impact of Government policy.

Mr Hanson: My hon. Friend again raises an important point. As we discussed under clause 4 last week, if we look at the levels of unemployment in regions across the United Kingdom, I can tell him that his region of the north-east sadly still has the highest level of unemployment in the country at some 10.2%. Again, as under clause 4, I need some indication from the Minister as to what his assessment is of the rates of corporation tax in terms of helping to secure growth in the economy, particularly in regions such that of my hon. Friend and my hon. Friend the Member for Middlesbrough South and East Cleveland. The corporation tax cuts under clause 4 and the rates of corporation under clause 5 are an important tool that the Government have to help encourage businesses to invest and create jobs in the United Kingdom. The level of unemployment is 10.2% in the north-east, 9.9% in the west midlands, a staggeringly high 9.4% in London, 9.3% in Yorkshire and Humberside, which is the area of my hon. Friends the Members for Sheffield Central and Scunthorpe and 8.7% in my region in Wales. Those are very high levels of unemployment. I need to be aware of what the Government's growth strategy is in relation to clause 5 and the amendment, which analyses whether the corporation tax rates that are being set under clauses 4 and 5 are helping businesses and will secure growth in the areas where we believe it is needed to create the jobs of the future.

5.30 pm

An assessment should be made, so that the Chancellor can put to rest my fears that many of the corporation tax breaks in clause 4—and, as we come on to them, clauses 5 and 6—will go to the financial services sector and support businesses that are not creating the manufacturing jobs and growth we need for the future. I hope that the Minister will put those fears to rest. I am sure that he will do so in due course. However, it is worth while exploring the matter, which is why the amendment says that "the Chancellor shall" make an assessment

"before 30 September…of the impact of this section on—

(a) banks (as defined by section 2 of the Banking Act 2009);

(b) all other sectors to which corporation tax applies."

I accept that some of these changes are being introduced for the year 2012. However, with the OBR, the Chancellor can look at corporation tax rates under clauses 4, 5 and 6 to see whether those clauses will help the growth in manufacturing jobs that we need in society at large to meet the levels of unemployment in my hon. Friends' constituencies, particularly in the north, Yorkshire, Humber, Wales and, indeed, Scotland.

For the purpose of clarity, we are not opposing clause 5; we are simply asking for an assessment to be made of the growth strategy in the round as it relates to the use of corporation tax as an economic tool to help growth in our community at large. We need to look at the measure crucially and supportively. The provision comes at a time when the Government are making changes to corporation tax. However, they are also removing the regional development agencies from colleagues' constituencies in the north-east, the north-west, the west midlands, the east midlands and, indeed, other regions of England. The measure comes at a time when the Scottish Parliament will have make major cuts to its capital public spending programmes—as, indeed, will the Welsh Assembly. Difficult decisions are being made regarding the creation of jobs. The corporation tax proposals before the Committee are but one tool in a growth strategy. I want to hear from the Minister how he sees those measures fitting into the Government's wider growth strategy.

Ian Mearns: I am glad that my right hon. Friend has come on to the issue of corporation tax and the abolition of the regional development agencies in different parts of the United Kingdom—certainly in England—because that will clearly have a differential impact. In the north-east, the regional growth fund was more than ten times over-subscribed for the first-round bid. Parts of the north-east did gain from the regional growth fund—although, sadly, my constituency did not. In terms of the Government's economic policy on corporation tax, we are yet to see how they will grow the economy in regions such as the north-east. If we do not get some definite indications from the Government about how that will be done, I will start to wonder whether unemployment in such regions is considered to be the price worth paying for growth in the south-east.

The Chair: Order. I was tempted to interrupt the hon. Gentleman to remind him that interventions are interventions, not speeches. I invite hon. Members to make their interventions a bit shorter.

Mr Hanson: My hon. Friend makes an important point. Considering the high levels of persistent unemployment in certain regions such as the north-east, we need to know and be assured by the Minister that the corporation cut strategy that is elucidated in clause 4, which we dealt with on the Floor of the House last week and which also relates to the level of corporation tax for next year in clause 5, is designed to help to develop a growth strategy in areas such as the north-east.

Tom Blenkinsop: We are getting to the nub of the matter on how the corporation tax cut is to be paid for. Later in the Bill we will see provision for reductions in capital allowances for manufacturing; we will also see

[Tom Blenkinsop]

£2 billion being raised from manufacturing and carbon floor pricing. However, it is interesting to note that only a few regional growth fund bids were linked to the RDA funds, and that the Treasury can claw back almost double the amount. A lot of money that would have been spent on the regions will go straight back to the Treasury.

Mr Hanson: I am grateful to my hon. Friend for that observation.

Reports in April show that 186,554 UK businesses have been experiencing critical or significant financial problems—a rise of 26% over three months and of 15% in the previous 12 months. Companies that rely on discretionary spending are suffering particularly badly, as consumer spending falls. Corporation tax is critical for growth in our communities.

Julian Smith (Skipton and Ripon) (Con): Has the right hon. Gentleman read the recent CBI report on inward investment, which states that Britain needs a competitive headline corporation tax rate to compete globally?

Mr Hanson: Yes, I have. I take the view that we should support the corporation tax cut. I was clear about that on the Floor of the House last week, and I have no compunction about reiterating the fact. However, I seek some clarity from the Minister on how it fits into the wider economic strategy for growth, and how it will impact on areas such those represented by my hon. Friends in the north-east, and in Scotland, the east midlands and London, where there are high levels of unemployment. Will it be part of a wider growth strategy?

As I said last week, I wish for some clarity on the outcomes. We were being asked under clause 4—we dealt with it in Committee in the House—to forgo a significant amount of corporation tax income as a result of the reduction in the headline figure. Under clause 5, we are now being asked to approve figures on corporation tax for next year. I did not get any satisfaction from the Minister last week, but I hope to get some clarity today on how he expects those measures to impact on jobs and growth—and on inward investment, the point raised by the hon. Member for Skipton and Ripon—so that we can judge the Minister against them in due course.

Ian Murray: A key aspect for the small and medium-sized enterprises that visit my surgeries is that the corporation tax reduction, although welcomed by all sectors, will not impact immediately on their businesses. At the moment, they are more concerned with creating consumer confidence and profitability. Although the corporation tax cut is welcome, they will not pay less of it until they are profitable, and they will not be profitable until the economic conditions are in place for them to become profitable, which requires consumer confidence. However, the packages, tools and measures that the Government have put in place have shattered consumer confidence and lowered people's disposable income, and that has hit the profitability of businesses quite hard.

Mr Hanson: That is a most important point. It goes back to what I said a moment ago about insolvency and the number of distressed companies in the United Kingdom.

From my perspective, the amendment seeks clarity from the Minister on who will benefit from the corporation tax proposals and about whether, as we suspect, the gain is still skewed towards the financial services sector in terms of the benefit obtained by the cuts.

Nic Dakin: My right hon. Friend makes a pertinent point, particularly when one considers the Institute for Fiscal Studies green budget for 2011. It draws attention to the fact that cuts in corporation tax will benefit financial sectors disproportionately, whereas capital and investment allowances tend to benefit manufacturing. The nub of this is how to check that the Government have a policy in place that stimulates manufacturing growth—as well as growth for small and medium-sized enterprises, as my hon. Friend the Member for Edinburgh South said.

Mr Hanson: I am grateful to my hon. Friend, because that is the nub of the amendment. We want the measure to be assessed in the round.

Last week, we tried to have a similar discussion about assessing the outcomes of the corporation tax proposals. I emphasise that we do not, and will not, oppose the measures before the Committee today. None the less, it is incumbent on the Minister to look at where that benefit goes. We still believe that the benefit will, in significant part, go to the banks and financial institutions. When it is coupled with a cut in allowances, which we will discuss later in the Bill, it will disproportionately impact on manufacturing. I had hoped that it would stimulate manufacturing to attract businesses to the United Kingdom.

Ian Murray: My right hon. Friend is generous. There is no doubt, given the current make-up of the UK economy, that the benefit of the corporation tax cut is to the financial sector. To highlight the point that he is making, let me outline what the Scottish National party is pushing for in Scotland. It wants control of corporation tax so that it can slash it for the financial sector. It does not want the banks and financial institutions to pack their bags and move south of the border in response to the threat of independence. It wants to use the corporation tax system and cut it dramatically for the financial sector to keep it in Edinburgh because the financial sector is frightened about Scotland divorcing itself from the rest of the United Kingdom.

Mr Hanson: I am grateful to my hon. Friend for that. As we are discussing rates of corporation tax and the charge and main rate for the financial year 2012, it would be interesting to know whether corporation tax changes will be brought forward to give different rates in different parts of the United Kingdom. We might even find some unity and synergy on such points. My hon. Friend has just mentioned that the Scottish National party has set as one of its main tasks a derogation from corporation tax so that it can set its own tax in Scotland. There is pressure from our colleagues in Northern Ireland to match the rate of corporation tax in the Irish Republic. If the hon. Member for East Londonderry were here, I am sure that he would raise the issue as well. Perhaps the Minister could take the opportunity to comment on those issues as part of the discussions on our amendment. Will he tell us whether those assessments will impact on the changes?

Ian Mearns: Of course the Government have already established a precedent for differential rates of taxation, even at a local level, by creating enterprise zones. Although the differential rates may not be in corporation tax, they are in taxation on businesses operating in a particular area. With that precedent, the scenario that my right hon. Friend has outlined is entirely possible.

Mr Hanson: My hon. Friend makes an important point. There may be enterprise zones in a number of areas, and we will need to reflect on them in due course. Let me reassure the Minister that we will not vote against the clause. He can relax in that knowledge. Even if we did vote against it, he knows that he could muster sufficient support to see it through. However, I hope that he will use the amendment as an opportunity to outline to the Committee what the changes will mean to the various sectors of our economy and how they form part of a wider growth strategy. The amendment proposes a review of banks in particular. If he can lay to rest our fears that banks and financial institutions will disproportionately benefit from the corporation tax proposals in the Bill, I will be happy to withdraw my amendment.

5.45 pm

Mr Gauke: Clause 5 sets out the main corporation tax rate for the financial year beginning on 1 April 2012, when it will be reduced to 25%. That cut is of 1 percentage point. It will be followed by equal cuts in each of the following two years, taking the rate to just 23%, and builds on the 2 percentage point cuts in the main rate of corporation tax in 2011, which we debated last week. I am pleased that the Labour party supports that.

I shall come to amendment 4 shortly, but first I want to explain why reducing the corporation tax rate is important. Several questions were raised about that during the speech of the right hon. Member for Delyn. As I said last week during our debate on the Floor of the House on clause 4, a thriving private sector must be at the heart of our plan for growth, because as we reduce spending—we must do that if Britain is to live within its means—only the private sector can spearhead the recovery. We need to show that the UK has an attractive tax system and is open for business. This Government are taking action to show the international business community that the UK is the right place to do business and that our tax system is one reason why. The Government's priority is to secure strong, sustainable and balanced growth, which means that we will reduce the cost of new investment, and incentivise activity across the economy.

I am tempted to quote the right hon. Member for Delyn in making the case for a lower rate. He said last week when quoting me from last year's debate that I was heartily in agreement with what he was saying. Between us, we made four arguments for prioritising the move. First, corporation tax rates are important in selling the UK. They are an advert for an economy as a good place to do business. Secondly, the cut is a necessary step to help to rebalance the economy, and we must provide the necessary boost to the private sector. Thirdly, the OECD's estimates suggest that corporation tax is an inefficient tax, because lower rates encourage investment. Finally, this is a tax cut that will support jobs in the private sector, and provide the boost to investment that Britain vitally requires. I am pleased that the right hon. Gentleman had no quibble with those arguments, and I thought that it would benefit the Committee to repeat them. They still hold true.

Reducing the corporation tax rate has become vital, because our competitors have cut their corporation tax rates further and faster. In 1997, the UK had the 10th lowest main rate of corporation tax among the current 27 EU countries, but by 2010 we had slipped to 20th. The changes in clause 5 will affect incorporated businesses that have profits between £300,000 and £1.5 million and pay corporation tax at the main rate, reduced by marginal relief, and those with profits above £1.5million that pay corporation tax at the main rate. That will lower the tax bill of approximately 45,000 companies that pay tax at the main rate and 40,000 companies that are taxed at the main rate but benefit from marginal relief.

Amendment 4 proposes that the Government should publish a report on the sectoral impact of reducing corporation tax to 25% in 2012-13, and it picks out the impact on banks in particular. We have heard today about the need to rebalance the UK's economy, and if you will indulge me, Mr Hood, it is relevant to say a few words about the Government's plans for growth to place the UK on a path to sustainable long-term growth. Over the last decade, growth has been concentrated in a few sectors of the economy. A small number of regions of the country have prospered, with other regions becoming increasingly reliant on the public sector. That point was picked up by several hon. Members this afternoon.

That is why the Government have set an ambition to encourage investment and exports as a route to a more balanced economy. In the plan for growth, we announced that we would extend the capital allowances short-life asset regime for plant and machinery from four to eight years, and we have done so in clause 12. We are setting up 21 new enterprise zones to support investment across the regions, and in the context of the north-east, it is worth highlighting that among the first enterprise zones will be one working with the local enterprise partnership in Tees Valley and another with the north-eastern local enterprise partnership. We are improving infrastructure and supporting the green economy infrastructure development through the green investment bank.

When considering the impact of the corporation tax measures that we are debating today, we must remember the wider context of the Government's actions to support the private sector. Furthermore, the Office for Budget Responsibility stated in its Budget 2011 forecast that it expected the recovery to be supported by business investment, and that reductions in corporation tax underpinned its forecast for strong business investment growth over the next five years.

In June, the Office for Budget Responsibility increased investment and GDP forecasts in response to the corporation tax package. Its analysis was that the resulting 3% reduction in the cost of capital would

"promote a higher level of business investment than would otherwise be the case".

In total, that resulted in an additional £13 billion of business investment by 2016.

Moreover, the Institute for Fiscal Studies said in March that reductions in corporation tax of the magnitude planned for the next few years were likely to boost corporate activity in the UK.

Mr Hanson: The Exchequer Secretary knows that we support the corporation tax cut for that reason. I am also interested to know how the corporation tax cut will help attract jobs, particularly to those regions such as the north-east, Scotland and Yorkshire and Humberside, to name but three while looking at my hon. Friends, where there is currently a very high level of unemployment. I hope that the Minister can develop that argument. We want an assessment of where the resources are going, because my fear is that new companies that might establish themselves as a result of the corporation tax cut will be doing so in regions that already have low levels of unemployment.

Mr Gauke: Let me deal with that point. The right hon. Gentleman set out his understandable concerns about the levels of unemployment in a number of regions. I cannot help but think that if the Economic Secretary were here, she would be jumping up to make the point that unemployment has always been higher at the end of a Labour term in office than it was at the beginning. I recognise that all members of the Committee want unemployment to fall and employment to increase. It is worth highlighting for the Committee that in the three months to February, we saw an increase of 143,000 people in employment in the UK. It is also worth highlighting that the OBR forecast is for employment to increase by 900,000 between 2010 and 2015.

The right hon. Gentleman asked a perfectly fair question about the relationship between corporation tax and employment. I am pleased that he is an enthusiast for reductions in the corporation tax rate. Let me make this argument to him. As we reduce the CT rate, we increase the return on investment. All other things being equal, that will mean an increase in investment that will drive productivity increases. Increases in productivity will drive up both employment and wages and salaries. That will apply in all sectors, and I will come to the sectoral impact in a moment. That is the reason why we are reducing corporation tax, and why the OBR considers that there will be an increase in business investment as a consequence of these decisions. The Confederation of British Industry also says that its recent business surveys support the argument that there are growing investment intentions among firms. The CBI expects business investment to grow strongly throughout the forecast period of the next four years or so.

Tom Blenkinsop: Does the Exchequer Secretary anticipate further investment from the steel and chemical industries—such as GrowHow, Lucite and Tata—which have been quite vocal in my area? They have said that the carbon floor pricing policies indicate that they do not want to invest, and that they may be forced abroad to manufacture.

Mr Gauke: I will speak in greater detail on the sectoral impact in a moment. A balance needs to be struck between ensuring that the UK is competitive, and ensuring that we comply with requirements on carbon emissions, something that all parties have signed up to. We are seeking to strike that balance. I will come to the point later, but I want to reassure the hon. Gentleman that manufacturing industry benefits from this package as a whole.

I know that concerns have been raised about capital allowances and I appreciate that, with the exception of the two shadow Ministers, every member of the Labour team here is from the 2010 intake, but in 2007, the previous Labour Government reduced the writing-down allowances from 25% to 20% in order to fund a reduction in the corporation tax rate from 30% to 28%. We are making much more modest reductions in capital allowances from 20% to 18%, but much more substantial reductions in the corporation tax rate from 28% to 23%, a package that is much more beneficial to manufacturing industry than the 2007 package. It also has to be said that manufacturing is growing very strongly. Comments from EEF just this morning showed strong growth in manufacturing over the course of 2011.

Tom Blenkinsop: We take on board the fact that cuts in corporation tax help all sectors across the board. However, there is still the outstanding issue of the carbon floor price, the reduction in capital allowances and the effect on domestic demand. The beam mill in Redcar, for example, which is a massive producer of long product steel, has been vastly reduced. It has lost up to 70% of its orders, as nearly half of its manufacturing went to domestic British buyers.

Mr Gauke: That point came up in the course of Treasury questions earlier this afternoon. My right hon. Friend the Chancellor rightly said that there was a question of trying to get that balance right and ensuring that high-energy industries were not placed in an unfeasible position. The hon. Gentleman sets out the case very forcefully for his constituency, and I am grateful to him for that.

May I turn to the amendment, Mr Hood, or indeed, Mr Gale? The amendment asks for an assessment of the impact from the rate reduction on banks. The Government want the UK to be one of the most competitive global centres for financial services. However, it is only right that during difficult times, steps are taken to ensure that the banks make a full and fair contribution. That is exactly why we introduced the bank levy. In the 2011 Budget, my right hon. Friend the Chancellor announced that an increase in the bank levy rates from 2012 was being made to offset the further reduction in the rate of corporation tax.

This increases the yield from the bank levy by £400 million over the forecast period, in addition to the £800 million additional levy revenue from the increase in the 2011 rates announced in February. Taken together, these rate changes will raise a further £1.1 billion over this Parliament and in total the bank levy will raise over £2.5 billion each year, far more than the benefit banks receive from the cuts in the rate of corporation tax.

I now turn to the other element of amendment 4 on further details of the sectoral impacts of clause 4. I think hon. Members on both sides of the Committee accept that forecasting is not an exact science. Sectoral forecasts are highly uncertain and will depend on the relative levels of profitability in different areas of the economy. HMRC publishes tables of historic tax liability by sector, which are available on its website— table 11.5 should hon. Members wish to look for it.

Last year's coalition agreement reflected, rightly, a concern over the possible impact of corporation tax reform on the manufacturing sector. At the June Budget the combination of rate cuts and reductions to capital allowances benefited manufacturing overall. This year, in addition to the additional 1% corporation tax cut, the Government have announced plans to reform the R and D tax credit scheme and the capital allowance short-life asset regime.

HMRC's analysis is that the manufacturing sector is expected to benefit overall from these reforms by approximately £700 million in 2015-16. As we have already noted, the Government's corporation tax reforms will support business investment throughout the economy.

6 pm

The business tax package is being put in place to improve our competitiveness. All companies with profits of more than £300,000 will benefit from clause 5, and we are also cutting the small profits rate in clause 6. The Government have chosen this approach to reduce the cost of new investment throughout the economy, providing the right conditions for private sector growth without requiring the Government to dictate where it will occur.

Reducing the main corporation tax rate to 25% in 2012-13 will reduce the cost of new investment and incentivise activity throughout the economy, supporting the Government's ambition to achieve the most competitive tax system in the G20. We expect the changes to benefit the manufacturing sector to the tune of £700 million, as I said, while banks will be paying £2.5 billion because of the bank levy.

I therefore ask the right hon. Gentleman to withdraw the amendment and I recommend that the clause stand part of the Bill.

Mr Hanson: I have done a disservice to the hon. Member for East Londonderry. According to my original briefing notes, he was a member of the Committee. In a late substitution last night, however—I am sure much to his relief—he was replaced by the hon. Member for East Antrim. As neither of them are in Committee today, I could not recognise either of them. For the record, it is the hon. Member for East Antrim who is representing the Democratic Unionist party in Committee. As I understand it, they are still counting their election results.

Mr Gauke: I made the same mistake, so I am grateful to the right hon. Gentleman for drawing the Committee's attention to it. I, too, referred to the hon. Member for East Londonderry. However, it is always a pleasure to see the hon. Member for East Antrim in Committee and we look forward to that.

Mr Hanson: Thank you for allowing us that slight diversion, Mr Gale.

I am grateful for our discussion and, as I said, we do not want to press clause 5 to a Division. However, I am minded to divide on amendment 4, because we feel that there is a case for formal assessment of the impact of the changes on the various sectors. We need to examine the impact of the changes on the benefits for banks and for other sectors to which corporation tax applies in the cold light of day.

In discussions with the Minister, I was struck by the absence of any formal assessment of outcome on jobs or economic growth as a result of the cut in corporation tax. There will be such benefits, but it would be good to judge the Minister based on such outcomes. Amendment 4 would be helpful, and I propose that we test the will of the Committee.

Question put, That the amendment be made.

The Committee divided: Ayes 14, Noes 17.

Division No. 2]

AYES

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

NOES

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

Question accordingly negatived.

Clause 5 ordered to stand part of the Bill.

Clause 6

Small profits rate and fractions for financial year 2011

Mr Hanson: I beg to move amendment 5, in clause 6, page 2, line 33, at end add—

'(4) The Chancellor shall publish, by 30 September 2011, his plans for future tax arrangements for small companies.'.

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

Mr Hanson: I hope that we can dispose of this matter relatively quickly, because we have so far had a good debate on corporation tax matters relating to clauses 4 and 5. Clause 6, however, sets the rate for smaller companies with profits below £300,000 at 20% in 2011. Companies with profits between £300,000 and £1.5 million pay at a rate between the main and lower rates, worked out on a sliding scale.

The amendment calls on the Treasury to provide, in effect, a corporate tax road map for smaller companies, because, as we have debated, the corporation tax cuts that are proposed in clauses 4 and 5 are going predominantly to larger, or a least larger profit, companies. The main rate and lower rate are coming closer together as a result. We need clarity from the Minister, therefore, as to the Government's intentions for the lower rate of corporation tax for smaller companies who have the lower rate of profit. We have had a good debate on these matters, but most of the benefit will go to large companies, rather than small. In benefit terms, for every £1 going to small companies, more than £4 goes to large companies.

[Mr Hanson]

We have picked up from representations to the Committee that small businesses across the country want to know what the strategic vision is, what certainty there is on taxation policy, and what the Government's intentions are over this Parliament. I say that again because the arguments that I have made in previous discussions, including when discussing clauses 4 and 5—relating to the strength of the economy, the levels of unemployment in UK regions, the level of growth and business activity—are particularly important for the level of small business activity, and for small business growth.

With due respect to all our businesses, in my constituency Airbus produces world-class planes, the wings for corporate jets, carries out a range of large-scale manufacturing activity, and will benefit from the corporation tax cuts proposed in earlier clauses, but equally important are the many small businesses that supply materials, goods and services to those bigger businesses. They have a lower rate of profitability and turnover, yet now find themselves getting closer to the corporation tax rate set for larger companies. The measures before us in clauses 4 and 5, and now in clause 6, make those changes to corporation tax. The amendment asks the Minister to discuss with the Committee how he sees the potential growth of small businesses around the country.

We know that the Minister has tried to encourage small businesses to employ people in certain regions through the national insurance holiday proposal that was discussed in depth before Christmas in another Committee. In Treasury questions today it was clear that, as my right hon. Friend the Member for Morley and Outwood (Ed Balls) said, that has not yet taken off to the extent that we wish in terms of creating employment in those sectors. The corporation tax proposals are extremely important in helping small businesses, not just large ones. The amendment is probing, and we could undoubtedly have discussed this in the clause stand part debate. I wanted to place on record that we would welcome the Minister's comments on where he sees potential over the next four years for corporation tax to help small businesses as well as the larger businesses that we have discussed to date.

Tom Blenkinsop: Looking at the amendment, I think that it is fairly straightforward. Other questions need to be asked. For instance, how many small companies would benefit from such a measure? How many self-employed people already benefit? Would that number of people increase? Would the number of SMEs benefiting from such a policy increase? Those are sensible questions to ask.

Mr Hanson: The reason why I have tabled the amendment is that we are facing an effective convergence over the next two years of the higher and lower rates of companies and corporation tax. The corporation tax that has been proposed, discussed and agreed in clauses 4 and 5 has led to a lower rate for predominantly larger companies, or companies with higher profitability. Clause 6 provides for a lower rate of 20% on company profits other than ring-fenced profits, and 19% on ring-fenced profits. In my view, that is closer to the main rate of corporation tax under clause 4, which has been discussed and agreed.

My purpose is simply to give the Minister an opportunity to outline his view of corporation tax changes for small businesses. I think that he and I agree that small businesses are the economic generator of many levels of employment in our constituencies, and they need Government support to ensure that they are not disadvantaged by the changes proposed elsewhere in the Bill.

Mr Gauke: Clause 6 sets the small profits rate of corporation tax for the financial year beginning 1 April 2011, reducing it to 20%. The clause also sets the fraction of relief from the main rate of corporation tax given to those companies with profits between the small profits rate and main rate at 3/200. Amendment 6 seeks to probe our future plans, to which I shall come shortly.

The competitiveness of our tax system has been eroded and our small companies have faced increasing rates of tax. We have debated a 5% reduction in the main rate of corporation tax over four years, but it is vital that the UK's smaller companies can benefit from lower rates of corporation tax. That is why we will cut the small profits rate to 20%. The right hon. Member for Delyn observed a convergence between the small profits rate and the main rate of corporation tax. It is worth reminding the Committee that the previous Government's plan was to increase the small profits rate to 22% from April 2011. One could say that that was a convergence, but going the wrong way. I am pleased that if the gap is narrowing, it is because we are reducing taxes, not raising them.

A reduction in corporation tax rates is part of the Government's strategy for ensuring that the private sector leads the economic recovery. As a result of the reduction, at least 850,000 companies with profits of up to £300,000 will be able to retain a greater share of their profits to reinvest and grow, and more than 40,000 companies with profits above £300,000 but below £1.5 million will continue to benefit from marginal relief from the main rate of corporation tax. The relief will ensure that they pay a marginally increasing rate of corporation tax as their profits rise. As a whole, the changes that we are making will lead to a further £13 billion of investment, as I said earlier.

The small profits rate is a long-standing feature of the British tax system. Many other countries, including France and Belgium, also support smaller profit companies with a lower rate of corporation tax. The UK's £300,000 threshold is the most generous in the EU. Other countries set theirs far lower; for example, France's lower rate is only available to companies with profits up to the equivalent of £33,000, while Belgium's is only available to companies with profits up to the equivalent of £21,000. It is right that the UK Government continue to offer that tax incentive to encourage future entrepreneurs and support existing companies by reducing the burden of taxation. The reduction in the small profits rate, alongside the wider package of corporate tax reforms, will provide the certainty and stability that small profit companies need to plan for the future.

6.15 pm

Turning to amendment 5, the Government have provided a clear strategy in our approach to business. In November 2010, we published our corporate tax road map, which set out our plans for reform mainly for the larger side of business. I am pleased that setting out a corporate tax road map has so impressed the right hon. Member for Delyn that he seeks to apply the same approach to smaller businesses.

The Government also recognise the important role of small business in building a sustainable economy, so in the Budget last year we announced a reduction in the small profits rate. The Budget this year announced an increase in the lifetime limit on gains eligible for entrepreneurs' relief from £5 million to £10 million to encourage serial entrepreneurs who want to grow and expand their business by reinvesting gains. Alongside that, the Government's plan for growth announced the creation of 21 new enterprise zones. From October 2011, the small business rates relief holiday will be extended by a year. The 2011 Budget also announced support to help small business get better access to finance through significant reform to the enterprise investment scheme and venture capital trusts, subject to state aid approval.

In addition, the Office of Tax Simplification has started its review of small business tax, IR35, with its interim report, which was published in March. That report identified a wide range of small business tax issues and long-term structural priorities for reform, such as the integration of income tax and national insurance contributions. The report also identified measures that could be taken forward on a shorter timetable and options on IR35. The Government have asked the OTS to take forward its work and report on small businesses' experience of tax administration, with a view to recommending possible reforms ahead of Budget 2012. Further detail on that work, the Government's response to the small business tax review and subsequent work by the OTS will be announced before the end of the summer.

The Government's new approach to tax policy-making aims to restore the UK tax system's reputation for predictability, stability and simplicity, and small businesses will benefit from that. Following the publication of the document, "Tax policy making: a new approach" alongside last year's Budget, the Budget this year is the first Budget where the new approach has been put into practice.

As to the specific rates of tax, I am sure that hon. Members will understand that such announcements are made at Budgets, and that the Government keep all taxes under review. We are committed to a stable tax environment for small businesses and ensure appropriate consultation for any changes. For those reasons, the Government believe that there is no case for accepting the amendment, although I appreciate the probing nature in which the right hon. Member for Delyn set out his case.

To conclude, the clause sets the small profits rate of corporation tax for 2011-12 at 20%, and represents the Government's commitment to supporting growth and investment in small business. We are taking significant steps to help small businesses in a range of ways. I therefore ask the right hon. Gentleman to withdraw his amendment.

Mr Hanson: I shall be happy to withdraw the amendment, which was intended to create discussion. We could have done that on clause stand part, but we felt that we needed to have some indication of where the Government feel the trajectory is on corporation tax for small businesses. As the Minister has indicated, we are now quite keen on road maps. It is good to have certainty. I am pleased that there is agreement between us on certain matters before the Committee. We will also support the clause stand part. With those comments, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 6 ordered to stand part of the Bill.

Clause 8

Annual exempt amount

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

Mr Hanson: As the Committee will know, each taxpayer has an annual exempt amount before they have to pay capital gains tax. No tax is paid on total gains made over a year up to that amount and gains above it generally pay a rate of 28%. The clause confirms the annual exempt allowance for 2011-12 as £10,600.

The key point on which I want to question the Exchequer Secretary is the clause's introduction of a mechanism for the annual exempt amount to be increased when there is an increase in the retail prices index, which is known colloquially to us all as RPI. The clause introduces that mechanism, but the Government announced in the 2011 Budget that indexation for direct taxes, including capital gains tax, will be moving to the consumer price index in 2012-13. Why does the clause use the RPI when the Government have indicated that future taxation will use the CPI? Will the provision have to be amended this time next year in a future finance Bill? If so, why is the RPI being attached to the appropriate level of assessment in this Bill?

There is an honest disagreement between the Government and the Opposition about the level by which we should judge the rate of inflation and there are different methods to do that. The Bill raises some questions. Why is it using the RPI rather than the CPI to date? Is that an indication that although there was a switch to CPI in the Budget, it was too late for it to be drafted in the Bill? I am interested, because that indicates a lack of transparency. The Government have said on the one hand that taxation will be indexed by CPI from next year, yet on the other, they include a measure in the Bill that uses RPI. They need to be open, honest and transparent about that. They appear to be hiding the RPI measure today, even though they will need to amend it—unless the Exchequer Secretary tells me otherwise—to CPI at some point in future.

The impression is of a stealth tax rise that was very much a last-minute decision. I would welcome some confirmation from the Exchequer Secretary about the measure under the exempt amount. Will it relate to RPI in perpetuity—for the duration of this Parliament, which would mean that no changes would be made next year in relation to indexing, or will the amount relate to CPI, as proposed for other measures? If so, the next Finance Bill will require a measure to amend the provisions of indexation under clause 8. Can the Government confirm that the annual exempt amount will, in future, increase by CPI rather than RPI? That would mean that more gains would be brought into the capital gains tax regime.

[Mr Hanson]

Why are the Government including RPI in the Bill as the mechanism for increasing the annual exempt amount when they know that they will have to amend it next year to CPI? Could that not have been done at once?

Those are my only questions on the clause. The Exchequer Secretary may be able to satisfy me about the machinations that have resulted in the clause as it stands, but there is an anomaly in the provision that he must explain and discuss in his approach to the debate.

Mr Gauke: As we have heard, the clause makes a technical change to the procedure for indexing the capital gains tax annual exempt amount to ensure clarity in the process, particularly in circumstances when the inflation measure that is used to index the AEA is negative. The clause also confirms that the annual exempt amount for 2011-12 is £10,600.

The AEA is one of the tax allowances that are automatically indexed every year unless Parliament sets a different figure. Indexation works by reference to inflation over the 12 months to September in the previous tax year. In normal years, the Treasury makes an order to set out the exempt amount for the next tax year, following the rules for calculating the increased amount that are laid down in the Taxation of Chargeable Gains Act 1992, as the right hon. Member for Delyn knows. That is all that needs to happen for the amount to be indexed.

The 12 months to September 2009, however, were unusual, as inflation was negative. Indexation did not apply in that situation. The exempt amount for the following year, 2010-11, remained the same, and the Treasury made an order to that effect. However, detailed scrutiny of the rules suggested that that may not have been the correct procedure. The changes made by the clause will ensure that there is no doubt in future about what has to happen in such cases. If inflation is positive, the Treasury will continue to make orders, setting out the increased exempt amount for the following year, exactly as it does now. If inflation is zero or negative, the exempt amount for the previous year will be carried forward automatically to the following year. The Treasury will not be required to make an order confirming that there has been no change.

Clause 8 will not change how the increase in the exempt amount is calculated. It only puts right the way in which the indexed amount for the following tax year is fixed. Parliament will still be entitled to overrule indexation and set either a higher or lower figure. Members of the Committee will be aware that in the Budget we announced that indexation will in future be based on the consumer prices index, rather than the retail prices index, as the right hon. Gentleman pointed out. The clause will not make that change. The move to using the CPI will start from 2012-13 and will be included in next year's Finance Bill. For the 2011-12 tax year, the clause sets the exempt amount at £10,600. That represents an increase from £10,100 in the preceding year, and the new figure is the normal indexation amount based on the RPI.

As for why we have not moved to indexation using the CPI this year, the answer is that we have decided to move to using the CPI for indexing rates and allowances from April 2012 for all direct taxes, including capital gains tax. It is better for the CGT annual exempt amount to keep in step with the other changes.

Mr Hanson: Is the Exchequer Secretary's assessment that the amount of capital gains tax payable will be significantly different if the CPI rather than the RPI is used?

Mr Gauke: The impact of the change from the RPI to the CPI will depend on what those indices do in the years ahead. The RPI generally tends to be a higher than the CPI. For example, if we had an increased the figure of £10,100 by the CPI rather than the RPI, the result would have been £10,500 rather that £10,600.

Mr Hanson: So it is a stealth tax.

Mr Gauke: Well, we have been clear. As the right hon. Gentleman will remember, the Chancellor made clear in his Budget speech precisely what we are doing with the switch from the RPI to the CPI. It is the right thing to do. Yes, it will have an impact and create some savings for the Exchequer, but we have been absolutely upfront about that, so there is nothing stealthy about it. We have fully acknowledged the consequences of the change, and we believe that the CPI is consistent with what happens elsewhere in Government.

Clause 8 will make a simple technical change. It will also confirm that the annual exempt amount for 2011-12 is £10,600. I trust that it will be uncontroversial.

6.30 pm

Mr Hanson: It is indeed uncontroversial. I am grateful to the Minister for responding to my points. To be clear, he has confirmed that, next year, the annual exempt amount will be dealt with by CPI rather than RPI, which means, effectively, that there will be an additional cost to individuals who will have exempt amounts of capital gains next year. I want to place that on the record, because it is important confirmation that the clause will have a detrimental effect on that level of activity and that the CPI to RPI change will make savings to the Exchequer. It will, therefore, be another detrimental thing to add to the many detrimental things that are happening to people in our society at the moment in terms of their incomes and their ability to have positive gains in their community. I shall leave it at that.

Question put and agreed to.

Clause 8 accordingly ordered to stand part of the Bill.

Clause 9

Entrepreneurs' relief

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

Mr Hanson: Clause 9 deals with entrepreneurs' relief. It increases the lifetime limit for chargeable gains that qualify for entrepreneurs' relief on capital gains tax to £10 million from 6 April 2011. A lower rate of 10% capital gains tax is available to entrepreneurs. Entrepreneurs' relief used to be a colloquial term, and it is now enshrined in law. It is available for gains made on disposal of all or part of a business or shares in a company. To qualify for the relief at the rate of 10%, the individual making the gain must be in business—as a sole trader, for example, in a trading, not investment, business—or hold shares in a personal trading company in which they own at least 5% of the shares.

That measure—this is why we will not oppose it—was introduced by the Labour Government at the same time as we implemented a single 18% capital gains tax rate from 2008-09.

Julian Smith: The right hon. Gentleman says that the measure was introduced by the Labour Government, but it was a dog's dinner at the time. In the late '90s, the previous Government had a clear motivator for entrepreneurs—the taper relief measure—and their introduction of the entrepreneurs' relief a few years ago was a complete mess and, for me as a small business owner at the time, totally confusing. Does he agree that, when the measure was introduced, his Government received many representations about how confusing it was?

Mr Hanson: We could discuss every interpretation of dogs and dinner for the duration of the Committee. I say to the hon. Gentleman that, when introduced, the measure gave relief on capital gains tax to entrepreneurs. It put in place a regime. He may have been confused, but it has made some difference.

Julian Smith: It was confusing at the time.

Mr Hanson: Well, that is the hon. Gentleman's view and we can debate it. I fear, however, that if we debated the Budgets of 2008-09, you would call me out of order, Mr Gale. The key point is that a relief of 10% on capital gains tax is available to entrepreneurs. There is a lifetime limit on the amount of gains that can benefit from the relief. The then Labour Government originally set it at about £l million. We increased it to £2 million in April 2010. This Government increased it again to £5 million in their June 2010 Budget, and clause 9 now increases it to £10 million.

It has been announced as a measure to help increase growth, which is something that I am keen to look at. I am particularly keen to look at how we can increase growth among small entrepreneurs. I would be interested to hear from the Minister a measure of the proposals' outcomes. Will he give an indication of precisely how many people will benefit each year from entrepreneurs' relief and from the increase in that relief?

The Government's impact assessment, which was published alongside the Budget, states:

> "Currently 25,000 to 30,000 people each year claim Entrepreneurs' Relief. Of these we estimate a small number will benefit."

In response to a written parliamentary question, the Minister has said that the Government have made no estimate of the number of new businesses or the amount of new investment that will result from the proposed changes in entrepreneurs' relief. There is also no difference between the Treasury's static costing and its behavioural costing; in other words, the Treasury does not expect any extra gains to be made by entrepreneurs as a result of this measure, which means that there will be no economic impact and no boost to growth. I do not oppose the increase in the lifetime limit for entrepreneurs' relief, but I am concerned that it will have a limited impact and will be more than offset by the impact on businesses of the stagnation in the economy, the lack of confidence in the economy and the lack of growth.

I would welcome some specific responses from the Minister to these points. How many people are expected to benefit from the change to entrepreneurs' relief? If the Minister cannot give an exact number, can he say whether it is in the tens, the hundreds or the thousands? How many additional businesses does the Minister expect to be set up as a result of the change to entrepreneurs' relief? How much additional investment does the Minister expect to bring forward as a result of the changes in entrepreneurs' relief?

Ian Mearns: My right hon. Friend has just uttered the words that I was thinking about when it came to this measure. What level of stimulus to the economy will the proposal create? What additional investment will it make into the British economy and into British businesses? I must admit that I am failing to see at the moment—I have not yet seen any evidence from the Government—what additional investment this measure will bring to small, medium or large enterprises.

Mr Hanson: That is exactly the point that I want to tease out from the Minister. Whether it was an enjoyable dog's dinner is a matter for debate, but the key point is that the proposal was put in place and was continually increased under the previous Labour Government, and it has been extended in the most recent Budget under the Conservative-Liberal Democrat Government. The current proposal is to increase entrepreneurs' relief still further from £5 million to £10 million.

Ian Mearns: If my right hon. Friend will forgive me, I have a small observation. In economic terms, it is a moveable feast, because it has been variously described as a dog's breakfast and a dog's dinner.

Mr Hanson: I think we are all ready for it to be a dog's supper in due course, at which point hopefully we can finally finish today's debate. If the Minister advances a proposal, as in clause 9, for that relief, he needs to state clearly how many people he expects to benefit during this year and in future years. How many new businesses does he expect to start as a result of the additional amount in clause 9? How will the Government monitor the impact of the change to entrepreneurs' relief, and what tests are they putting in place to measure its impact across the board?

I ask that again because we have been very outcome-focused in our discussions on previous Finance Bills and in previous discussions with the Minister. When we made changes to the national insurance holiday regime in the National Insurance Contributions Bill before Christmas, the Minister was very clear about the outcomes that he expected from that proposal. He told the Committee that over three years 400,000 new jobs would be created in a range of businesses, and that the Government could monitor and test that. To date, he has been slightly tardy in presenting the figures on that benefit,

[Mr Hanson]

but we have secured today that around 3,000 people have been employed as a result of the proposal, almost a year from when it was introduced, and that some 300,000-plus people must be employed in the remaining two years and two or three months of the scheme in order to meet his target. I wished the national insurance scheme well and had no problems with it despite some debate about its application. We wished it well so that we could know its outcomes, and we now have figures for that. I hope to get clarity from the Minister about what the impact of the clause is intended to be on new businesses and business growth as part of the contribution to the business strategy.

Julian Smith: Is this not about providing an incentive to people who are thinking about taking a risk, and encouraging them to do so by making them financially better off through this measure? We have "Britain's Got Talent", football, and "The X Factor." The clause shows that enterprise in Britain will pay off. We need those people to get up and take the risk.

Mr Hanson: I have absolutely no problem with that concept, and I am pleased that the hon. Gentleman and I agree on that proposal. The Labour Government introduced entrepreneurs' relief when they did—dog's dinner or not—to try and provide such a stimulus and get new jobs created. Today the Committee is being asked to support an increase in entrepreneurs' relief from £5 million to £10 million. I am not opposed to that increase, but I simply ask the Minister for his assessment of what difference it will make. What jobs and new businesses will that increase create? I accept that he may not have a definitive answer, but it is incumbent on members of the Committee when testing the clause to ask what the outcomes of the legislation are supposed to be.

Paul Blomfield: My right hon. Friend puts his finger on the critical point. The Government speak regularly about measuring their decisions on outputs, and we need clarity about what their expectations are of the outputs of a very significant variation in the lifetime limit.

We also need a cost-benefit analysis. What is being lost to the Exchequer through this measure, and in what other ways could that money have been used to help small businesses? I talk regularly to small businesses in my constituency, and as a member of the Business, Innovation and Skills Committee, I have been involved in significant work to look at effective measures to support small businesses and drive economic recovery. The issues raised by businesses, however, are very different and concern access to finance and how they can be supported to get into the export market. Businesses are deeply concerned, for example, by the cuts to UKTI and support for that activity. We need to see what outputs the Government are seeking and measure those against how that money could be used—

The Chair: Order. I appreciate that slightly lengthy interventions may sometimes obviate a speech, but we must ensure that they remain interventions and not speeches.

Mr Hanson: My hon. Friend makes an important point that backs up what I am trying to say to the Minister. We do not object to the principle behind the rise from £5 million to £10 million in clause 9. The previous Labour Government also raised the level of support, and benefits will undoubtedly accrue from such a move. However, the Minister has stated in response to parliamentary questions that he has made no estimate of the number of new businesses, or of the amount of new investment that will result from the change to entrepreneurs' relief. I find it astounding that a Minister brings a proposal to a Committee when he has made no estimate of its impact. How will he know whether the measure will be a success if he has not set a benchmark and target against which to judge it?

Tom Blenkinsop: We are almost a year into a coalition Government, and we have seen recent evidence to suggest that many of the Government's targets have been missed. That is another demonstration of the fact that if we do not measure the effectiveness of a policy, or have some expectation for it, there is no way to judge whether it will be credible or not. We could consider whether the moneys raised by the entrepreneurs' relief could be recycled into helping start-up businesses.

6.45 pm

Mr Hanson: I am not going to recommend that my hon. Friends oppose the clause, but it is incumbent on the Minister to give an estimate of the result of the change. On page 22 of the Budget 2011 policy costings document, the static and post-behaviour costings are zero, minus £50 million, minus £70 million, minus £90 million and minus £100 million, showing no growth in jobs and no extra gain in employment as a result of the measure. I hope that the Minister can reassure me by giving me figures today that show that there will be changes in the level of entrepreneurial activity, but his answer to the parliamentary question stated that no estimates had been made, his policy costings document shows no significant gains as a result of the proposal, and his own tax information and impact note states:

> "Currently 25,000 to 30,000 people each year claim Entrepreneurs' Relief. Of these we estimate a small number will benefit."

A small number could be one, 10, 50 or 100.

We are forgoing taxpayers' money by way of the proposal, so will the Minister please justify, not just to me and my hon. Friends but to his own hon. Friends, the gains from the measures in clause 9? It is perfectly reasonable to ask that. If he can stand up and say, "We can't measure the gains; we haven't measured the gains; we don't know what the costings are; we don't believe that the measures will have a significant impact," I will simply ask why we are forgoing that level of income, when we could, as my hon. Friends for Sheffield Central and for Middlesbrough South and East Cleveland have said, consider using the resource elsewhere, to help to stimulate the very same people in a different way. The argument is not about the principle; it is simply an argument to get the Minister to tell the Committee what he intends to achieve, how and why he intends to achieve it, and how he intends to monitor it.

Mr Gauke: As we have heard, clause 9 increases the lifetime limit on capital gains qualifying for entrepreneurs' relief from the current £5 million threshold to £10 million from 6 April 2011. The Government want to promote entrepreneurship to support economic recovery and growth in the UK, and increasing the limit to £10 million lowers a barrier for serial entrepreneurs who want to grow their businesses and reinvest in new enterprise, demonstrating the Government's confidence in the ambition of entrepreneurship in the UK. My hon. Friend the Member for Skipton and Ripon put his figure on the key point, which is that it is about sending a clear signal that the UK is somewhere that welcomes talent, and entrepreneurs who will go out there and create businesses, and further businesses, and in doing so generate jobs and prosperity for many.

Entrepreneurs' relief provides a 10% rate of capital gains tax on gains made on the disposal of businesses, including shareholdings of greater than 5% of the business for employees or officers. The lifetime limit was set at £1 million when the relief was introduced in April 2008, and was subsequently increased to £2 million in the March 2010 Budget, and to £5 million in the June 2010 Budget. The changes made by clause 9 will affect a small number of serial entrepreneurs and material investors, and the right hon. Member for Delyn is right to refer to the assessment in the tax information and impact note. The changes will allow entrepreneurs to retain a greater proportion of their gains, incentivising them to build their businesses and reinvest in new ventures, and the measure is expected to cost £100 million of forgone tax receipts by 2015-16.

The measure is part of the plan for growth that supports investment in enterprise and in innovative small and medium-sized enterprises. It complements the reforms that the Government are undertaking in enterprise investment schemes and venture capital trusts, to encourage investment in high-growth-potential businesses. It is, in part, about sending a signal that the UK is a good place in which to do business.

Ian Mearns: I fail to see how we can ensure that, during the time that an individual entrepreneur gains the relief, investment can be secured to create new jobs and growth in the British economy. Someone taking a cynical view might say that over a period of time it is basically an avoidance measure.

Mr Gauke: This is a low rate. As we have heard, the principle of entrepreneurs' relief was brought in by the previous Labour Government. It is narrow in its application, and it is precisely aimed at people who have a significant shareholding and are actively involved in a particular business.

Yes, we have made a cautious estimate. We are not making great claims for the dynamic benefits in revenue terms that the relief will bring. We are taking a cautious approach, but in the context of the other steps that we are taking to encourage entrepreneurship and enterprise, it is another useful step in sending a clear signal to businesses and entrepreneurs that the UK is a place where it is worth making a go of it.

I suspect that from time to time we all meet businesspeople in our constituencies and elsewhere. The day after the Budget I met a businessman in Northern Ireland who had retired, got bored and decided that, although he had made several million pounds in his career, he was going to set up another business. Two or three years on, that business was thriving; it was a great success. It was employing some 50 people and was about to employ a further 200 or so. That is an example of the type of behaviour that I am sure we all want to encourage.

By lifting the lifetime limits of the entrepreneurs' relief, we are sending out a signal to that type of person that the UK is a place where they can do business. There are younger entrepreneurs who can choose where they want to be located. They may go to the US, where there is much going for the business environment, but the UK is becoming a more competitive place because of this change, which I hope will be supported across the board.

Mr Hanson: I have one question for the Exchequer Secretary. He has just helpfully told the Committee that the relief will cost some £100 million of lost tax income. Has an estimate been made of how many people will benefit from that £100 million of entrepreneurs' tax relief? Presumably, if he has assessed that it costs £100 million, it could be 100 people at a £1 million each, it could be two people at £50 million each or it could be 200 people at £500,000 each. What is the estimate? That is all I have been asking all the way through. What are the outcomes for the clause? If he cannot give us those figures, perhaps he will reflect on them and write to members of the Committee in due course.

Mr Gauke: The first point is that entrepreneurs' relief was introduced only in 2008, so we have few data. It is difficult to make assessments in this area, which is why we have been cautious in doing it. The impact of doubling the limit will be monitored through the information collected from tax returns. We will be able to make a more accurate assessment as time goes on.

We are taking a cautious approach. It will be a relatively small number of people, but they are exactly the type of people who create jobs and prosperity and who can ensure that the UK economy grows in the years ahead. It is worth pointing out that the relief is just what organisations such as the British Private Equity and Venture Capital Association sought in their Budget representations. They wanted a lifting of the £5 million lifetime gain to encourage greater aspiration for growth. That is something that we all want, and it is supported by business groups such as the CBI and the FSB.

The relief, along with other measures that we are taking, is sending a clear signal that the UK is a good place in which to do business. That is important for the recovery of the UK economy.

Ian Mearns: We are gaining an awful lot of information from the Minister, and I am very grateful, but given that this is a relatively new measure, and we do not yet know the full lifetime impact of it, does he not think that the doubling of the allowance from £5 million to £10 million is an adventurous thing to do? *[Interruption.]* No, I am being serious, because I really do think that down the line we might see many more people benefiting from it, but a significant reduction of tax for the Exchequer.

Mr Gauke: Those who will be able to benefit from entrepreneurs' relief are—exactly as it says on the tin—entrepreneurs. They are the type of people who will be

[Mr Gauke]

able to go out there and create jobs and businesses. We all meet such people in our constituencies and elsewhere. The country should welcome them. We should encourage them, having had one successful business, to get out there and have a second successful business. That is what the clause is about. It is an important signal, which I hope the Committee will support.

To conclude, we think that we are sending the clearest signal that the Government have confidence in the ability of entrepreneurs in the UK to succeed and contribute to the recovery of the UK economy.

Mr Hanson: I do not want to prolong the discussion, but it is worth putting it on the record that when asked the direct question, "How many people do you expect to benefit from the provisions of clause 9?", the Exchequer Secretary could not give a definitive answer. He can give a definitive figure of £100 million in lost income, but he cannot say how many people will benefit. In view of that, it seems—dare I say it?—an ill-thought-out proposal to expand the lifetime limit from £5 million to £10 million.

Mr Gauke: Will you vote against it?

Mr Hanson: I gave the Exchequer Secretary an assurance earlier that we would not, but I will give him another assurance. He can tell his officials to start to prepare answers to the questions that we will table over the next 12 months about the impact of the numbers on this particular clause and on the impact of entrepreneurs' allowance generally. As long as I hold the post of shadow Treasury Minister, I will table a regular question to ask how many individuals and businesses have benefited, and to what extent each individual business has benefited from the clause. The Exchequer Secretary would expect nothing less. It is taxpayers' money that is being forgone. It will potentially create jobs, and we encourage that.

We want to improve on the dog's dinner that the hon. Member for Skipton and Ripon said that we introduced, but ultimately we need to know what the outcomes of public policy are, and the Exchequer Secretary has failed lamentably to tell us.

Richard Harrington (Watford) (Con): I do not understand how the Treasury can answer the shadow Minister's question. People start businesses and sometimes it takes years for them to decide to sell, so they would not pay the capital gains tax. It does not all happen very quickly. From what I understand, the reason for the clause is to encourage people to set up businesses. Unless there are people at the Treasury with the skills of Nostradamus or some great teller of the future, I do not understand how they can answer the question.

Mr Hanson: I will give way not only to the hon. Member for Watford but to any member of the Committee at any time, because it is my style to allow challenges in Committee. If the Government have assessed that the proposal will cost £100 million in lost revenue, they must have assessed that on the basis of what the take-up will be. I have asked the Exchequer Secretary how many businesses will take advantage of that take-up, based on the assessment of £100 million, and the answer was that it is a bit of a fluid suggestion and they will have to look at it in the longer term, because they do not quite know. They have put in a figure of £100 million. In the estimates that they put before the Committee in the budget policy costings, they have said that they do not expect extra gains to be made by entrepreneurs as a result of the measure. That means there is no economic impact or boost to growth in their own assessment, so the relief is potentially a hand-out to a number of entrepreneurs—we do not know how many—as a reward for their entrepreneurship. In principle, we can debate that and agree or disagree, but I want the Exchequer Secretary to tell the Committee how many will benefit over what period of time. If he puts a figure down of £100 million, presumably that is not just plucked out of the air by Treasury officials and given to the Exchequer Secretary to say to the Committee, "It is £100 million." It must be based on something.

While we do not oppose the clause today, we will return to the impact of it, because that £100 million of lost income could have been used for something else to create jobs, or it could be a simple hand-out to people as their reward for creating jobs, and we do not know what the impact is. All I am asking is that the Exchequer Secretary tells the Committee how many new jobs he expects to be developed as a result of this stimulus, where those new jobs are likely to be, whether the costings show that there are extra gains in entrepreneurship across the country and how many people benefit from that approach. I am sorry to say that I am disappointed in his answer. That is the nature of opposition and the nature of government sometimes. I have been where he sits and he has been where I sit, and we know that that is the position. I will return to the matter with parliamentary questions, but I will give the Exchequer Secretary his clause today without pressing it to a Division. We will return to it and he had better start preparing the answers to my questions.

Question put and agreed to.

Clause 9 accordingly ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned.—*(Mr Goodwill.)*

7 pm

Adjourned till Thursday 12 May at Nine o'clock.