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)

Twelfth Sitting

Tuesday 7 June 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 11 June 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: Hugh Bayley, 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 7 June 2011

(Afternoon)

[MR JIM HOOD *in the Chair*]

Finance (No. 3) Bill

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

4.30 pm

Clause 56 ordered to stand part of the Bill.

Clause 57

TONNAGE TAX: CAPITAL ALLOWANCES IN RESPECT OF SHIP LEASING

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

Bill Esterson (Sefton Central) (Lab): The clause deals with tonnage tax capital allowances in respect of shipping, amending various provisions of the Finance Act 2000 on the writing down allowances available on the first £40 million of expenditure on a ship, bringing them into line with the rate available on a ship used by a company that has not elected for tonnage tax.

Companies operating ships subject to the 2000 Act were encouraged to train one UK rating for every 15 crew employed; my understanding is that there was a voluntary agreement. The aim was to encourage shipping companies to employ UK staff. The measure was introduced because of widespread and long-standing concerns about the underemployment of UK staff by shipping companies running ships from the UK, often at low pay rates, thus undercutting the wages that they would pay UK staff.

The low employment of UK staff is a long-running issue, and the issues around flags of convenience are extremely complex. Can the Minister consider whether there are ways of supporting the UK shipping industry and, in particular, how the Bill and the clause might be used to secure increased employment of UK staff in the shipping industry? Of course, at such a time, anything that can generate jobs is to be welcomed.

On Merseyside, the growth of the economy will be strongly linked to the success and development of the port of Liverpool. Many of my constituents would love the opportunity to work in the shipping industry, and to take advantage of the potential expansion of the docks.

Ian Mearns (Gateshead) (Lab): I am taken with the point my hon. Friend is making. If we want to see rebalancing of the economy—in particular towards manufacturing, leading to exports—we certainly need a healthy shipping economy, to facilitate our expansion. I hope that Ministers will look favourably on what my hon. Friend is saying.

Bill Esterson: My hon. Friend is absolutely right: we need to use ports and the shipping industry as an important component in rebalancing the economy. An export-led recovery is an element in achieving that—if not, indeed, the crucial element. Ports such as Liverpool and those in the north-east that my hon. Friend represents are an essential component of that recovery and regeneration, and I welcome measures such as those proposed in the clause.

Ian Mearns: I apologise, because I should have said earlier that when rebalancing the economy, and hopefully moving towards exports driven by manufacturing, we must take into account the favourable rate of the pound sterling compared with other currencies. A lot of people in my region tell me that that is an aid to them in terms of the export market they are trying to tap into. The whole picture must be sorted out so that shipping—British shipping in particular—is able to receive the benefit of that rebalancing of the economy.

Bill Esterson: My hon. Friend is absolutely right again. *[Interruption.]* He is almost inevitably always right. His point about the value of exports is important, and that is where the clause will be beneficial. It is worth bearing in mind that as of a few days ago, the pound stood at $1.64; a year ago it was $1.45. The concern is that that moves against helping exporters. *[Laughter.]* It is the other way round; it helps exporters. Ministers must be mindful that we need to avoid sterling being overvalued. We must get our heads around these technical points—*[Interruption.]* I am sure that other hon. Members will happily intervene to give lessons on such matters.

The point about the number of jobs available on UK-run ships is important, and I would be interested to hear the Minister's comments on how the Bill might be used to achieve those ends. On Merseyside, as in many other places, the level of cuts in jobs—particularly in Her Majesty's Revenue and Customs, the police service, the NHS, schools, colleges, universities and councils—means that new jobs are desperately needed. Any measures would be welcome.

The port of Liverpool is potentially the single biggest investment opportunity for the north-west in terms of growing the economy and providing high-quality jobs and opportunities for industry and trade. As the far east becomes an important trading partner, and as China and India rapidly grow their economies, Liverpool will achieve growing importance due to its geographical location and ability to provide trade links with that part of the world.

Alison McGovern (Wirral South) (Lab): My hon. Friend will know that the historic port of Liverpool now involves several ports, including those on the Wirral in my constituency. There is a huge opportunity to develop jobs in the shipping industry and support our manufacturing industry. Does he agree that that is one of the biggest transformational actions that we would like to see on Merseyside, and that it has the possibility to contribute a huge amount to skills and levels of employment?

Bill Esterson: Being another Merseyside MP, my hon. Friend is well aware of the situation. She has explained well the importance of the port in generating opportunities for business, and the jobs that come from it. She has been a strong advocate for the development of business across Merseyside generally, as well as in the Wirral particularly.

I invite the Minister to consider a suggestion. I mentioned earlier the current voluntary process whereby shipping companies are asked to train one UK rating for every 15 staff employed. Is there a way to link that idea to the clause, so that we can support UK jobs and the shipping industry, by requiring UK-run shipping operations, if they want to qualify for the allowance, to adopt that approach, being allowed to employ only 15 overseas staff for every UK rating that they train? That is already available as a voluntary approach; including it as a requirement in the clause would be an opportunity. I welcome the Minister's thoughts on that opportunity to create jobs in the shipping industry.

The Financial Secretary to the Treasury (Mr Mark Hoban): It is a pleasure to serve under your chairmanship, Mr Hood. I understand the motivation behind the hon. Gentleman's question. He did, indeed, table an amendment that was not selected for debate this afternoon.

In my constituency, which I have represented for 10 years today, we have Warsash Maritime Academy, one of a small number of training centres across the country devoted to training cadets and others for work in the Merchant Navy. It has a long and successful tradition of recruiting and training staff at all levels. It is important; I have a particular interest in ensuring that ships, wherever they are flagged, continue to employ people trained in the UK, particularly at Warsash Maritime Academy.

Bill Esterson: I will not detain you much longer, Mr Hood. My dad was responsible for the Merchant Navy college when he was an Inner London Education Authority inspector some years ago, so there is a shared interest. Will the Minister comment on how we address the matter of flags of convenience as well as the other issue that I raised?

Mr Hoban: I do not want to wander too far off the point of tonnage tax, for all sorts of reasons, not least to try to remain in order. I want to tackle the issue of the link between clause 57 and the training commitment that the hon. Gentleman proposes. The Government do not wish to dilute the training incentive that exists within the tonnage tax regime. In order for companies to benefit from the regime, they must commit to train one cadet for every 15 officers employed by the company. We think that that commitment strikes the right balance between ensuring the UK skills base is maintained, and having a simple regime that provides certainty for companies.

It might be helpful to say a couple of words about the effect of clause 57, to give some backdrop. Clause 57 reduces the level of writing-down allowances that can be claimed within tonnage tax to the same level as that for ships outside the regime. That change is required under EU law. We do not expect the impact of clause 57 to be such that it would affect a company's ability to carry out training. I do not think that the argument made by the hon. Gentleman, which is reflected in his amendment, would have the desired impact in practice. Capital allowances are available to companies outside the tonnage tax regime, such as banks and financial institutions that own ships that are then leased to shipping companies within the regime.

4.45 pm

In effect, what the hon. Gentleman suggests would benefit the banks, which are not involved in the training of cadets on a ship that has been leased. The benefits would shift from the company that leased the ship to the bank, and I am not sure that the hon. Gentleman wants the banks to have more tax benefits than they already have. Furthermore, exempting certain companies from the effect of clause 57 would mean that they received more state aid than had been agreed with the European Commission. We would have to approach the Commission to make such a change, and we believe that such an approach would be unsuccessful.

As I said earlier, I share the idea that seafarers' skills and training are important, but these things are policed and dealt with not by the Treasury but by the Department for Transport, which is responsible for all matters relating to the training of seafarers. I am sure that the hon. Gentleman knows that the UK tonnage tax is very different from that of many other countries, as it includes a requirement for training. The best way to improve training opportunities in the UK is for the unions, the shipping companies and the Department for Transport to work together; that direct route would be far more effective than trying to link the capital allowances to training through the tonnage tax. The latter would be a more convoluted route and less likely to have the impact that the hon. Gentleman desires, which is to improve opportunities for UK assistance in training for the Merchant Navy and for sail on other ships.

Question put and agreed to.

Clause 57 accordingly ordered to stand part of the Bill.

Clauses 58 and 59 ordered to stand part of the Bill.

Clause 60

Index-linked gilt-edged securities

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

Mr David Hanson (Delyn) (Lab): I look forward to working with you in the Chair, Mr Hood.

I have a couple of quick questions for the Minister. The explanatory notes helpfully supplied by Her Majesty's Treasury to all members of the Committee state in paragraph 7 of the section on clause 60:

> "At present, there is not a reliable government estimate of the number, or size of pension schemes that are affected."

The clause amends the corporation tax definition of an index-linked gilt-edged security. The Committee will know that the current definition provides that an index-linked gilt-edged security is one in which payments are wholly or partly determined by reference to the retail prices index. This is to be changed, and such securities will be ones where the payments are determined wholly or partly by reference to the index of prices published by the Statistics Board.

Paragraph 5 of the explanatory note states:

> "In July 2010 the Minister for Pensions announced that, from 2011, the 'general level of prices' for determining the statutory minimum percentage increase for revaluation and indexation of private sector occupational pensions, Pension Protection Fund compensation and Financial Assistance Scheme payments is the consumer prices index (CPI)."

[Mr David Hanson]

Paragraph 6 states:

"As a result, for those pension funds whose trust deeds refer to the 'general level of prices' for the revaluation of deferred pensions and the indexation of pensions in payment, the CPI applies as the statutory minimum increase rather than the retail prices index".

However, as paragraph 7 states, no reliable estimate has been made of the number or size of pension pots to be affected.

My question is simple. It is becoming rather a habit, but how can the Minister bring a proposal to the Committee—clause 60 is yet another example—when, as he admits in the explanatory notes, he does not know the number or size of pensions schemes that will be affected? As a starter, I ask the Minister for his assessment of the impact of the changes. How many pension schemes will be affected? What is the size of those pension schemes? How many individuals are there? Is there a costing in the Treasury for an up or a down in the overall value of the schemes? Putting, "We're very sorry, guv. We don't know," in an explanatory note is not satisfactory, so will he give some indication of that?

Mr Hoban: While the right hon. Gentleman is right to highlight the issues raised in the background note, and while it is right to say that there is no reliable Government estimate of the number or size of the pension schemes affected by the increased use of the consumer prices index, the purpose of the clause is actually to create certainty for pension schemes that use index-linked, gilt-edged securities. Let me set out what that change is. In clause 60, we are looking to make changes to ensure that the corporation tax treatment for all index-linked, gilt-edged securities issued by the Government is consistent, regardless of the index of prices used to determine payments.

By way of background, it is right to say that, in July 2010, the Minister with responsibility for pensions announced that, effective from 2011, CPI would be used for the revaluation and indexation of private sector occupational pensions, Pension Protection Fund compensation and financial assistance scheme payments. As a result, for those pension funds, the trust deeds of which refer to the general level of prices for the revaluation of deferred pensions and the indexation of pensions in payment, the CPI would henceforth apply as a statutory minimum increase, rather than the RPI. Those changes may affect the value of many pension schemes' liabilities and the preferred mix and type of hedging instrument schemes used to manage liabilities.

In the past, Governments have only ever issued RPI-linked gilts. The availability of a CPI-linked gilt will afford some pension funds an instrument with which to better hedge some liabilities. Under the current corporation tax rules, an index-linked, gilt-edged security is defined using the RPI to calculate payments, so if a gilt-edged security linked to a different index of prices is issued, the corporation tax treatment would be unclear and a different tax treatment would be applied. The clause changes the definition of an index-linked, gilt-edged security to remove any doubt surrounding their taxation. The legislation governing the taxation of index-linked, gilt-edged securities uses the index of prices by which payments on that gilt are calculated to identify the gains arising from the inflationary uplift and removes them from the charge to tax. The clause will ensure that that continues regardless of whether RPI or CPI is used to calculate the inflationary uplift.

The changes made by clause 60 will ensure that the current corporation tax treatment of index-linked, gilt-edged securities will be applied to any future issuance by the Government. That should be welcomed by gilt market participants and should reassure them. UK pension funds are the largest single investor group in that index-linked market. I say to the right hon. Gentleman that the main focus of the clause is actually to provide greater flexibility for pension funds, to enable them to use CPI-linked gilts to hedge their future liabilities and to ensure that the tax treatment of those index-linked gilts is clear and beyond any doubt. It is creating certainty for pension funds, and it is up to them to decide whether to use the powers.

Mr Hanson: I am grateful, and, in passing, can I congratulate the Minister on his 10th anniversary of becoming a Member of the House? It was a great day, with 413 Labour MPs elected on 7 June 2001. My majority was 9,000 on that day, and it has dropped considerably since then, but let us not touch on that one.

I accept what the Minister has said, but the point is that paragraph 7 of the explanatory notes for clause 60 still says that

"there is not a reliable government estimate of the number, or size, of pension schemes that are affected."

I understand the reasoning behind it, but I am simply asking whether the Treasury has done any modelling whatever or estimated the number of pension schemes that are likely to be affected? At what stage will he monitor the impact of clause 60 in the future? I feel that, in terms of the Minister's objectives, it would be helpful to know his assessment of the likely impact of the clause.

Mr Hoban: I do not want to create a long-running saga out of what is a relatively small but helpful clause. The point is to facilitate CPI-linked gilt-edged issuance. Should the Government decide to proceed down that route in the future, pension funds will have to decide how they approach this matter and whether there is any appetite for CPI-linked gilt-edged issuance. It is only when the pension funds themselves have reached a decision that we will know what appetite there is and what the impact will be. Rather than waiting for a problem to emerge or for a clamour for action once a problem has been identified, the Government are now making it possible for pension funds to make those changes. The funds know that the opportunity may be there for the Government to issue CPI-linked gilts in the future. It is only once they have decided what they are going to do that we can respond to that demand.

Question put and agreed to.

Clause 60 accordingly ordered to stand part of the Bill.

Clauses 61 and 62 ordered to stand part of the Bill.

Clause 63

Reduction of supplementary charge for certain new oil fields

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

Mr Hanson: The clause deals with the reduction of supplementary charge for certain new oilfields and makes two changes to the field allowance legislation. The first change amends the time at which the initial licensee is to hold a field allowance. Where a production income occurs in the same accounting period as that in which development authorisation is given, the change enables the field allowance to be activated in that period.

The second change amends the definition of "new oil field" for the purposes of the field allowance. That will enable certain previously decommissioned fields to be treated as new oilfields for field allowance purposes. Both changes have retrospective effect as from the introduction of the field allowance legislation.

New field allowances were introduced by the previous Labour Government as a means of encouraging the development of certain types of oilfield that could prove marginal due to tax costs. They did that by exempting a portion of income from the fields from supplementary charge, which means that they pay only 30% corporation tax.

The allowances were previously allowed only for fields that were given development consent by the Department of Energy and Climate Change after 22 April 2009. However, that could prevent fields that were given development consent but then decommissioned from being recommissioned, as they would still have to pay a supplementary charge due to their development date being before April 2009.

The clause states that if all the field's assets have been decommissioned, the approval date before the decommissioning will be ignored, which effectively means that the date of DECC approving the field is the one that should be taken for determination if the allowance is available. The measure is sensible and encourages all the fields to be redeveloped with new technology. However, if we consider the clause in connection with clause 7, which we discussed on the Floor of the House, we see that there are linkages between the effects of both clauses. Both deal with the issue of the supplementary charge. Will the Minister update us and tell us what progress she is making in her discussions with the oil and the gas industries about the supplementary charge in the legislation overall?

Following those discussions, Centrica, which is the parent company of British Gas, last week decided against reopening one of the largest gas fields following the Government's decision, under clauses 63 and 7 of the Bill, to raise taxes on production. The firm now says that it will buy in cheaper from abroad. The energy field concerned is the South Morecambe gas field, which is one of the three largest production areas that make up the offshore Liverpool-Morecambe Bay gas field. Recent concerns about the opening of the field are linked to the measures in the Bill.

5 pm

This week, my hon. Friend the Member for Barrow and Furness (John Woodcock) raised that concern in the local area. Centrica's decision not to reopen the field 20 miles off the coast of Barrow, following scheduled annual maintenance, was announced on Friday 3 June. The reasons given were that the new supplementary charge proposals—of which clauses 63 and 7, which we have considered, are part—mean that the field is now not productive for Centrica to keep open. My hon. Friend has indicated that, as well as the loss of gas production, some 200 jobs are at risk, which is a matter for discussion with Centrica. He says that it is alarming that the proposals before us have led to such concerns.

Initially, will the Minister update us on the discussions that she has had not only about clause 63, but about the supplementary charge generally? On Second Reading, we tabled an amendment that asked the Chancellor to produce, before the end of September, an assessment of the impact of the supplementary charge on business investment and growth, and on the long-term sustainability of oil and gas exploration. On the UK North sea facilities, Centrica's chairman, Sir Roger Carr, has said that

"it's probable that these changes will affect our plans to invest in the UK North Sea, which will have an impact on jobs and North Sea investment".

There have also been recent discussions about the impact of the changes on North sea development, and since our debates on the supplementary charge, the chairman of the CBI has written to the Government urging them to reconsider moves relating to the charge. As those matters are linked, it would be helpful if the Minister updated us.

There have been issues about consultation on the supplementary charge regime, and again, we made such points in Committee on the Floor of the House. My hon. Friend the Member for Bristol East stated that consultation on the proposals has been slim. On the Government's plans, we need transparency about the proposals that are being brought forward. Oilfields are long-term investments that require long-term certainty and stability. The industry has said to me that it believes that the value of investments in the UK oil and gas industry has fallen by a staggering 24% as a result of the 2011 Budget, and that point relates to the proposals in clauses 63 and 7. The Minister needs to examine the long-term potential for the industry, and the long-term investment in it.

Since discussing clause 7—this is linked to clause 63, Mr Hood, because both concern the supplementary charge regime—the Treasury Committee has said:

"The decision to increase the supplementary oil and gas levy by 12% without warning, less than a year after the Government had undertaken to provide a 'stable' tax regime… may weaken the Government's credibility in seeking to establish a stable tax regime in this and other areas."

Our good friends at the Chartered Institute of Taxation, who have provided a lot of briefings to the Committee, have also said that

"the last minute and precipitate change in Oil tax rates"

—for the supplementary charge—

"for an industry that is particularly dependent on long-term planning seems wrong".

My initial points to the Minister are on clause 63, therefore, but they are coloured by clause 7. Where are we in relation to her discussions with the industry on these matters? There is concern from such august bodies as Aberdeen university to suggest that, over the next three decades, the Government's changes introduced through the Bill could slash oil and gas investment in the UK by some £30 billion. Production could be reduced by up to a quarter, leaving the UK more reliant on imported oil and gas. That is important because only today in my constituency, ScottishPower—*[Interruption.]*

The Chair: Order. I am listening intently to the right hon. Gentleman and I am hearing a murmur from the Government Back Benches that is putting me off. If the Chair can hear the murmur, I am sure that other Members are unable to listen as closely to the right hon. Gentleman as they should. I ask hon. Members to stop murmuring and to pay attention to the right hon. Gentleman.

Mr Hanson: Thank you, Mr Hood. The point I was making is that these are important issues because the worry that has been expressed to me from organisations ranging from the CBI to the Treasury Committee and Centrica itself is that the measures in the clause and in clause 7, which we considered on the Floor of the House, are detrimental to investment in the oil and gas industry over the long term.

Not two hours ago, ScottishPower announced a 19% increase this August in the cost of gas to my constituents. It is a quite a significant company now. It operates not just in Scotland, but supplies people throughout north Wales, the north-west and other areas. If the measures in clauses 63 and 7 are leading to a lack of investment in the oil and gas industry in the North sea, and with Centrica's announcement only last week about the Morecambe Bay gas field, the potential is there for gas prices to rise even further from what are already appalling prices.

The Economic Secretary to the Treasury (Justine Greening): I want to understand what point the right hon. Gentleman is making. Is his hypothesis that the higher the gas price goes, the less likely companies in the UK are to want to invest in gas reserves in the UK continental shelf? That seems to be slightly counter-intuitive. Most people would have thought that the more valuable UK gas reserves became, the more likely they were to be worth taking out of the ground.

Mr Hanson: The point I am making is that only today it has been announced that gas prices in my constituency will rise by 19%. The headline in the *North-West Evening Mail* last week was, "Gas production halted at field after tax increase". If production is taken out, that could cause the price to rise still further or lead us to consider importing gas in the future.

Justine Greening: Again, is the right hon. Gentleman's hypothesis that it would be wrong for Centrica to raise prices because of increased gas prices worldwide when it had gas it could access at a much cheaper cost to pass on to its consumers right on its doorstep in the South Morecambe field? Is that his argument?

Mr Hanson: The argument I am making is that we face oil and gas companies throughout the United Kingdom saying that the measures in clauses 7 and 63 could lead to extra costs for them. In the case of the Morecambe Bay field, that will lead to the loss of production because Centrica does not feel that it is beneficial for it to develop that field due to the taxation. We already face higher gas prices—for example, the 19% rise announced today by ScottishPower—so my worry is that companies will invest less in oil and gas production because of the changes in the Bill relating to the supplementary charge, which puts at risk some of the future development that could match capacity to help to meet those particular needs.

Ian Murray (Edinburgh South) (Lab): My right hon. Friend highlights the point of the Bill: the measures in clause 7 and in clause 63 are against jobs and growth because of the lack of production. Is that not another example of the Government's obsession with clearing the deficit without thinking about jobs and growth?

Mr Hanson: My hon. Friend makes a valuable point. He knows the impact that the Bill's proposals will have in Scotland in particular. Some of the issues were dealt with under clause 7, but they are linked to clause 63, and my aim is to get from the Minister her assessment, some six or seven weeks since we first discussed the matter on the Floor of the House, of progress in the discussions on the issue of supplementary charge as it affects clauses 63 and 7. She has had meetings with the oil and gas companies, and discussions are ongoing, but I want to get from her a flavour of where we are on such matters.

The issues that have been put to me—relating to clauses 63 and 7, and other matters to do with supplementary charge—are the lack of consultation and the surprise and shock of the measures being proposed in such a way in the Budget. The proposals, the lack of discussion and their short-term nature potentially hamper investment in what should be an industry of the future for Scotland and for the United Kingdom—that is, investment in maximising our gas and oil reserves, in particular in the North sea but not exclusively so.

Pamela Nash (Airdrie and Shotts) (Lab): Does my right hon. Friend agree that in not consulting with the industry the Government have taken a rushed and damaging decision? The damage has been compounded by them not consulting adequately with the industry, and the faith of the oil industry in the Government is now in tatters, as shown by the Centrica decision.

Mr Hanson: I am grateful to my hon. Friend for that intervention. She knows, from her perspective in Scotland, of the potentially damaging impact of the proposals. I repeat, because the issue is current, that gas production was halted at that field only last week, following the tax increase. My hon. Friend the Member for Barrow and Furness is concerned not only about jobs, but about the industry. The report from Centrica says:

> "We welcome the ongoing dialogue that the government is having with industry around the damaging impact the increased tax levels has on North Sea gas security and investment."

Supplementary charge is the key to the clause, in relation to our discussions on reopening fields, and key to the issues discussed under clause 7. I would welcome an update from the Minister, so that we do not read only in the paper that Centrica is having ongoing discussions, and so that we know what the Minister is doing and what is her assessment of where we are on such issues.

That will suffice for the moment. I await the Minister's response.

Justine Greening: The clause makes two changes to the field allowance legislation that applies to oil and gas production companies. The changes were those requested by the industry and, as I am sure the right hon. Gentleman is aware, they fit with a couple of other clauses. They will ensure that the existing legislation operates appropriately.

Before I go on to discuss in a little more detail what clause 63 does, I shall respond to some of the points made by the right hon. Gentleman. We have to return to the background to the rise in supplementary charge. As a Government, we were faced with some large rises in fuel duty proposed by the outgoing Labour Government. We had to decide whether it was right for those duties to rise, as proposed by the previous Government.

We felt that the cost of living was a hugely important issue for people in this country and that the impact of the rise in the oil price as it fed through to the price of petrol at the pumps was serious. With the limited fiscal means available to us, we wanted to do what we could to alleviate the tough and damaging effect on the economy recognised by a range of stakeholders, including the CBI. The pressure was on not only households with motorists, who were finding it hard to cope with the price of petrol, but companies, many of which had fuel as one of their key costs and relied on hauliers to get goods to where they needed to be to sell. We were determined to ensure that we did what we could in the Budget to support motorists and ensure that motoring remained affordable, and, in doing so, to introduce a package that had broader support for the economy—but of course, that had to be paid for. We felt that the most effective way to do so was to raise tax from the one sector of the economy that was doing well from the high oil price. That, of course, was the oil industry.

5.15 pm

Labour Members may feel that we did not get it right and that it would have been better to leave the oil industry to make significant extra profits and leave the motorists and hauliers across the country to face the higher fuel duty rises proposed. We took a different view, and wanted to see what we could do to support motorists and hauliers. Far from bringing forward the fuel duty rises that were proposed, we managed a fuel duty cut.

Bill Esterson: The Minister makes some good points about the importance of supporting small businesses and motorists generally on the cost of fuel. Does she therefore agree that we should reverse the VAT rise, which has increased the cost of filling up a 50-litre tank by £1.35?

Justine Greening: I do not want to stray too far from the topic or I will be out of order, but the hon. Gentleman must be aware that VAT had to rise because the outgoing Labour Government left us with a huge fiscal deficit, and we all know that the previous Labour Chancellor proposed the rise too. Labour's attitude had been to ignore it; our attitude has been to try to deal with the structural deficit. In fact, only yesterday the International Monetary Fund backed our plan, which shows that the country is on the right track. The shadow Chancellor may ignore those reports, but they show that we are on the right track.

Clearly, we want to ensure that we do what we can to support the oil and gas industry. Clause 63 addresses two matters on fuel allowances that the industry raised. By removing some income from the scope of the supplementary charge, the field allowance provides an incentive to invest in certain types of new fields. *[Interruption.]*

The Chair: Order. The hon. Gentleman must not read papers in Committee.

Ian Mearns: I was not reading the paper, Mr Hood, I—

The Chair: Order. I call the Minister.

Justine Greening: Thank you, Mr Hood. The first matter is in respect of fields that have been decommissioned. A company may decide that such a field should be redeveloped, which we would very much welcome. From a policy perspective there is no reason to treat such a field differently from a new field. It is appropriate that the field allowance should be available in such cases, but because the field is not "new" within the terms of the legislation, no allowance is available. We want to address that problem.

The second matter is in respect of the accounting period for which the field allowance is first able to reduce taxable profits. The allowance cannot currently reduce profits until the accounting period following that in which the development of the field is authorised. The delay in obtaining the benefit of the allowance is unintended and inappropriate, particularly if a company develops a field quickly, because it can find that the benefit of the allowances is unavailable until the following accounting period. We want to address that problem.

The clause makes two changes. First, it treats a field of which all the assets have previously been decommissioned as a new field, therefore such a field will potentially be eligible for the field allowance. Secondly, it enables the field allowance to reduce taxable profits for the accounting period in which the development of the field is authorised. We published the draft clause back in December, and we discussed it previously with industry advisers. No comments have been received.

Broader discussions with the industry are ongoing. It is probably not wise for me to give a running commentary on those discussions because it would not be helpful to the industry.

The right hon. Member for Delyn mentioned Centrica and its decision on the South Morecambe field. It is not unusual for Centrica not to reopen the south Morecambe field in the summer. The 2009 Centrica accounts show that the field reopened later in the year in 2009 when the gas price increased, so it is quite possible that that approach will be taken this year. The right hon. Gentleman is right to flag up concerns about jobs, and Centrica has confirmed that no job losses will result from the commercial decision to shut the South Morecambe field temporarily.

More broadly, the analysis, which was carried out not only by Wood Mackenzie, but by Professor Kemp at Aberdeen university, shows that the tax increase on the supplementary charge is likely to have only a small impact—a reduction of about 2%—on projects and new fields. Understandably, investment is driven by movement in the oil price or companies' screening hurdles, which can have far more effect. Nevertheless, as we pledged in the Budget, we are working with the

[Justine Greening]

industry to address the marginal fields that have been impacted. We are looking at how we can use field allowances and the broader oil and gas tax regime to ensure that those marginal investments still go ahead.

Having addressed the points raised by the Committee, and having given some explanation of what clause 63 will do—the clause brings forward changes that have been requested by the industry—I move that the clause stand part of the Bill.

Mr Hanson: I accept what the Minister has said. The new measure is sensible and encourages the redevelopment of older fields with new technology. It also enables the allowance to be claimed in the accounting period in which the field is authorised, which means that the legislation will now work as intended. I am happy with that.

The clause mentions the supplementary charge, and I wanted to stray slightly by asking the Minister for an update on her discussions with the oil and gas companies on the supplementary charge proposals as a whole. I fear that I have not got much further, but I have received an update of sorts that said, "We are in discussions." That does not tell me anything more than I have read in the paper. I would like a little more from the Minister on what those discussions have meant, because she will be aware that there has been considerable concern in the oil and gas industry about the impact of the supplementary charge proposals as a whole on the potential for investment, the potential for developing new fields, the potential for extending existing fields and the potential for reopening fields that are currently not being utilised to the full. The latest briefing that I have been provided with raises issues such as trust, employment, security of energy supply, exploration of new reserves and wider energy sector tax revenues, all of which are important.

I would like to press the Minister a tad more. As part of the supplementary charge issue generally—the words "supplementary charge" are in clause 63—will the Minister give an indication of when she expects to complete any discussions with oil and gas companies? What mechanism will she have to report back to the House on any outcomes from those discussions, not only on their welcoming of clause 63, but on their engagement with the Minister on clause 7? It is important that the Minister gives us some indication of what the outcome of those discussions is likely to be. I accept that a running commentary is not always helpful, but before we leave this clause, it would be useful to have an indication of the time scale involved, and know when the Minister will report back and whether the measures in clause 63 will be impacted on by the wider discussions with industry about clause 7.

Justine Greening: In response to the right hon. Gentleman's further questions, he will be aware that we have talked to industry about a number of issues. One issue that is important to industry, for example, concerns certainty about decommissioning relief, and a working group has been established to look at that. As we made clear at the time of the Budget, we are also looking at field allowances and clause 63 seeks to make those work more effectively. As the right hon. Gentleman will know, the nature of the UK continental shelf means that there is an increasing challenge in the new fields that companies are looking at, whether they are of tight gas or heavy oil. There are a number of technical challenges, and the field allowance regime was brought in to provide a more nuanced tax regime to help unlock those additional opportunities. We are in the business of talking to the oil and gas industry about how to ensure that field allowances work more effectively.

The right hon. Gentleman will be aware that we have had extensive discussions with Centrica about the impact on gas. I have already said in Parliament that Treasury officials went to Centrica's offices to talk on its home turf about its views on the increase in supplementary charges. It is probably not for me but for the Chancellor to talk about what measures—if any—will come through and when. The usual time frame for announcing such measures is the Budget, so it is probably not wise for me to go any further than that today. I reassure the right hon. Gentleman that we are working with industry and making progress on issues such as decommissioning relief. Over the coming months, no doubt he will hear more of the results of those discussions.

Mr Hanson: I fear that I am not much further on, but I understand the Minister's perspective and why she is not able to give a running commentary on those matters. I felt it was important to try to get at least some indication as to whether the talks she is having will influence the Bill, as opposed to a future Budget. The Bill has not yet completed its passage through the House of Commons, and it remains to be considered on Report. Following her initial announcement and discussion on Second Reading, the consideration in Committee of clause 7, and of clause 63 today, does the Minister anticipate any further proposals being examined and brought back for consideration pending Royal Assent, not in a subsequent Budget in 2012 but in the Bill? I thought that the Minister might follow up on her discussions and have some news for us on the concerns that have been raised by many Labour Members—and elsewhere—about the potential impact of the whole package of clauses 63 and 7. It appears that we shall have to wait for a future Budget, which in itself provides an indication of the response to the consultation that is being undertaken. With those comments—I fear that "head" and "brick wall" are words that go together on this matter—I shall sit down and wait for a future discussion.

Question put and agreed to.

Clause 63 accordingly ordered to stand part of the Bill.

Clause 64

CHARGEABLE GAINS: OIL ACTIVITIES

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

Mr Hanson: I have a few small questions on clause 64, which might overlap into schedule 15, although I hope the Minister can answer if possible under clause 64.

5.30 pm

Clause 64 effectively brings in schedule 15, which amends the oil chargeable gains licence swaps legislation and extends the scope of the ring fence reinvestment legislation to exploration, appraisal and development expenditure. That, again, is welcome and we will not oppose it; the Minister has our support on that matter. However, I wish to press her on the impact of one particular item, which may be better taken under schedule 15, rather than clause 64.

The Chair: Order. If both Front Benchers agree, we can take clause 64 stand part and schedule 15 stand part at the same time.

Mr Hanson: Thank you, Mr Hood, for the matters overlap; this is a straightforward question. Schedule 15 is divided into two parts. Part 1 covers swaps, where companies swap their oilfield licences rather than buying a new licence outright. They can also apply if the licence is acquired partly for cash and partly for another licence. If it is a pure swap, the old licence is treated as disposed of for no gain or no loss, and the acquisition cost for the new licence is treated as the no gain, no loss value of the old licence. If it is a partial swap, the licence portion disposed of is still no gain, no loss. That legislation was introduced in 2009, and the schedule updates it, which I welcome.

The first change is to treat any enhancement expenditure on the asset that the buyer reimburses as incurred by the buyer. The second is to allow swaps to be treated as made on what the parties agree to be the effective date of the swap, even if the swap is not completed at that point. That is the point on which I wish to press the Minister. That effective date is when the economic benefit passes, even if formal title has not passed. It is common for oil and gas asset disposals to have an effective date and a later completion date. The change is in line with the original intention of the legislation and is reasonable. Any subsequent increase in the non-licence consideration will also be caught.

What might happen in the event of a subsequent decrease in the non-licence proportion? There is no such provision in the schedule as I read it. If that occurs, what will be the Minister's response? At the moment, the increase in non-licence consideration will be caught, but a decrease may not be. I do not know whether there is any impact in that respect. As I read it, there is nothing in the schedule or the clause looking at that point. It may have no consequence, but I felt it worthwhile to point out that provision to the Minister, so that she can examine with officials whether it has a consequence.

I would also welcome clarification of the Minister's understanding of the definition in the schedule of

"Exploration, appraisal and development expenditure",

which is the phrase used on page 230 in part 2 of schedule 15,

"Reinvestment of ring fence assets".

Paragraph 5 says:

"1981 Exploration, appraisal and development expenditure",

and goes on to list a range of definitions of those three terms. It has been put to me that that is a flexible approach, which is fine, but it means that the definition is not under the direct control of Parliament and may not be based on generally accepted accounting practices. Will the Minister clarify those two issues? First, what happens when there is a decrease in a non-licence proportion? Secondly, will she give me a firm definition of "exploration, appraisal and development expenditure", and does she believe that that definition is based on generally accepted accounting principles?

Justine Greening: It is probably worth briefly running through clause 64 and schedule 15 to say why they are in the Bill and what we intend them to achieve. They introduce small but important changes to chargeable gains legislation that will apply to oil and gas companies. The changes relate to two areas of the fiscal regime and are intended to encourage further investment in oil and gas fields.

The existing oil licence swaps legislation provides that no chargeable gain arises on the swap of oil and gas licences in the UK and the UK continental shelf in some circumstances. That legislation was introduced to encourage and enable the transfer of licences so that they would be held by companies that were likely to invest in them. However, it does not adequately address the circumstances that arise in practice, and in many cases the legislation simply cannot apply. The existing ring fence reinvestment legislation provides that no chargeable gain arises in some circumstances when disposable proceeds are invested in new oil trade assets. One requirement of the legislation is that the disposal and acquisition qualify for roll-over relief. Again, that legislation encourages the disposal of licences and at the same time encourages investment of the proceeds in the UK continental shelf.

A lot of such investment comprises expenditure on exploration, appraisal and development, such as the cost of drilling wells, which does not qualify for roll-over relief. The right hon. Member for Delyn asked about the definition of expenditure on exploration, appraisal and development, and the measure uses generally accepted accounting principles. I hope that that provides the clarification he wants. However, as a result, the ring fence reinvestment legislation cannot apply, and that is the situation that we want to remedy. The changes made in the clause and in schedule 15 address those issues and ensure that oil licence swaps legislation applies by reference to the date on which the economic benefits under the licences concerned are treated as passing, rather than by reference to the date on which the swap arrangements are entered into.

The right hon. Gentleman also asked about valuation reductions. The point is that the parties want the swaps legislation to apply with reference to the position agreed on the effective date, and that any non-licence consideration should not affect the outcome, whatever way the non-licence consideration payments flow. He raises an interesting point, but in practice the way the legislation is now structured should ultimately have no impact. In fact, the changes in the clause and the schedule should ensure that the technical problems facing us in the existing legislation fall away.

The schedule will also ensure that for chargeable gains purposes the base cost reflecting any expenditure incurred arises to the appropriate company. On the ring fence reinvestment legislation, the incurring of expenditure on exploration, appraisal and development is treated as expenditure on assets that qualifies for roll-over relief, thus enabling the legislation to apply.

Clauses were published in draft in December, having been discussed with industry advisers. Comment was received on only one aspect—a definition—and a solution

[Justine Greening]

to the issue identified was discussed and agreed with those who commented. The draft legislation was amended accordingly. The changes introduced by the clause and the schedule have been developed with the industry. They will enable the existing legislation to apply more widely, which will help to assist the transfer of UK continental shelf assets, ensuring that assets are held by those companies that are most likely to invest in them. The changes will help to ensure that the UK maximises the economic production of its oil and gas reserves.

Question put and agreed to.

Clause 64 accordingly ordered to stand part of the Bill.

Schedule 15 agreed to.

Clause 65

Benefits under pension schemes

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

The Chair: With this it will be convenient to discuss, That schedule 16 be the Sixteenth schedule to the Bill.

Mr Hanson: Thank you, Mr Hood, for facilitating discussion of the clause and the schedule at the same time. That is helpful, because they are inextricably linked.

The clause and the schedule amend part 5 of the Finance Act 2004 as it relates to certain tax rules for registered pension schemes that apply to individuals reaching the age of 75. From 6 April 2011, the effective requirement to buy an annuity by the age of 75 will be removed and the alternatively secured pension rules will be repealed. Individuals will be able to leave their pension funds invested in a draw-down arrangement and make withdrawals throughout their retirement, subject to an annual cap. The maximum withdrawal of income that an individual can make from most draw-down funds on reaching minimum pension age will be capped at 100% of the equivalent annuity that could have been bought with the fund value. That is what I want to explore with the Minister.

The maximum capped amount will be determined at least every three years until the end of the year in which the individual reaches the age of 75, after which reviews to determine the maximum capped withdrawal will be carried out annually. Individuals who can demonstrate that they have a secure pension income for life of at least £20,000 a year will have full access to their draw-down funds without any annual cap, which is the key point that I want to discuss with the Minister.

The tax rules require that tax-relieved pension savings must be used to secure an income by the age of 75. That requirement is intended to ensure that pension savings accumulated with the help of tax relief are used to provide an income on retirement. That is a sensible approach to ensure that they are used appropriately, because they have been accumulated with help and support from the state.

Most members of defined contribution schemes secure a retirement income by buying an annuity. Until now, members of defined contribution schemes who do not want to buy an annuity have been limited to two options: before the age of 75, an unsecured pension arrangement that enables individuals to leave their pension fund invested while drawing down an income, or after the age of 75, an alternatively secured pension arrangement, which is similar to the previous example, but with a lower maximum draw-down limit.

Under the new rules, the concepts of unsecured pension arrangements and alternatively secured pension arrangements will disappear, and there will be a single alternative to an annuity, which is the draw-down pension. The key point about that, which I want to develop with the Minister, is that the maximum withdrawal of income that an individual may make from most draw-down funds will be capped at 100% of the equivalent annuity that could have been bought with the fund value. However, individuals who can demonstrate that they have a secure pension for life of at least £20,000 a year will have unrestricted access to receive their draw-down fund as pension income.

The issues are quite simple. I would welcome some assessment from the Minister of how many pensioners have a guaranteed income of £20,000 a year for the rest of their life. Under the clause, pensioners with that guaranteed income have a beneficial ability to draw down funds from their pension scheme. For everyone else, the amount that they draw down—take out of their pension fund—will have a cap of the equivalent annuity that could have been bought with the fund. In other words, they will be no better off than if they had been forced to buy an annuity.

I want to get some idea from the Minister of how many pensioners he believes will make use of the provisions that allow them to draw down funds based on their income of £20,000 a year. I would also like him to give some indication of the effect that these changes will have on the proposals for saving generally. The Government recently consulted on giving people early access to their pension savings and, as a recent press release from the Treasury states, this is their conclusion:

> "While early access has some merits, there is insufficient evidence that to suggest it would act as an incentive to save more into pensions."

Although I accept that early access to pensions is a different question from using the annuity, the two are obviously related, and the Government have said that there is no evidence that using the annuity will encourage any more saving in pensions either. As well as asking the Minister for his assessment of the number of individuals who will be able to access income of £20,000 a year—not only now, but years hence—I wonder what evidence he has that the proposals will help savings in general to be increased still further.

5.45 pm

A third concern is whether these proposals, as they are developed, could be used for avoiding inheritance tax. That is a charged issue and, dare I say it, there are potential differences between the three Liberal Democrat members of the Committee and the Conservative party on the question, although the coalition agreement will smooth those things over for the moment, and the Liberal Democrats will undoubtedly support the proposals today. However, for the benefit of the three Liberal Democrat members of the Committee, I shall explain the potential impact of the clause on inheritance tax.

Ministers have clearly said that they do not want to charge inheritance tax on funds that remain on death and have removed some inheritance charges, but because people would no longer be required to buy annuities there is a risk that the changes could provide a straightforward avoidance route. It is possible that wealthy people could put assets into pension funds, with the usual tax benefits, and leave them there until they die, when they would be passed on to the children with no inheritance tax charge. I would welcome the Minister's comments on the question of inheritance tax as it relates to the pension proposals before the Committee.

Schedule 16 introduces a tax charge of 55% on lump sums left in pension pots at death by those over the age of 75. That is calculated to be the equivalent of the 40% inheritance tax charge, with an additional 15% to take account of the tax relief given on pension pot accumulations. However, the amount of tax relief can vary hugely, depending on people's circumstances. The 55% rate will therefore over-recover tax from some and under-recover tax from others. Will the Minister give his view on the impact of the clause on inheritance tax avoidance?

The schedule also provides us with the opportunity to consider inheritance tax generally, on which subject there is a difference between the Liberal Democrats and the Conservative party. When I last counted there were 41 pages of legislation—it may have grown slightly since then—but I believe that those provisions will benefit a few of the wealthiest people while doing little or nothing to encourage more saving.

My questions are as follows. How many people do the Government believe will benefit from the change? Will the Minister put my mind at rest, and tell me that it will not be only the wealthiest? Does he believe that more pension saving will take place, and if so will he give us some evidence of how the measures will encourage pension saving?

Why is there no inheritance charge tax on assets left at death? I give the Minister the benefit of the doubt, but will he assure me that it is not a deliberate attempt to leave a loophole open? I would welcome his explanation of why inheritance tax is not to be charged on assets left at death. That would be in line with the normal use of inheritance tax, and I am sure that the three Liberal Democrat members of the Committee would not wish to encourage inheritance tax loopholes.

What assessment has the Minister made of the impact of lifting the inheritance tax threshold to £1 million, given the incentive for these changes? Is it still the Conservative party's intention to do that, or has it been sacrificed with trade-offs with the Liberal Democrats? On page 75 of the consultation document, the Government admit that the 55% charge will over-recover tax from some and under-recover tax from others. Does the Minister intend that to be the position? Why have the Government not done anything about those particular issues?

In summary, there are some general questions on which the Minister should reflect to see whether he can satisfy the concerns that have been expressed to me by colleagues both inside and outside the House.

Mr Hoban: Let me give some further background to the clause before I deal with the right hon. Gentleman's questions. He will be aware that this has been a hotly debated topic. It was raised many times in the previous Parliament and not just by Conservative Members in this House and the other place. I recollect that Baroness Hollis, who was a social security Minister under the previous Government, was also a champion of the end to compulsory annuitisation. The requirement to secure an income by the age of 75 has existed since 1976. At that time, the average life expectancy of a healthy 65-year-old male was 13 years. The life expectancy of a healthy 65-year-old male has now increased to 21 years. For a female, it is currently 24 years. As longevity continues to increase and people work for longer, the existing rules will become more restrictive for an increasing number of people. We believe that people should have more say over how and when they use their pension savings to provide an income in retirement.

Removing the requirement to annuitise at the age of 75 will make the tax system simpler by avoiding unnecessarily restrictive and outdated rules. Together with the changes in clauses 66 and 67, this will ensure that the pensions tax regime is both fair and sustainable. It will also give individuals, employers, providers and schemes appropriate flexibility to make arrangements to suit their circumstances and preferences.

Let me set out the changes that have been made by this clause. They will primarily benefit those people who have defined contribution schemes. Let me highlight four types. Individuals with defined contribution pension savings who have yet to take a pension will be able to defer taking benefits from their scheme rather than having to buy an annuity at age 75. Individuals who wish to leave their pension fund invested as part of an income drawdown arrangement will be able to do so beyond the age of 75 subject to the annual drawdown limit to which the right hon. Gentleman referred. Individuals with a lifetime pension income of at least £20,000 a year, known as a minimum income requirement, will be able to gain access to their drawdown pension funds with no cap on the withdrawals that they make. That is known as the flexible drawdown. The age 75 ceiling will be removed from most lump sums to which a member is entitled.

The detail of these changes were subject to extensive consultation last summer. We received 185 responses from a wide cross-section of individuals, pension professionals, advisers, trade bodies and academics. The consultation highlighted the clear preference of most respondents for the new rules to achieve their objectives of minimal complexity, and we listened carefully to those requests.

Simplicity underpins many of the key elements of the clause under debate today. In particular, a single level minimum income requirement will be applicable at all ages, before someone can access flexible drawdown. Where someone is not on flexible drawdown, there will be a single annual withdrawal limit. There will be a single recovery charge on unutilised funds remaining on death of 55%. As the right hon. Gentleman said, the recovery charge can be as high as 82% for those above the age of 75. Perhaps he should also have mentioned that lump sum death benefits relating to individuals who die before the age of 75 and before taking a pension are tax free. Lump sum death benefits relating to individuals who die before age 75 after taking a pension are liable to tax at 35%. That is under measures put forward by the right hon. Gentleman's Government

[Mr Hoban]

when they were in office. Therefore, rather than having no tax, or having tax paid at 35% or up to a rate of 82% on an unutilised pot at death, we have moved to a single tax rate of 55%. I must say that I have received much correspondence from colleagues suggesting that the 55% rate should be reduced, and their constituents have written to them asking for lower rates to be introduced, but I believe that 55% achieves the right balance, and let me say why.

By setting the charge at 55%, we have sought to recover the amount of relief received by a typical individual who may be subject to the charge. The governance modelling suggests that a 55% charge would ensure that there are no tax advantages for pension death benefits compared with other assets on which inheritance tax is payable. Accordingly, it is not appropriate to levy inheritance tax on top of the recovery charge. We recognise that most of the people who will take advantage of the measure will be those who paid the higher rate of tax, and a 55% rate is, therefore, applicable. That would lead to cases in which people received tax relief at the basic rate of an over-recovery, but it is better to have a single simple rate, rather than a variable rate that depends on the rate of tax someone may have paid at some point in their life as they built up their pension pot.

The single rate is appropriate. It means a higher tax charge for those who die before the age of 75 and a slightly lower tax charge for those who die afterwards, but it ensures that the tax relief that the Government have given to encourage people to build up a pension pot is actually fully recovered at the point of death. That is the right way to do it. Of course, if the unutilised pot is used to provide a pension for a dependent, which may be a spouse or a minor, that will be tax-free, as is the case at the moment. That is the right level of protection to ensure that tax relief is recovered by the Government.

The right hon. Gentleman asked about the take-up for the measure, and our assessment is that up to 200,000 individuals currently in a draw-down arrangement could initially benefit from not having to purchase an annuity at age 75. Around 50,000 individuals currently in a draw-down arrangement could initially benefit from flexible draw-down. A further 12,000 individuals a year may be able to access flexible draw-down in a steady state. Recent independent estimates by the Pensions Policy Institute suggest that up to 700,000 people currently between 55 and 75 could benefit from not having to purchase an annuity, and that includes individuals who have uncrystallised pension savings. PPI also estimated that some 200,000 people currently between 55 and 75 could benefit from the flexible draw-down.

The initial Government estimates were published in the tax information and impact notes of 9 December 2010. One of the reasons why there is so much appetite for the measure out there is not so much to address the challenges faced by pensioners today, but, as we all recognise, rather that there has been a significant shift from defined benefit to defined contribution schemes over recent years, and the proposal ensures that people who are in DC schemes can benefit from increased flexibility in the future. They may decide that they want to work for longer. They may wish to put off the date of retirement and not to be required to buy an annuity. They may have a complex mixture of assets in retirement. By bringing forward the measures, we want to ensure that they are given the maximum flexibility while safeguarding the interests of the taxpayer more broadly.

I must say that I have had correspondence from a whole range of people—from the self-employed to high earners—who are keen about the proposal, because they believe that it will encourage them to save more for the future. They resent having to buy an annuity at 75. They want the flexibility that the measure brings to give them more control over their pensions and their savings. That is one of the themes that run through the Government's approach to reforming pensions and savings. We want to give people more flexibility not only in the way they accumulate their pension savings and their savings more generally, but also in the way they use the pension pots that they have built up when they have chosen to retire. This measure captures the right balance, ensuring that taxpayers' interests are safeguarded by clawing back the tax relief given. It also ensures that people have some choice and control over their savings. It will in the long term prove a further reason for people to build up savings.

Question put and agreed to.

Clause 65 accordingly ordered to stand part of the Bill.

Schedule 16 agreed to.

6 pm

Clause 66

Annual allowance charge

Mr Hanson: I beg to move amendment 188, in clause 66, page 39, line 7, at end add—

'The Chancellor of the Exchequer must, no later than 1 April 2012, compile and lay before the House of Commons a report containing an assessment of the impact of this section and Schedule 17, including the impact in creating marginal effective rates of taxation of over 100 per cent. (when considering the impact of this section and the relevant income tax rates in force)'.

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

Clause stand part.

Government amendments 129 to 133.

That schedule 17 be the Seventeenth schedule to the Bill.

Mr Hanson: On 14 October 2010, the Treasury announced that it would reduce the annual allowance from the current level of £255,000 a year, to £50,000 a year, and the Finance Bill confirms those figures. Amendment 188 is our attempt to tease out from the Government how they are addressing circumstances in which people in defined benefit schemes have a large deemed charge in a single year and are therefore hit by additional tax charges. The reduction in the allowance will bring many more individuals within the scope of the tax changes. Those changes will apply to all pension scheme members, whether they are in defined benefit or defined contribution pension arrangements, and will include both occupational and personal pension schemes.

Substantial numbers of people are now likely to be affected, and I would welcome the Minister's assessment of the impact of the changes as far as numbers are concerned, particularly those in final salary schemes who have long service or have had large salary increases. The Government estimated in 2010 that 100,000 people would be affected. I would welcome confirmation from the Minister that that figure is still in place, or whether it has been revised up or down since the initial assessment. As there is no current intention to increase the allowances, my worry is that many people may be caught up in future years, as salaries and incomes change. Up to 200,000 people could face additional tax in future if inflation increases and tax allowance limits remain the same. Even if only the originally estimated 100,000 are affected, a much larger number will need to be involved in checking to see whether they are affected.

My first point is that we need some current assessment—not for October 2010, but for June 2011—and for future years, of the numerical impact of these changes in the annual allowance. My second point is that the tax charge may be quite substantial for those affected. For example, an executive earning around £150,000 a year with 20 years' service, in a final salary pension scheme, will face tax of £12,200 on a pay rise of £9,000, which is a marginal rate of tax of 135% on a pension increase plus 50% income tax. That makes a combined tax rate of 185% on the pay rise.

We can have many debates about how to tax higher earners but, under clause 1 of this very same Bill, the Minister indicated that the Government would undertake a long-term review of the 50p rate of tax. Yet we face a situation in which final salary pension schemes might well be threatened with a combined tax rate of 185% on the pay rise being brought forward.

A number of affected employees will face complex choices, about whether to accrue benefits and pay the tax, or not to accrue benefits and face a much poorer retirement. Wealthy individuals who might want to save more than £50,000 in a pension scheme will not be the only ones affected. Many individuals currently choose to pay off debts—for example, mortgages—and not to save into pensions, given that debt interest is usually much higher than interest on savings; they might then be planning to save hard for retirement using spare income, having paid off the mortgage. The effects of the measure will mean that they are less likely to be able to do that in the longer term. The total pension would be reasonable, but it would have been funded in the second half of their working life rather than uniformly throughout their life, and that could create some difficulties. I wish the Minister to examine such issues and to give some response today.

Potential concerns include parents returning to work after a period of raising a family, who might feel under-pensioned; they might therefore wish to divert significant amounts of their income into ensuring a decent pension in old age. They, too, might be hit disproportionately by the proposals before the Committee today. Entrepreneurs are another good example: they might have had a long period of building a business and putting their resources into it, expecting rewards for their hard work to flow in only after some years. Their ability to save for a pension might only arise once the business starts to pay decent profits, which could be towards the latter part of their careers. All of those groups—those who pay off debts first, those who are out of work and then in work because of family commitments, and those who are building a business—might find themselves disadvantaged by the proposals.

Complexity in tax legislation on pension schemes potentially creates barriers to encouraging people to save. Clearly, there is a large reduction in the amount of the annual allowance in the clause. Before April 2009, individuals could contribute significantly more of their income into a pension and benefit from tax relief at the marginal rate of tax on such contributions. The changes will have a significant impact on the ability of individuals to save.

In addition to the preamble, I have two particular areas on which to question the Minister today. First, the costing of the changes: when the Government came in, they said that they did not want to continue with the changes we had proposed to restrict pensions tax relief but, to square that, they needed to raise the same amount of money for the Exchequer. The costings for how much the changes will raise may be over-optimistic. A commitment from the Minister today about the cost of the changes and a robust assessment of the stress testing of those costings would be helpful.

Secondly, as I outlined, in some circumstances the new annual cap of £50,000 on contributions before a tax charge is triggered will create some difficulties—not in every case, but for some people. Those are people in defined pension schemes with large deemed contributions if they get a promotion. I want some explanation of the Minister's view of those changes.

In summary, I have drawn attention to changes that will have a significant impact, although admittedly on a small group, who are probably higher earners. However, it is important for the Minister to give an explanation to the Committee of the impact of the changes, so that we can assess them fully before agreeing to the clause.

Mr Hoban: It is worth giving some background to the change. The Government provide generous tax relief to save for a pension, to encourage individuals to take responsibility for retirement planning and in recognition of pensions being less flexible than other forms of saving.

Under the previous Government, the cost of tax relief, net of income tax on pensions paid, doubled to nearly £20 billion per annum by 2009-10. To ensure that pension tax relief remains fair, affordable and sustainable, we confirmed in the June Budget last year that we would proceed with the previous Government's aim of reducing the cost of tax relief on pensions by £4 billion every year.

The right hon. Member for Delyn will remember the previous Government's plans. They were complex and seen as unfair and anti-competitive. He raised the issue of cost and asked how much revenue would be raised by the measures. For the period between 2011-12 and 2015-16, the proposals put forward by his colleagues when in Government—once updated to reflect new economic data—would have raised £15.6 billion in total. Across the same period, the measures that we have proposed will raise £16.6 billion. Therefore, we will raise additional tax revenue as a consequence of introducing this legislation, and I hope that the right hon. Gentleman will recognise that.

[Mr Hoban]

Those estimates are compiled by HMRC. They are robust and we have tried to take into account data on earnings, growth, and ways to prove the model in terms of assessing the impact of the measures. They are our best estimates, and we believe that the amount of revenue raised will be marginally greater than that which would have been raised under the previous Government's proposals.

The previous Government's approach to achieving a reduction in pension relief introduced significant additional complexities to the tax system; it undermined pension saving and damaged UK businesses and competitiveness. We believe that an approach which limits the amount of tax relief for those who make the highest contributions is better than restricting the rate of tax relief available to those on incomes above an arbitrary threshold. In our proposals, those whose pension contributions exceed £50,000 will not receive any tax relief. Under proposals put forward by the previous Government, even those earning the highest salaries and paying the highest rate of tax would have received tax relief at a rate of 20% per annum.

We wanted to ensure a more flexible and simpler system, and we consulted on that basis. Several commentators commended our approach; the Institute for Fiscal Studies stated that perhaps the most welcome change in the 2010 Budget was the decision to rethink the previous Government's "complex, unfair and inefficient" plans for pension contribution relief for high earners. The responses to the informal consultation held last summer confirmed our view that reducing the allowances to tax-privileged pension saving would be fairer. That approach preserves incentives to save and lessens the impact on the ability of UK businesses to attract and retain talent. It is also more straightforward to understand and implement.

In October, we announced that from the 2011-12 tax year, the annual allowance for tax-privileged savings would be reduced from £255,000 to £50,000. Such a move recognises that it is right to provide generous tax relief to save in a pension, but that it is also right to ration that relief at a more appropriate level. The CBI responded positively to our approach, saying that

"these new proposals are a significant improvement on the approach proposed by the previous Government, which was simply unworkable."

Clause 66 reduces the annual allowance to £50,000 for tax year 2011-12 and beyond. Individuals making annual pension savings above that level will face an annual allowance charge to recoup the tax relief that has been granted to them. The reduced allowance of tax-privileged saving will apply to all individuals receiving UK tax relief in all types of registered pension schemes. An annual allowance of £50,000 is a level that far exceeds average annual contributions. That will protect those on moderate incomes on whom a lower limit would have impacted. The reduction in the annual allowance goes hand in hand with the reduction in the lifetime allowance to £1.5 million, which we will cover in detail when we discuss clause 67.

The reduction in the lifetime allowance allowed a higher level of the annual allowance to be set than we originally proposed, while still raising the intended revenue. That combined approach also provides individuals with greater flexibility around when they make their annual pension contributions. With the changes to the lifetime allowance in clause 67, the reduced annual allowance will generate £4 billion-worth of annual revenue in steady state, thus protecting public finances.

6.15 pm

Reducing the allowances will affect individuals with the highest levels of pension savings only, leaving the vast majority of pension savers unaffected by the changes. In fact, less than 1% of pension savers will be affected. That alternative approach to restricting pension tax relief has been welcomed by pension and employer groups, and we have continued to work in consultation with them to finalise the design of the new scheme.

As a result of ongoing consultation with the pension industry since the publication of the Finance Bill on 31 March, changes have been indentified that would make the application of legislation simpler, and therefore reduce administrative burdens on the pension industry. Government amendments 129 to 133 ensure that the legislation will work as we intend.

Amendment 133 addresses a simple drafting issue. The annual allowance charge operates by reference to pension savings made over a certain period. In changing the dates of when that period begins and ends, the Bill inadvertently provided for, in certain circumstances, a period of 364 rather than 365 days. The amendment corrects that so that the period will be 12 months unless the scheme or, in other circumstances, its members nominate otherwise.

Amendments 130 to 132 concern individuals who have high annual allowance charges. The schedule provides for them to nominate to meet their tax charge out of their pension savings. If they so nominate, an offsetting adjustment is made by the pension scheme to reduce the individual's pension savings to reflect the tax paid on their behalf. Schedule 17 provides for the amount of the adjustment to be reflected in the valuation of the individual's savings when determining their annual allowance charge in the year the adjustment is made. Amendments 130 to 132 address an imbalance in carrying out the adjustment between individuals in defined benefit or cash schemes and those in defined contribution schemes. Amendment 129 relates to the year in which a pension comes into payment.

In calculating the increase in pension rights, there is a choice between continuing to use a notional valuation and using the actual amount of pension benefits taken. Schedule 17 provides for the notional amount to be used, but representations received since the Bill was published have shown that that is confusing for individuals, who could expect the actual amount of their pension to be taken into account. The representations also show that the practical application of the provision is administratively burdensome for pension schemes. Using a notional value in those circumstances also has the unintended consequence of excluding all enhancements paid to an individual who retires early on grounds of ill health. It was not the intention to preclude ill-health retirements that do not meet the definition of serious or severe ill health from the annual allowance charge. Amendment 129 removes that disjoint and makes a value used in the year of retirement easier to understand for those taking benefits.

Amendment 188, in the name of the right hon. Member for Delyn, requires the Government to lay before the House by 1 April 2012 an assessment of the impacts of clause 66 and schedule 17, including the impact of creating marginal tax rates of more than 100%. He has given more explanation of why he tabled the amendment. He talked about marginal tax rates, but I point out to him that under the scheme the previous Government proposed that it was possible for income to rise by only £2,000 before having a marginal tax rate of 650%. We very carefully learnt lessons from the flaws in the design of that scheme. *[Interruption.]* He has become Mr Macavity—he was not around at the time, because he was in the Home Office. It is a fair comment, as we cannot all be held to account for the detail of legislation proposed by our colleagues.

The right hon. Gentleman needs to be a little careful because the measure does not alter the rate of tax relief. It will still be at the marginal rate. The measure simply imposes a stricter rationing on how much tax-privileged saving any one person can make. There will be no relief over £50,000 of saving. As such, tax charges are a direct result of a change in the level of pension contributions, rather than a change in income. In that sense, the concept of marginal effective tax rates is not a useful way—*[Interruption.]*

The Chair: Order. I have to tell the Opposition Front Benchers, as I have told the Government Back Benchers, that they should pay more attention to a Member when they are addressing the Committee.

Mr Hoban: Thank you, Mr Hood.

The concept of marginal effective tax rates is not a useful way of considering the measure's impact on individuals. Marginal effective tax rates relate to how an additional pound of income affects the rate of tax that an individual faces.

The right hon. Gentleman got to the nub of the question in his remarks on the impact that the measure could have on people. He asked whether it would affect only 100,000 people. The 100,000 estimate is based on a detailed model that makes use of data from HMRC's operational income tax systems and the administrative returns provided to HMRC by all pension providers. The methodology is consistent with previous estimates of the policy and the previous Government's approach. The methodology underpinning the estimate was set out in the Budget 2011 policy costings document and has been scrutinised and certified by the Office for Budget Responsibility.

The 100,000 figure is lower than the number of people we expected to be affected before the details of the regime were announced in October. We were able to reduce the number of people affected because we were able to increase the annual allowance above the amount initially expected. Additionally, the factor of the value of an increase in savings to defined benefit pension schemes is also lower than originally expected, which has helped soften the impact.

That does not mean that 100,000 people will be paying tax charges from their pension benefits. We expect that individuals and employers will look to adapt their pension saving behaviour and remuneration terms to aim off and ensure that their pension contributions remain below the annual allowances, so that they will never face a charge. We expect about 40% of people to aim off in 2011-12 and for that to increase to 65% of defined benefit scheme members and 90% of defined contribution scheme members by 2015-16,

The other issue raised by the right hon. Gentleman is the impact that the measure will have on flexibility, the way in which people save for their retirement and the extent to which that triggers a large tax bill. I will take a few moments to set out the steps that we have taken to mitigate that impact.

To reduce the likelihood of individuals exceeding the annual allowance, we first set a more generous annual allowance than originally proposed. Secondly, we ensured that individuals would be able to carry forward any unused allowances from the previous three years. Citing the right hon. Gentleman's example, someone who is out of the market for three years would effectively accumulate a £50,000 annual allowance in each of those three years, which they could use in a year in which they were in employment and pay higher pension tax contributions. Similarly, someone setting up a business could achieve exactly the same goal. They could choose not to make pension contributions for three years and use the accumulated unused annual allowance to make a larger contribution in one particular year.

We recognise that there may be circumstances, despite the mitigation measures, in which people pay a higher charge. Individuals with an annual allowance charge exceeding £2,000 will be able to elect to meet their full charge from their pension benefits instead. That recognises that a substantial increase in pension wealth has led to the liability in the first place.

I hope that I have reassured the right hon. Gentleman that we have thought carefully about the impact of the measure on people who may in one year face a sudden one-off increase in the value of their pension and consequently face an increased tax charge. There are ways in which they can mitigate that. I think the overall package of measures that we have here achieves our goal of making sure that the cost of pension tax relief is fair, affordable and sustainable and that there is sufficient flexibility in the scheme.

Mr Hanson: Our amendment simply asks for a review of these matters. I appreciate the Minister's explanation but I still feel that we need to examine the impact of this downstream. In the interests of having a participatory democracy, I would like to enable members of the Committee to participate by dividing on this issue.

Question put, That the amendment be made.

The Committee divided: Ayes 12, Noes 18.

Division No. 10]

AYES

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

NOES

Aldous, Peter
Bradley, Karen
Crockart, Mike
Crouch, Tracey
Goodwill, Mr Robert
Greening, Justine

Harrington, Richard	Sharma, Alok
Hoban, Mr Mark	Shelbrooke, Alec
Lee, Jessica	Smith, Julian
Lewis, Brandon	Wharton, James
McCartney, Karl	Williams, Roger
Parish, Neil	Williams, Stephen

Question accordingly negatived.

Clause 66 ordered to stand part of the Bill.

Schedule 17

Annual allowance charge

Amendments made: 129, in schedule 17, page 277, line 23, leave out from 'adjustment' to end of line 25 and insert

'is reflected in the closing amount the amount of the adjustment is to be added to the closing amount.

'(8D) But no amount is to be added under subsection (8C) by reason of an adjustment made in consequence of the scheme administrator satisfying a liability under section 237B in a case where subsection (6) of that section applied."'.

Amendment 130, in schedule 17, page 280, line 2, after 'reduction' insert

'(to the extent that it is not reflected in an amount added under subsection (8A))'.

Amendment 131, in schedule 17, page 280, line 16, leave out from 'event 2,' to end of line 17 and insert

'the annual rate of the pension to which the individual became entitled,'.

Amendment 132, in schedule 17, page 280, line 27, leave out from 'adjustment' to end of line 28 and insert

'is reflected in PE or LSE the amount of the adjustment is to be added to PE or LSE.

'(8D) But no amount is to be added under subsection (8C) by reason of an adjustment made in consequence of the scheme administrator satisfying a liability under section 237B in a case where subsection (6) of that section applied."'.

Amendment 133, in schedule 17, page 285, line 3 leave out 'the day before'.—*(Mr Hoban.)*

Schedule 17, as amended, agreed to.

Clause 67

Lifetime allowance charge

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

The Chair: With this it will be convenient to discuss the following: Amendment 189, in schedule 18, page 290, line 2, leave out '£18,000' and insert '£21,500'.

Amendment 190, in schedule 18, page 290, line 9, leave out '£18,000' and insert '£21,500'.

Amendment 191, in schedule 18, page 290, line 17, leave out '£18,000' and insert '£21,500'.

Amendment 192, in schedule 18, page 290, line 24, leave out '£18,000' and insert '£21,500'.

That schedule 18 be the Eighteenth schedule to the Bill.

Mr Hanson: I shall be quick because the amendments are relatively self-explanatory and I hope the Minister will consider accepting them. If an individual's pension and savings pot is very small, it is defined in the Bill as trivial. When he retires, an individual can choose to take it as a lump sum or a commutation. Under the old rules, that could be done if the pension pot was less than 1% of the lifetime pension allowance. The Minister has, I accept, listened to representations about this. Given that the Bill brings down the lifetime allowance, the figure needs to be changed. The Government have therefore gone for a figure of £18,000 and below for the new definition of trivial.

The only problem is that the effective date of implementation of the trivial commutation limit of £18,000 is for 2012-13. However, by the end of 2012-13, the trivial commutation limit will have already been fixed at £18,000 for three years. It strikes me that it would be possible for the Government to consider raising the limit slightly; we suggest the figure of £21,500 in the amendments. That would allow a few more of the poorer pensioners, who have slightly bigger but still relatively small pension pots, to take them as a lump sum. The cost to the Exchequer would be negligible, because the Government would still get some tax from lump sum payments.

The amendments are designed to tease out the answer to the following questions. On what basis has the Minister fixed the limit of £18,000? Why has it not been raised in line with inflation, over the course of the years in which it has been operating? Does he intend to raise it in future years? At the moment, freezing it at £18,000 for an effective three-year period to 2012-13 means that the value of £18,000 is diminished accordingly. Our suggestion is to index it initially at £21,500, which could be reviewed in due course. I welcome the prospect of finding out whether the Minister will accept the amendment. In anticipation that he may not, I would like to know when he intends to monitor the change in the value of £18,000, or if it is fixed in perpetuity.

6.30 pm

Mr Hoban: The clause and schedule seek to reduce the lifetime allowance from £1.8 million to £1.5 million. That takes it back to the same level as on A-day in 2006, and it would raise around £0.5 billion in annual revenues. The reduction means that the annual allowance will be higher than we originally proposed, which will help protect those on moderate incomes. There are provisions in the schedule to protect those who have pots in excess of £1.5 million already, but I will not go through those as they are clearly not the point that the right hon. Gentleman is keen to focus on.

The right hon. Gentleman is right to say that the limit is set at £18,000. In the past, the limit has been effectively 1% of the lifetime allowance. Clearly, reducing the lifetime allowance to £1.5 million gives us the opportunity to decouple that link, which is helpful. The right hon. Gentleman's amendments would increase the amount to be paid out to registered pension schemes in certain circumstances without incurring unauthorised payment charges. It is proposed that the limit should be raised from £18,000 to £21,500.

Pension tax rules currently allow pension pots to be taken out as a lump sum, if an individual's aggregate pension savings are below a specified limit. Some 25% of the lump sum can be paid tax free, while the remainder is taxable as income. That is known as trivial commutation, but the rules also extend to a number of other, different circumstances, which are also covered by the amendments.

We need to bear in mind the point that the right hon. Gentleman made in an earlier debate. We are seeking to encourage people to build up pension pots to support themselves and provide an income in retirement. Evidence shows that an annuity can be purchased with as little as £5,000. The median wealth held by individuals in a defined contribution occupational pension is £6,500, while in a defined contribution personal pension, it is £12,000. Those are both way under the £18,000 limit currently in statute, and the £21,500 level proposed by the right hon. Gentleman. Against the background of the relatively low amounts held in defined contribution schemes and the fact that annuities can be bought with as little as £5,000, the current limit is set at an appropriate level. It is not right to increase it by £3,500 at this point.

What we have said—and this returns to the consultation document that the right hon. Gentleman mentioned earlier, when we discussed early access—is that we will explore reform to trivial commutation rules to improve flexibility for those with very small levels of savings in personal pension schemes. We will keep the lifetime trivial commutation limit under review, and we will consider any evidence on the benefit of an increased limit. I hope that that provides the right hon. Gentleman with the reassurance that he is looking for.

Mr Hanson: To encourage the Minister, I record the fact that the Opposition believe that £21,500 would be fairer over that period. I shall press the amendment to a Division.

Question put and agreed to.

Clause 67 accordingly ordered to stand part of the Bill.

Schedule 18

LIFETIME ALLOWANCE CHARGE

Amendment proposed: 189, schedule 18, page 290, line 2, leave out '£18,000' and insert '£21,500'.—*(Mr Hanson.)*

Question put, That the amendment be made.

The Committee divided: Ayes 12, Noes 17.

Division No. 11]

AYES

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

NOES

Aldous, Peter
Bradley, Karen
Crockart, Mike
Crouch, Tracey
Goodwill, Mr Robert
Greening, Justine
Harrington, Richard
Hoban, Mr Mark
Lee, Jessica
Lewis, Brandon
McCartney, Karl
Parish, Neil
Sharma, Alok
Smith, Julian
Wharton, James
Williams, Roger
Williams, Stephen

Question accordingly negatived.

Schedule 18 agreed to.

Clause 68

BORROWING BY SECTION 67 PENSION SCHEME

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

Mr Hanson: I have one quick question. Will the Minister assure me that the article in *The Daily Telegraph* of 31 May—*[Interruption.]* I am encouraged by support from the Government Benches for my clear reference. That newspaper expressed the concern that under the NEST scheme, which we introduced, fund managers could put money into unsuitable forms that would eat up much of the savings in fees. Because of coalition support for the proposal, which we agree with, automatic enrolment in pension schemes could expose people to unscrupulous schemes. Will the Minister assure me that the concerns expressed by Mr David Pitt-Watson of Hermes Fund Managers are unsubstantiated?

Mr Hoban: Unlike the right hon. Gentleman, I am not an avid reader of *The Daily Telegraph*. I appreciate that that may come as a disappointment, but I am not in a position to comment on suggestions made by Mr Pitt-Watson, who I believe at one stage was to become the general secretary of the Labour party. If the right hon. Gentleman will permit me, I shall read the article and write to him appropriately.

Clause 68 accordingly ordered to stand part of the Bill.

Clauses 69, 70 and 71 ordered to stand part of the Bill.

Schedule 19

THE BANK LEVY

Kerry McCarthy (Bristol East) (Lab): I beg to move amendment 187, in schedule 19, page 297, line 1, at end insert—

'(4) The Secretary of State will review the steps for determining the amount of the bank levy outlined in paragraph 6(2) and lay a report before the House of Commons, before 31 December 2011. This review shall include the Government's analysis behind the rate and threshold chosen for the bank levy and provide a forecast for the change in both gross and net yield that would be achieved if the Secretary of State were to reduce the amounts in Step 5 from £20,000,000,000 to £10,000,000,000.'.

Amendment 187 is a probing amendment. Our intention is to highlight the complete inadequacy of this measure in ensuring a fair and balanced burden of taxation. The target revenue for this tax is too low and the Government refuse to consider any taxation on the banks below that low level. The issue is an important part of the Finance Bill, which many Members will want to debate. There are many more aspects of the schedule that Members will want to discuss beyond the issue brought forward by our amendment, so rather than pressing the amendment to a vote now or opposing the clause, we should like to return to the issue on Report. In the meantime, I should like to take advantage of this opportunity to press the Minister on a few issues.

Opposition Members support the principle of the bank levy. It is important to ensure that the banking sector makes a fair contribution towards the costs of the financial and economic crisis and that the burden of

[Kerry McCarthy]

taxation is shared out fairly when taxes have to be raised. A specific tax on the banks is a good way in which to achieve both objectives. That is why the Opposition called for a repeat of last year's bank bonus tax. What we have from the Government is wholly inadequate.

Although we support the levy in principle, questions must be asked about the amount and why that level was chosen. When the bank levy was debated on the Floor of the House last month, my hon. Friend the Member for Nottingham East said that we were unable to table an amendment to this Bill that would raise the level of the bank levy. That is why amendment 187 calls on the Government to report on why these particular rates and allowances were chosen for the levy and what the effect would be of lowering the allowances in terms of the amount of tax raised.

Many measures that the Government have taken have supposedly been beneficial to people, but when they are put in the context of other policies, we see that the Government are not really helping ordinary people at all.

Bill Esterson: I am glad that my hon. Friend has made the point about not helping ordinary people. The Treasury's original design for the bank levy showed that it would raise £3.9 billion and not the £2.6 billion that is currently forecast. Does she agree that that additional £1.3 billion would make all the difference as it would take the pressure off hard-working families, who are being penalised by the Government?

Kerry McCarthy: That is the issue to which I want the Minister to respond. Of all the priorities for taxation, he—I say "he", but I am perhaps slightly elevating his position and should say "the Government, of whom the Minister is a very valued member"—chose to give with one hand and take away with the other, for which the Government were criticised by the director of the Institute for Fiscal Studies.

For example, the personal allowance for income tax is supposed to give people an extra £40 a year, but it is wiped out by the Government's hike in VAT, which will cost the average family with children more than 10 times that amount—more than £450 a year. The 1p cut in fuel duty, which this Committee has already discussed, is peanuts compared with the 9p or 10p a litre that the Government will have added to fuel taxation by August 2012.

The Government's proposals for a bank levy are no exception. The £2.6 billion forecast to be raised by the bank levy may seem like a lot until it is put in the context of the £4.9 billion that the Government plan to take away from families with children in cuts to child benefit, child tax credit, the child trust fund and the Sure Start maternity grant. The bank levy could be put in the context of the £10.6 billion a year that the Government will take out of people's pockets by 2014-15 by switching to CPI indexation for benefits, tax credits and public service pensions. Compared with that, the bank levy will be little more than a drop in the ocean in terms of rebalancing the burden of taxation.

The levy could even be put in the context of the implicit subsidy that the taxpayer has been providing to all large banks in the UK in the expectation that the taxpayer will bail them out if they fail. According to the Bank of England, that subsidy is worth £100 billion a year. There was clearly scope to go much further and to make a genuine impact. Will the Minister tell the Committee what steps were taken to determine the level of the bank levy and what assessment the Government have made of the amount of tax that could be raised by setting the threshold at a lower rate—specifically at £10 billion, as detailed in our amendment?

The Government have demonstrated that the low level of taxation in this case was their choice. The target revenue of £2.6 billion is no accident. In their consultation on the bank levy, they stated that they intended to raise £2.5 billion when it was fully in place. Following the consultation, they found that their proposals would have raised nearly £4 billion. Ministers could have stood by their original design, but instead they took active steps to reduce the amount, principally by changing the proposed £20 billion threshold into a tax-free allowance.

6.45 pm

We did not receive a full explanation from the Minister on the Floor of the House, so perhaps he will explain to the Committee now why the target of £2.6 billion of revenue was chosen. What estimates were made of the impact of that level and any other levels on the industry and on revenue for the Exchequer? Why were the Government so averse to raising more than that through the original mechanism? They also refused to tax the banks via a bank bonus tax, which the Opposition suggested. The bonus pool for 2010 across the City of London has been estimated at some £7 billion. There is, understandably, still a great deal of public outrage about that because it is an incredible figure, particularly when banks are still failing to meet their responsibilities to wider society. As we discovered recently, the Project Merlin banks are missing their lending targets by some £25 million a day.

We called on the Government to repeat the bank bonus tax that the Labour Government introduced. Unfortunately, the Chancellor refused to take that option. The bonus tax raised £3.5 billion for the Exchequer, and that would ensure a fair contribution from the banks. It would also provide funds to be invested in a real plan for growth in the economy, which we sorely lack.

The plan that we proposed before the Budget this year was based on a conservative estimate that a repeat bonus tax would raise £2 billion. We proposed using that to create 110,000 new jobs, construct 25,000 new homes and boost investment in local businesses through the regional growth fund by £200 million. The Government's refusal to repeat the bonus tax means that banks are looking at a tax cut this year worth about £1 billion, which the Government are granting by watering down a bonus tax of £3.5 billion to a bank levy worth just £2.5 billion. That does not include their cuts in corporation tax, which will give back to the banks £100 million this year, with many more cuts planned by the end of the Parliament.

In the same year, families have lost thousands of pounds in tax credits and benefits, and are paying hundreds of pounds more in tax. Families with children are being hit especially hard, with cuts to child care support alone amounting to up to £1,560 a year. This is also the year when those families are seeing reductions in NHS staff and police numbers, with reductions of more than 11% in some local council grants from the Government, and cuts or closures in their local public services.

The bank levy is an important issue and many hon. Members will want to speak about it on Report. Our amendment would address just one of the many concerns about the Government's proposal, so we will not press it to a vote today, but will the Minister explain why the Government took active steps to reduce the amount taken by the bank levy following their consultation, when at the same time they raised taxes and cut payments and services for ordinary families?

Does the Minister accept that the banks have a bigger role to play in contributing to the cost of the financial and economic crisis, which began in the financial sector? The Government had a choice on ensuring the fairest possible distribution of taxation. Given the relatively puny amount that they expect to raise from the banks, and the steps that they have taken to keep that amount down, ordinary families would be right to wonder whose side the Government are on.

Mr Hoban: Clearly, many hon. Members who spoke about this matter in the Committee of the whole House may want to speak at length on Report, but mercifully not this evening. It was always our intention that the levy would raise around £2.5 billion. That is what we set out to achieve, and that is what we are delivering through clause 72 and schedule 19. We will move to the more substantive stand part debate a little later.

The levy will be paid by between 30 and 40 building societies and banking groups. We think the amount that we seek to raise from that is an appropriate contribution. It was set with consideration for the wider environment, including the international programme of regulatory reform, global economic conditions and the need to maintain the competitiveness of the UK sector. The rates of the levy were chosen to deliver that. Other countries have chosen different headline rates, but we need to bear in mind the relative size of the banking sectors, and the design of the bank levy, in different countries. If we look at the combined effect of rates based on the scope of the bank levies in relative terms, the UK levy is larger than that of France and that of Germany.

The hon. Member for Bristol East suggested that the banks were getting a good deal out of the proposals and referred to the reduction in corporation tax that we announced in the Budget. She suggested that banks were benefiting by £0.1 billion, but I point it out to her that that estimate of £0.1 billion relates not only to banking, but to insurance and pension funds and to auxiliary financial services. Clearly, banks are paying more as a consequence of the increase in the bank levy that was announced in the Budget than they are benefiting from the reduction in corporation tax rates.

On the allowance and threshold, when we announced the bank levy last year we stated that there would be a threshold of £20 billion. As part of the subsequent consultation exercise, however, we explicitly sought views on whether an allowance would be preferable to an all-or-nothing threshold. The respondents to the consultation made it clear that a threshold would provide a cliff edge, which banks would avoid by restructuring, and they even suggested that banks or building societies might avoid growing their UK operations to avoid the threshold. I think that that is a fair point.

We have decided, therefore, that there should be an allowance on the first £20 billion of liabilities that are liable to the levy. The sector is not paying any less levy as a result of that, because we have made it clear from the start that developments in the design of the levy would improve its effectiveness but would not reduce the overall expected yield. The rates were set only when the design had been finalised, and to meet our detailed yield. Those details, along with many others, have already been made public.

I am sure the hon. Lady recognises that the Government have taken substantial steps to explain the basis of our decisions. As she will know, all tax measures now have a tax information and impact note that sets out clearly information about the impact of the measure. That has provided a significant amount of analysis on the levy so far. I do not believe that there is a need to produce any further analysis of the rates and threshold of the bank levy.

The second part of amendment 187 also concerns the allowance, and it seeks a forecast of the change in yield that would be achieved if we were to reduce the allowance from £20 billion to £10 billion. As I have explained, the Government did not introduce an allowance to reduce the overall yield from the levy. Instead, the allowance ensures that the levy is proportionate to the risks inherent in banking businesses of different sizes. That means that smaller banks and building societies and foreign banks with a small UK presence—those whose liabilities are less than the £20 billion annual allowance—will not pay the levy.

I do not know whether the hon. Lady has discussed her amendment with the Building Societies Association or whether it would be content to see the threshold of the allowance reduced and more of its members' money—which could otherwise go to their depositors in higher savings rates or lower borrowing rates—swallowed up in that way. That would be the consequence of reducing the threshold and the allowance to £10 billion.

We have also had to balance the probability that the failure of a bank might pose a systemic risk against the relative burden that is imposed to gather additional revenue at the margin. Although size is not the sole factor in determining risk to the system, it is an important one. Setting a lower allowance would risk imposing an unnecessarily high burden on institutions that do not pose a systemic risk to the UK economy in the way that large banking institutions do. Analysis of the change in yield from a reduction in that allowance would not, therefore, be appropriate or worth while.

The hon. Lady expressed support for the principle behind the bank levy, which is welcome. Such support was not forthcoming at the general election. The previous Government explicitly ruled out the unilateral introduction of a bank levy—I am pleased that her party has recanted.

We should bear something else in mind. The hon. Lady mentioned the bank payroll tax introduced by the previous Government, but she must recollect that the then Chancellor said that it was a one-off measure and could not be repeated. It is, however, much better to have a permanent tax on banks, and the levy tackles that. Each and every year, our permanent bank levy raises more than the one-year bonus tax proposed by the previous Government. Our levy is raising more money from taxes on banks than the bank payroll tax

[Mr Hoban]

introduced by the then Chancellor did in the only year of its operation, and he explicitly ruled out a repeat of exactly the same tax measure.

It is not necessary to produce yet another report on the bank levy. Sufficient information is in the public domain to enable people to reach their own conclusions on the rates, the thresholds and the allowance. Therefore, if the hon. Lady presses her amendment to a Division, I shall encourage my hon. Friends to oppose it.

Kerry McCarthy: I see that the Minister was paying rapt attention to my opening remarks, because I said twice that I did not intend to press the amendment to a vote.

The Minister's answers were unsatisfactory, simply repeating what was said earlier without providing any new information on how the decisions were reached. In particular, the banks saying, "We don't like the sound of that, and we'll take our ball away if you bring the levy in at a higher rate," is something the Opposition would greet with some scepticism. Basically, that is what banks and companies do when we talk about taxing them—indeed, individuals do so as well, although, obviously, people at the lower end of the scale are not in a position to make such threats.

As indicated, however, I do not intend to press the amendment to a Division, although we hope to return to the issue on Report. Therefore, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Mr Hoban: I beg to move amendment 134, in schedule 19, page 302, line 30, after 'liabilities' insert '("M's liabilities")'.

The Chair: With this it will be convenient to discuss the following: Government amendments 135 to 182.

That schedule 19 be the Nineteenth schedule to the Bill.

Mr Hoban: I am tempted to talk about the amendments at some length. I am sure that people would be interested in details relating to the application of the netting rules to certain lending transactions called reverse repos or those relating to covered bonds. However, I suspect that the appetite of my hon. Friends is not quite as great as I would have thought.

In respect of the amendments, we have sought to ensure that the netting provisions in the schedule operate as originally intended in respect of certain reverse repo transactions where securities received as collateral are sold, and also that the netting rules apply correctly to the UK permanent establishments of foreign banks.

The amendments flow from correspondence received after publication of the Bill, questioning whether the legislation was sufficiently clear. We have tried to ensure that the provisions will operate as intended and that the various transactions are within the netting provisions.

Amendments 181 and 182 provide for an expanded definition of the trade or business of a covered bond vehicle, increasingly important for the funding of banks. The amendments will ensure that all covered bond limited liability partnerships within banking groups are excluded from the levy's joint-and-several-liability provisions, again as was originally intended.

I commend the amendments and the schedule to the Committee.

Amendment 134 agreed to.

Amendments made: 135, in schedule 19, page 302, line 31, after 'to M' insert '("N's liabilities")'.

136, in schedule 19, page 302, line 34, leave out 'to N'.

137, in schedule 19, page 302, line 34, leave out 'to M'.

138, in schedule 19, page 302, line 43, leave out 'and' and insert—

'( ) a liability which M has to N to which sub-paragraph (2A) applies is to be treated as a liability to which an asset of N corresponds, and'.

139, in schedule 19, page 302, line 47, at end insert—

'(2A) This sub-paragraph applies to a liability which M has to N if—

(a) as at the end of the chargeable period, the assets of the relevant group include a financial asset in respect of an advance of cash made by M to N,

(b) underlying that asset, as collateral, are securities which have been transferred by M to another person,

(c) the liability is a financial liability in respect of M's obligation to return the securities or similar securities to N, and

(d) the provision mentioned in sub-paragraph (1)(c) covers both the financial asset mentioned in paragraph (a) and that financial liability.

Section 556 of CTA 2009 (meaning of securities and similar securities) applies for the purposes of this sub-paragraph as it applies for the purposes of Chapter 10 of Part 6 of that Act.'.

140, in schedule 19, page 303, line 1, leave out 'to N'.

141, in schedule 19, page 303, line 6, leave out 'to M'.

142, in schedule 19, page 306, line 34, leave out paragraph (a) and insert—

'(a) an entity ("M") within sub-paragraph (9) has liabilities to another entity ("N") not within that sub-paragraph, and N has assets which correspond to those liabilities ("M's liabilities"),'

143, in schedule 19, page 306, line 38, after 'to M' insert '("N's liabilities")'.

144, in schedule 19, page 306, line 41, leave out 'to N'.

145, in schedule 19, page 306, line 41, leave out 'to M'.

146, in schedule 19, page 307, line 1, leave out 'In' and insert 'For the purposes of'.

147, in schedule 19, page 307, line 3, at end insert—

'( ) if N is a relevant foreign bank covered by paragraph 17(17), liabilities of M to N are to be ignored so far as N's assets corresponding to those liabilities are assets of the permanent establishment through which N carries on a trade in the United Kingdom as determined at Step 2 in paragraph 24(1),'.

148, in schedule 19, page 307, line 6, leave out 'and' and insert—

'( ) a liability which M has to N to which sub-paragraph (10A) applies is to be treated as a liability to which an asset of N corresponds, and'.

149, in schedule 19, page 307, line 10, at end insert—

'(10A) This sub-paragraph applies to a liability which M has to N if—

(a) as at the end of the chargeable period, the assets of M include a financial asset in respect of an advance of cash made by M to N,

(b) underlying that asset, as collateral, are securities which have been transferred by M to another person,

(c) the liability is a financial liability in respect of M's obligation to return the securities or similar securities to N, and

(d) the provision mentioned in sub-paragraph (8)(c) covers both the financial asset mentioned in paragraph (a) and that financial liability.

Section 556 of CTA 2009 (meaning of securities and similar securities) applies for the purposes of this sub-paragraph as it applies for the purposes of Chapter 10 of Part 6 of that Act.'.

150, in schedule 19, page 307, line 13, leave out 'to N'.

151, in schedule 19, page 307, line 18, leave out 'to M'.

152, in schedule 19, page 310, line 46, leave out paragraph (a) and insert—

'(a) an entity ("M") within sub-paragraph (9) has liabilities to another entity ("N") not within that sub-paragraph, and N has assets which correspond to those liabilities ("M's liabilities"),'

153, in schedule 19, page 311, line 3, after 'to M' insert '("N's liabilities")'.

154, in schedule 19, page 311, line 6, leave out 'to N'.

155, in schedule 19, page 311, line 6, leave out 'to M'.

156, in schedule 19, page 311, line 13, leave out 'In sub-paragraph (8)(c)' and insert

'For the purposes of sub-paragraph (8)'.

157, in schedule 19, page 311, line 15, at end insert—

'( ) if N is a relevant foreign bank covered by paragraph 19(17), liabilities of M to N are to be ignored so far as N's assets corresponding to those liabilities are assets of the permanent establishment through which N carries on a trade in the United Kingdom as determined at Step 2 in paragraph 24(1),'.

158, in schedule 19, page 311, line 18, leave out 'and' and insert—

'( ) a liability which M has to N to which sub-paragraph (10A) applies is to be treated as a liability to which an asset of N corresponds, and'.

159, in schedule 19, page 311, line 22, at end insert—

'(10A) This sub-paragraph applies to a liability which M has to N if—

(a) as at the end of the chargeable period, the assets of M include a financial asset in respect of an advance of cash made by M to N,

(b) underlying that asset, as collateral, are securities which have been transferred by M to another person,

(c) the liability is a financial liability in respect of M's obligation to return the securities or similar securities to N, and

(d) the provision mentioned in sub-paragraph (8)(c) covers both the financial asset mentioned in paragraph (a) and that financial liability.

Section 556 of CTA 2009 (meaning of securities and similar securities) applies for the purposes of this sub-paragraph as it applies for the purposes of Chapter 10 of Part 6 of that Act.'.

160, in schedule 19, page 311, line 25, leave out 'to N'.

161, in schedule 19, page 311, line 30, leave out 'to M'.

162, in schedule 19, page 312, line 37, after 'liabilities' insert '("the relevant entity's liabilities")'.

163, in schedule 19, page 312, line 39, after 'entity' insert '("N's liabilities")'.

164, in schedule 19, page 312, line 42, leave out 'to N'.

165, in schedule 19, page 312, line 43, leave out 'to the relevant entity'.

166, in schedule 19, page 312, line 47, leave out 'In' and insert 'For the purposes of'.

167, in schedule 19, page 313, line 3, leave out 'and' and insert—

'( ) a liability which the relevant entity has to N to which sub-paragraph (2A) applies is to be treated as a liability to which an asset of N corresponds, and'.

168, in schedule 19, page 313, line 7, at end insert—

'(2A) This sub-paragraph applies to a liability which the relevant entity has to N if—

(a) as at the end of the chargeable period, the assets of the relevant entity include a financial asset in respect of an advance of cash made by the relevant entity to N,

(b) underlying that asset, as collateral, are securities which have been transferred by the relevant entity to another person,

(c) the liability is a financial liability in respect of the relevant entity's obligation to return the securities or similar securities to N, and

(d) the provision mentioned in sub-paragraph (1)(c) covers both the financial asset mentioned in paragraph (a) and that financial liability.

Section 556 of CTA 2009 (meaning of securities and similar securities) applies for the purposes of this sub-paragraph as it applies for the purposes of Chapter 10 of Part 6 of that Act.'.

169, in schedule 19, page 313, line 9, after 'of the' insert 'relevant'.

170, in schedule 19, page 313, line 10, leave out 'its liabilities to N' and insert 'the relevant entity's liabilities'.

171, in schedule 19, page 313, line 16, leave out 'to the relevant entity'.

172, in schedule 19, page 314, line 30, after 'liabilities' insert '("the bank's liabilities")'.

173, in schedule 19, page 314, line 32, after 'bank' insert '("N's liabilities")'.

174, in schedule 19, page 314, line 35, leave out 'to N'.

175, in schedule 19, page 314, line 36, leave out 'to the bank'.

176, in schedule 19, page 314, line 46, leave out 'In' and insert 'For the purposes of'.

177, in schedule 19, page 315, line 5, leave out 'and' and insert—

'( ) a liability which the relevant foreign bank has to N to which sub-paragraph (3A) applies is to be treated as a liability to which an asset of N corresponds, and'.

178, in schedule 19, page 315, line 9, at end insert—

'(3A) This sub-paragraph applies to a liability which the relevant foreign bank has to N if—

(a) as at the end of the chargeable period, the assets of the relevant foreign bank include a financial asset in respect of an advance of cash made by the relevant foreign bank to N,

(b) underlying that asset, as collateral, are securities which have been transferred by the bank to another person,

(c) the liability is a financial liability in respect of the bank's obligation to return the securities or similar securities to N, and

(d) the provision mentioned in sub-paragraph (1)(c) covers both the financial asset mentioned in paragraph (a) and that financial liability.

Section 556 of CTA 2009 (meaning of securities and similar securities) applies for the purposes of this sub-paragraph as it applies for the purposes of Chapter 10 of Part 6 of that Act.'.

179, in schedule 19, page 315, line 25, leave out 'its liabilities to N' and insert 'the bank's liabilities'.

180, in schedule 19, page 315, line 30, leave out 'to the bank'.

181, in schedule 19, page 328, line 36, leave out paragraph (b) and insert—

'(b) a covered bond vehicle, or'.

182, in schedule 19, page 329, line 3, at end insert—

'"covered bond vehicle" means a limited liability partnership—

(a) which is a party to a capital market arrangement, or a transaction in pursuance of a capital market arrangement,

(b) whose trade or business (ignoring any incidental activities) consists wholly of one or both of the following—

(c) which is within the charge to corporation tax;'.

Schedule 19, as amended, agreed to.

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

7 pm

Adjourned till Thursday 9 June at Nine o'clock.