PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

(Except clauses 1, 4, 8, 189 and 209, schedules 1, 23, and 33 and certain new clauses and new schedules)

Thirteenth Sitting

Tuesday 19 June 2012

(Morning)

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Saturday 23 June 2012

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The Committee consisted of the following Members:

Chairs: MR DAVID AMESS, †MR PETER BONE, MR JIM HOOD, JIM SHERIDAN

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† Barclay, Stephen *(North East Cambridgeshire)* (Con)
† Blenkinsop, Tom *(Middlesbrough South and East Cleveland)* (Lab)
† Burley, Mr Aidan *(Cannock Chase)* (Con)
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† Hands, Greg *(Chelsea and Fulham)* (Con)
† Harrington, Richard *(Watford)* (Con)
† Hilling, Julie *(Bolton West)* (Lab)
† Hoban, Mr Mark *(Financial Secretary to the Treasury)*
† Jamieson, Cathy *(Kilmarnock and Loudoun)* (Lab/Co-op)
† Kirby, Simon *(Brighton, Kemptown)* (Con)
† Lavery, Ian *(Wansbeck)* (Lab)
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† McKinnell, Catherine *(Newcastle upon Tyne North)* (Lab)
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† Mills, Nigel *(Amber Valley)* (Con)
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† Morris, Grahame M. *(Easington)* (Lab)
† Pugh, John *(Southport)* (LD)
† Rees-Mogg, Jacob *(North East Somerset)* (Con)
Reeves, Rachel *(Leeds West)* (Lab)
† Smith, Miss Chloe *(Economic Secretary to the Treasury)*
† Swales, Ian *(Redcar)* (LD)
† Syms, Mr Robert *(Poole)* (Con)
† Williams, Stephen *(Bristol West)* (LD)
† Williamson, Gavin *(South Staffordshire)* (Con)
Wilson, Sammy *(East Antrim)* (DUP)

Simon Patrick, James Rhys, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 19 June 2012

(Morning)

[Mr Peter Bone *in the Chair*]

Finance Bill

(Except clauses 1, 4, 8, 189 and 209, schedules 1, 23 and 33, and certain new clauses and new schedules)

10.30 am

The Chair: Before we start, I should explain that it is proposed that we consider the whole of parts 2 and 3 of the Bill, including associated schedules and all amendments, in one debate on the question that clause 55 stand part of the Bill. Once we have disposed of clause 55, I shall ask the Committee's leave to put the remaining questions to the Committee in groups to save time. If any hon. Member wants to request a separate decision on any clause, schedule or amendment, it will be helpful if they give me advance notice, perhaps by sending a note.

Clause 55

Overview

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

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

Clauses 56 to 125 stand part.

Government amendments 135 and 136.

Clauses 126 to 128 stand part.

Government amendments 137 and 138.

Clause 129 stand part.

Government amendments 139 to 143.

Clauses 130 to 146 stand part.

Government amendment 144.

That schedule 16 be the Sixteenth schedule to the Bill.

Clause 147 stand part.

Government amendment 145.

That schedule 17 be the Seventeenth schedule to the Bill.

Clauses 148 to 150 stand part.

Amendment 195, in clause 151, page 89, line 20, at end add—

'(7) Consultation shall be undertaken with interested parties prior to the enactment of regulations under this section.

(8) The Chancellor of the Exchequer shall review the impact of the regulations under this section on friendly societies and shall lay a report of his review in the House of Commons Library.'.

Clause 151 stand part.

Amendment 196, in clause 152, page 90, line 2, at end add—

'(6) Consultation shall be undertaken with interested parties prior to the enactment of regulations under this section.

(7) The Chancellor of the Exchequer shall review the impact of the regulations under this section on friendly societies and shall lay a report of his review in the House of Commons Library.'.

Clauses 152 to 176 stand part.

That schedule 18 be the Eighteenth schedule to the Bill.

Clause 177 stand part.

That schedule 19 be the Nineteenth schedule to the Bill.

Clauses 178 and 179 stand part.

The Financial Secretary to the Treasury (Mr Mark Hoban): Mr Bone, it is a pleasure to serve under your chairmanship on this sunny Tuesday morning. We can make huge progress in this morning's sitting by debating over 120 clauses. I am sure that you will be relieved to know that I shall not be discussing each clause and schedule in detail individually, but if members of the Committee so wanted, I am sure that I could arrange for that to happen. However, I thought that I would try to set out why we are seeking to replace the existing tax regime for life insurance and what the benefits of the new regime are. Importantly, I also want the Committee to have confidence in that approach, and I want to discuss the consultation that happened between the Treasury and the insurance sector to get to this point.

Clauses 55 to 179 establish a new tax regime for life insurance companies and friendly societies—friendly societies are covered in part 3 of the Bill. The clauses represent a wide-ranging and fundamental revision of both the basis on which life companies' taxable profits are computed and the detailed rules by which those profits are taxed. The changes will enhance the effectiveness of the tax system and bring the taxation of life companies more in line with that of other companies, as well as with the commercial realities of the life insurance business. In addition, the changes support the Government's policy of reducing complexity in the tax system.

The UK insurance industry makes an important contribution to our economy. It is the largest in Europe and the third largest in the world. Life insurance companies play a vital role in providing pensions, life and health protection, and investment products. The Association of British Insurers estimates that, in 2010, there were some 21 million pension policies in force, along with 13 million life protection policies and 10 million savings policies. The insurance industry is also an important source of Government revenue, with life insurance companies paying £1.2 billion in corporation tax in 2009, including £720 million paid on the behalf of policyholders.

As I have said, this is a wide-ranging revision of the tax rules for life companies. The package of changes amounts to some 127 pages of legislation in total, with the new core regime contained in fewer than 80 pages. To put that in context, we are repealing some 147 pages of existing primary legislation spread over 22 Acts. There will also be significant reductions in the 80 pages of secondary legislation that support the existing regime. For instance, the regulations concerning friendly societies will be reduced from 38 pages to just seven.

Let me give the Committee some background. The changes are made necessary in part by the solvency II directive—an EU directive looking at the solvency of insurance companies—which triggers a need to change the basis of life insurance taxation in the UK. Currently, one of the unique features of the taxation of life companies is that taxable profits are not, as is the case for companies generally, based on their accounting profits. Instead, taxable profits are derived from regulatory returns made to the Financial Services Authority. Under solvency II, the regulatory returns made by insurance companies to the FSA will no longer provide the information necessary to make the current basis of taxation work. Change is therefore essential.

I will now set out the main areas where we are making changes and explain how we have worked with industry groups to ensure that the rules are workable. The first area is trading profits, which will be calculated on the basis of life companies' accounting profits. This is a significant change and is welcomed by the industry. It will simplify life company taxation and bring it into line with general tax rules.

Secondly, life companies are uniquely subject to the income minus expenses, or I minus E, basis of taxation. This ensures that tax is collected both on the profits and on the investment income accruing for the benefit of policyholders. This will continue but, unlike now, the scope of I minus E will be restricted to the type of business where it is appropriate to tax shareholder profit and policyholder income together. Life protection business such as term assurance, which does not attract significant investment return, would therefore be excluded from I minus E. This is acknowledged by the industry as a sensible rationalisation. It would simplify the system and eliminate distortions which can lead to competitive disadvantage for some companies.

The third main change is that the system will be simplified further by amalgamating two of the three existing categories of insurance business recognised for tax purposes. The new combined category will comprise what is currently "gross roll-up business", such as pensions and annuities, and home and health insurance, including critical illness policies. It will also contain life protection business written under the new regime. Again, the industry firmly supports this change.

The fourth change concerns the allocation of income gains and profits. The allocation of income gains and profits between the categories will in future be determined by reference to the commercial activities and processes of individual companies. Currently they are determined by statutory formulae which are often arbitrary in their impact and do not reflect commercial reality. Again, the industry very much welcomes this alignment of tax with the commercial nature of the transactions. The fifth and final point is that in a number of areas life companies will be brought within the rules applying to companies generally, simplifying the tax system greatly by reducing the need for special provisions for the sector.

On the question of the tax impact of the changes, those cannot be assessed with certainty. In particular, the tax yield, including transitional arrangements, is sensitive to future movements in equity and bond markets. The Office for Budget Responsibility has forecast the market developments, and that has been used to help project the tax impact of these changes. On the basis of these projections we expect that over the first four years of the new regime, which is the forecasting horizon that we use, the changes will result in an increase in tax receipts as set out in the Red Book.

This is work that the Treasury has conducted in collaboration with the industry and other stakeholders, and their contribution has been vital to ensuring that we get the regime right. The clauses have been subjected to extensive consultation and the process has attracted some positive comments across the board. The Association of British Insurers said that it would like to express its

"appreciation of the consultation process with HMRC which has been open, thorough and very professionally conducted."

Informal consultation started in 2009 and since then we have maintained close co-operation with the insurance industry and other stakeholders through a series of joint working groups. These working groups have considered the complex and difficult technical issues in detail, and—this relates back to Opposition amendments—we have set up a forum to identify and consider particular concerns of friendly societies and mutual life assurance companies. The work of these groups is continuing and will help to ensure a smooth transition to the new regime.

We have issued two consultation documents and held a series of 13 well-attended open meetings to consider aspects of the new regime. There has been ongoing dialogue with individual insurers, representative and professional bodies and industry advisers. Throughout, consultees have contributed fully and constructively. This has greatly added to our understanding of the issues, and many of the changes we are making owe a great deal to suggestions we have received.

Concerns have been raised in a number of areas, and significant adjustments have been made to the legislation in the light of representations. These include the relief for policyholder deferred tax provisions, the transitional arrangements, the targeted anti-avoidance rules and the carrying forward of trade losses into the new regime. We have sought to accommodate industry concerns, where possible, without putting the Exchequer at risk or introducing unnecessary complication. Overall, the industry has welcomed the collaborative approach we have taken to the consultation process and supports the regime we are introducing.

Since the Bill was introduced, we have continued that consultation, which has highlighted the need for Government amendments to address points of detail in four areas. None of those amendments represents a change of policy; they are technical adjustments to ensure that the rules will operate effectively and as intended. In all but one case, the need for amendments was identified by consultees. The amendments have been discussed with industry representatives and have benefited from the comments received.

The amendments may be placed into four groups. Amendments 135 and 136 amend clause 126, which provides appropriate relief where losses on loan relationships are reflected in both the trading result and the I minus E result. The need for a restriction of losses is acknowledged by the industry, but we received representations that the rule, as currently framed, could restrict relief in certain circumstances where that would be unjustified. The amendments eliminate that possibility.

Amendments 137 to 143 amend clauses 129 and 130. The amendments address transfers of business between connected companies, based on two issues identified by the industry.

[Mr Mark Hoban]

Amendment 144 amends paragraph 154 of schedule 16, which addresses the way in which certain reliefs may be carried back to an earlier period so that the full benefit is obtained. Further consultation made it clear that the amendment is needed to ensure that the measure works in all circumstances.

Finally, amendment 145 amends paragraph 27 of schedule 17, which addresses the transition of life companies' holdings of securities into the new regime. We have become aware that the rules would have permitted indexation allowance to create or enhance a capital loss when disposing of securities, which is not generally permitted under capital gains rules. The amendment ensures that excessive allowable losses do not arise.

Opposition amendments 195 and 196 would prevent the making of regulations under clauses 151 and 152 without prior consultation with interested parties. Unsurprisingly, given the nature of previous amendments tabled by the Opposition, the amendments also require the Chancellor to lay before the House a report on the impact of any such regulations—a recurring theme in this debate.

Clause 151 applies the rules on mutual life assurance companies to friendly societies and permits regulations to modify those rules, as necessary. Regulations have been made under a similar existing power. Clause 152 applies the rules on the transfer of long-term business between companies to friendly societies and also permits regulations to modify those rules, as necessary.

The Government stand firmly behind the idea of mutual co-operation and support on which friendly societies, and the mutual model generally, is founded. The Government are also committed to fostering diversity within the financial services industry, in which friendly societies play an important role. Moreover, the Government fully support the type of consultation and transparency for which amendments 195 and 196 call—I have already talked about the extent of the consultation we have undertaken to deliver the new regime—but the amendments are unnecessary. Regulations under clause 151 have been drafted, and we are already discussing those with the industry. That consultation and liaison will continue, allowing us to monitor the impact and operation of the regulations. Copies of the draft regulations have been provided to the Committee with the letter that my hon. Friend the Exchequer Secretary sent on 11 June.

The regulation-making power under clause 152 rewrites an existing power that has not been used. We have no current plans to make such regulations, and, of course, we would consult if any regulations were necessary.

Those simplifications should be seen alongside other tax changes we have made, or are making, that will benefit the life insurance industry. We are making major changes to the taxation of foreign profits, which will reduce compliance burdens, provide flexibility to UK headquartered groups and make solvency II-related, cross-border restructuring easier. Additionally, the industry will benefit from the branch exemption introduced last year and the reduction we are making to the corporation tax rate.

This package of tax reforms enjoys the broad support of the life insurance industry, providing the UK with a more effective, commercially orientated regime for the taxation of life companies, simplifying the tax code and making Britain an even more attractive place to do business. I commend the clauses, schedules and Government amendments to the Committee.

10.45 am

Catherine McKinnell (Newcastle upon Tyne North) (Lab): It is a pleasure to serve under your chairmanship this morning, Mr Bone.

I will speak to the provisions and Government amendments relating to clauses 55 to 149, and my hon. Friend the Member for Kilmarnock and Loudoun will deal with the remaining clauses in the group, which covers a large chunk of the Bill. As the Minister set out, the proposals are mainly non-contentious and are, for the most part, supported by the insurance industry. He explained well that the provisions represent the downstream consequence of the transposition into UK regulations of the European directive on insurance and life insurance capital adequacy, known as solvency II.

Although it is tempting to debate the wider merits and pitfalls of the solvency II regime—there are serious concerns about the impact of those changes on pensioners, on those paying premiums for their life insurance products, and on annuitants whom the changes may hit—it would not be appropriate to dwell excessively on those bigger questions at this juncture. We are debating today how Her Majesty's Revenue and Customs calculates the taxes that our UK insurance companies ought to pay. As I understand it, and as the Minister has said, there are no substantive changes to the amount due from the sector. Insurance firms have not made any strenuous representations against the clauses and support parts of the changes.

In essence, our understanding is that the clauses preserve roughly the same quantum of tax revenue from the sector, but empower HMRC to use new means of calculating the sums due. The Financial Services Authority currently receives data about insurance and company transactions, and balance-sheet information, in a form that fits old regulatory requirements and the returns that were submitted, so that those can be properly monitored. Solvency II fundamentally restructures the nature of the regulation, and the restructuring of returns to the FSA as a consequence is provided for in the Bill.

Although the clauses are not contentious in nature, I have one or two queries that I hope the Minister will address. He has partly answered my first question, but will he clarify what total revenue changes are anticipated from the different divisions of the insurance sector as a result of the reforms? Although the overall impact may not affect the current projections, are there any particular sectors in the insurance industry that the changes may affect more or less than others?

The Minister referred to this point in his comments, but will he clarify what the anticipated costs are of implementing the administrative changes, both to HMRC and the insurance sector? The alterations are complex and bureaucratic, and presumably their implementation will carry a cost. Will the Minister clarify what the impact assessment says on that point?

What does the Minister predict will happen to insurance company profits over the medium term? Will they be adversely affected by the double-dip recession? Is there any HMRC internal analysis of how that tax base may vary in the years ahead, either because of solvency II or because of other pressures on the sector in general?

Chapter 5 sets out the rate of tax applicable to with-profits policyholders' share of profits. What information will be sent to those with-profits policyholders on how their share will be taxed? Will it be left to customers to search that out for themselves, or will insurance companies be providing new information for them? I presume that no changes will be made to taxation at source—PAYE and so on—but will the Minister confirm that?

Will the Minister elaborate on clause 112 in chapter 6, in which there is a change to the indexation return on gilt-edged securities? Is this connected to the Government's changes in indexation from the retail prices index to the consumer prices index, or are there other explanations? In chapter 8 there are provisions affecting overseas insurance firms that do business in the UK and across the EU. Are these changes likely to affect the competitive ability of firms, whether British or from abroad, to trade and do business in the UK?

Finally, in chapter 12 there is a set of powers to be granted to the Minister to make changes to the legislation through secondary legislation. Can the Minister assure the Committee that any statutory instruments that substantially change the terms of life assurance business will require an affirmative resolution and will need to be approved by a vote on the Floor of the House, rather than being dealt with by negative resolution?

Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): It is a pleasure to be back in Committee, and I am looking forward to our debates under your chairmanship, Mr Bone. I refer Members to my entries in the Register of Members' Financial Interests in relation to the Co-operative and my membership of the Kilmarnock football club supporters' trust.

I shall speak to amendment 195 to clause 151, and amendment 196 to clause 152. As Members will be aware, friendly societies and mutual insurers have been around for hundreds of years, and the early meetings of the friendly societies were often social gatherings at which people paid their subscriptions. We can therefore say that there is nothing new in the big society and people coming together to work for the benefit of themselves and their communities. Also, those of us in what is described as the Facebook generation may note that friendly societies were a very early form of social networking, with people coming together to share common interests. People joined friendly societies in large numbers, and over time the friendly societies and mutuals began to represent specific trades and professions. By the late 1800s, I understand that there were around 27,000 registered societies.

It is important to recognise that friendly societies and mutual insurers were often the only way working people could ensure that they had help in their old age, or in times of ill health. In those days, having no income often meant a life of begging or the poorhouse, and the importance of mutual societies to their members, given the tremendous social service that they provided, and that people provided for themselves and their communities, cannot be overstated. Of course, that is why successive Governments encouraged membership of those societies. Membership did drop off, perhaps as a result of the introduction of the welfare state, but even as recently as 1995 over half of the UK insurance industry was in mutual ownership.

I am one of those who regret the fact that a lot of time had to be spent defending the principles of mutuality and trying to ensure that people did not make a fast buck out of demutualisation—that is a debate for another day—but we have to recognise that large-scale demutualisation contributed to shrinkage of the sector. Today there are fewer than 300 friendly societies and mutual insurers, with a mutual share of around 5 per cent. of the UK insurance sector. Nevertheless, the ethos of those remaining societies remains consistent with their origins: the aim is to help people take better control of their finances within an organisation that is run for, and owned by, its members. We may not have the quantity of organisations now, but I would argue that we certainly still have the quality.

As we know, many mutual organisations are very proud of their heritage, and of providing members with the savings plans, mortgages and insurance that they need. Of course, the mutual sector nowadays is diverse. Arguably, organisations such as housing associations, various local community clubs, credit unions, employee-owned bodies and specialist organisations such as football supporters' trusts and community mutuals are following that long heritage and tradition, and we are also seeing the development of new mutuals in the public sector—NHS foundation trusts, leisure trusts, co-operative schools and community housing—some of which have been controversial.

The important point—I shall explain later why I stress this—is that the mutual philosophy is built on a sense of ownership, and of members belonging to an organisation and trusting it to work in their best interests and for the interests of the wider community; it also allows participation in the democratic process.

As mutuals are of course owned by their members, they do not have obligations to external shareholders. They are free to focus entirely on their members' needs and are a successful business model. As we have heard, there are mutuals within all sectors of financial services—banks, building societies, the friendly societies that these clauses refer to, insurers and health care providers. They can offer savings and investments—more recently they have been focusing on children's savings—and mortgages, pensions and health care. It is estimated that the mutual sector in the UK accounts for over £95 billion in revenue, and affects in one way or another the life of one in three UK citizens. Around 20 million people in the UK are estimated to be members of at least one mutual, and over 900,000 people are working in the sector. Globally, mutuals' aggregate turnover is equivalent to the world's 10th biggest economy.

To come to the issue of the clauses and the part of the Bill that are before us, as we have heard from the Minister, friendly societies are treated for the purposes of corporation tax in the same way as life insurance companies, but with a number of modifications to reflect their special status—that is, they are not taxable on their trading result and some of their business is exempt. As we have heard, this treatment is reproduced in the new legislation by excluding them from the definition of an insurance company for the purposes of part 2 of the Finance Bill—the rules applicable to insurance

[Cathy Jamieson]

companies. Part 3 re-extends the rules applicable to insurance companies to friendly societies within specific limits and with specific modifications.

Clause 151 provides that the long-term business of a friendly society will be taxed in the same way as that of a mutual insurance company, but with a subsection providing for exemptions, which are dealt with in clauses 153 to 169. There is also a subsection allowing for secondary legislation to provide exceptions to the mutual life insurance treatment and modifications. As we have heard, those measures reproduce existing legislation, under which regulations have been drawn up, as is permitted by the clauses, taking into account the fact that the regulatory terminology for friendly societies may well be different from that for life insurance companies.

In a number of cases, there are additional categories of business to which the investment returns must be apportioned, and regulations are required so that the appropriate tax rules can be applied to friendly societies. The Minister talked about the consultation on the regulations. Those regulations have to be recast entirely, because the primary legislation to which they point is, of course, different. There are a number of important issues to consider under those rules. I am pleased to see that the new legislation preserves the principle of mutuality in the same way as the current legislation does. However, some people might argue that there is nothing in the primary legislation to prevent secondary legislation from excluding certain categories of business that HMRC perceives as being not bona fide mutuals. It could be argued that this risk is already present under the current legislation. I think I heard the Minister give a commitment to the mutual sector, but it would perhaps be helpful for him to restate an assurance that if any risk to that principle appears, he will ensure that the secondary legislation deals with that, so that the principle of mutuality is not in any way undermined. I am sure that, in his discussions with the industry, that will be taken forward.

I understand that HMRC, in the context of the present reforms, is not envisaging any general policy changes towards friendly societies, which is helpful. As the Minister said, there is an improvement in the way the proposals in the Bill are being taken forward, in particular as regards simplification. Under the new legislation, all gross roll-up business, pension business, overseas life assurance business, life reinsurance business, individual savings accounts and child trust funds are to be taxed on the basis of their real trading profits, rather than, as the Minister said, under the I minus E system. Therefore a friendly society will no longer need to prepare trading computations for those businesses, as the profits will simply be ignored for corporation tax purposes, hopefully making life simpler.

11 am

The exemptions from corporation tax on income and gains attributable to certain classes of business are all preserved, particularly for unregistered friendly societies with income not exceeding £160 a year, in clause 171. Certain categories of long-term business, with current limits and conditions for exempt life assurance businesses, are dealt with in clauses 153 to 162. Part 2 also changes the way income gains and profits are apportioned between business categories as of 1 January 2013, and replaces the current rigid formulae with a new, more realistic commercial allocation method. That means that friendly societies, which also fall within the new rules by virtue of being treated in the same way as mutual insurance companies, will have to agree the new method with HMRC as early as possible. I understand—again, the Minister referred to this—that the industry does not feel that this will be a particular problem. Indeed, the changes are considered welcome improvements.

The transfer of business rules applicable to life assurance companies are to be applied to friendly societies. Again, this is broadly in line with the current rules and is particularly important for preserving continuity. There is a new targeted anti-avoidance rule applicable to life insurance business transfers where one of the main purposes of entering one-on-one arrangements is to secure a tax advantage. There is a clearance procedure to pre-empt its application. By virtue of clause 152, this will extend not only to transfers of engagement between friendly societies, and to transfers between insurance companies and friendly societies, but to amalgamations of friendly societies or their conversion into insurance companies. As I understand it, that is intended to be widely cast because of the tax planning opportunities represented by such projects.

Generally, we think that the primary legislation proposed would have its intended effect. Schedule 18, which makes a number of consequential amendments, carries through the new rules to the rest of the tax legislation. I understand that no questions have been raised by the industry on it. Schedule 19 provides for continuity between the current legislation and the new rules, and it looks as though that will work as intended. However, I want to mention a couple of areas where we have concerns, and which we want the Government to monitor. I heard what the Minister said about that, and why he believes our amendments are not necessary.

We tabled our amendments because there is some concern that the regulations relating to clauses 151 and 152 may have a retrospective effect. Given the potential vulnerabilities relating to mutuality and the transfer of business considerations, we simply want the Government to be required to consult with industry and to lay a review of the impact of any changes in the Library. I appreciate that there are further opportunities to modify the legislation to prevent any emerging unfairness via the regulations drawn up under clauses 151 and 152. I am sure that the Minister will give us an assurance that he will work carefully to deal with the differences in terminology relating to issues pertaining to friendly societies and to the wider mutual insurance sector. Although the general principles and most of the clauses we are considering are largely not contentious, past experience suggests that there tends be less scrutiny of the wording of secondary legislation, so there is perhaps all the more reason to consult on that and bring it forward, as the Minister has done.

The Minister referred to the fact that there is a theme running through our amendments. Hopefully the Government will appreciate that that theme is there because we believe in the importance of consultation and proper scrutiny. I will wait for the Minister's response before deciding whether to press the amendments to a Division.

John Mann (Bassetlaw) (Lab): Having gone through the previous clauses almost litigiously, we now appear to be rushing at a huge rate, taking vast amounts of the Bill in one go, rather than giving it the line-by-line, word-by-word and comma-by-comma scrutiny that would be more appropriate to a legislature with 650 Members.

The Chair: Order. The hon. Gentleman might not have been here at the beginning of the sitting, but that point has already been discussed.

John Mann: Thank you for that information, Mr Bone.

On the question of unintended consequences, if we think back to the last Finance Bill, we may recall what happened when the draw-down pension issue failed to be identified. Some 300,000 pensioners across the country are now losing, in the case of my constituents, 60% of their pension, not because the Government wanted to victimise those hard-working, successful business people who had invested in private pensions, but because, somehow, changes sneaked into the Finance Bill had unintended consequences. Someone, doubtless a mandarin in the Treasury, got it wrong. One can forgive Ministers for not being on top of every minute detail. Looking at the level of detail in these clauses, one does not envy Ministers who are attempting to understand every jot and tittle.

Jacob Rees-Mogg (North East Somerset) (Con): Again, it is a pleasure to serve under your chairmanship, Mr Bone. I am extremely concerned that the hon. Member for Bassetlaw is undermining ministerial responsibility, which is a basic principle of our constitution. I have great confidence that the Ministers represented here know every detail and sentence of the Bill.

John Mann: I would take the hon. Gentleman more seriously if he had not voted repeatedly to allow the European Union to impose its will on this Committee and this Parliament in setting British taxation levels, which is a choice that he and others have made during our proceedings.

Mutuals and friendly societies are, of course, the big society writ large. We have another name for them: trade unions. That is what the big society is all about, and it is a shame that, in the raft of legislation they have introduced, the Government have not learned from the mistake of the previous Labour Government, who failed to give those friendly societies known as trade unions proper authority on issues such as pensions.

An interesting observation on the financial crisis is that those European countries that allow the trade unions a proper stake in insurance and pensions, because of the tripartite arrangements that were started post-war, are those where the financial institutions have been more robust. Sweden, Norway and Denmark, as opposed to Iceland—the one member of the so-called Scandinavian bloc that went in a different direction after the war—have been more robust, as have the Netherlands and, ironically, small, little Belgium. That key factor warrants further examination.

The Government have not brought forward a whole raft of legislation to correct that anomaly in Britain's financial sector, which is a shame because that would do much to underpin a vibrant, strong and consumer-trusted financial services sector in this country. That is not the question before us, however, so it is a matter for another day.

Looking at what is now emerging from the Budget, one finds that a toast tax and a storage tax were hidden away. Every day a new covert tax on the British people emerges that the Government have failed to outline. Are any such covert taxes that we need to know about hidden in these clauses? Will the provisions have any unintended consequences?

I appreciate, to return to my introductory remarks, that that creates a dilemma for the Minister, who is assiduous without question among all Government Ministers. Ministers have had to cover for the Chancellor repeatedly by doing U-turns on his behalf, and there is no question but that a job swap would be in the interests of the Government, the political party concerned, and the country. I recommend that instantly to the Minister's Chief Whip, who is not here, and to those with such powers, but—

The Chair: Order. Can the hon. Gentleman tell me what particular schedule or clause that relates to?

John Mann: Clause 55, Mr Bone, and the consequential amendments. In all seriousness, I am developing an argument to support my point. What will the Minister do if, over the next year, unintended consequences emerge that he cannot outline, by definition, because amendments have not been made at the Committee stage? That is the point of comparison with draw-down pensions. The Government and Ministers appear paralysed when acting to correct an error, whether they are hiding behind their red boxes or behind good, earnest civil servants from Brussels. Ministers are hiding away when it comes to correcting a major, technical anomaly created by the previous Budget. They do not know what to do and are therefore not coming forward, even to instigate debate on what we, the legislators, might advise them to do to get out of the hole that they have created.

With this complex area, if unintended consequences emerge in the next 12 months, will the Minister tell the Committee the precise course of action that he will undertake, so that we can be reassured? If we collectively do not spot something in the provisions today, but a problem emerges later because of the technical complexity, we need a guarantee that the Minister will bring the matter to the House instantly to give us the opportunity to correct any errors.

Mr Hoban: Let me first correct an error made by the hon. Gentleman, who presented a rosy view of countries where there has been strong trade union representation and a tripartite system of pensions. I remind him, however, that not only was Belgium without a Government for 535 days, but in Denmark, we have repeatedly seen bank failures, and cross-border bank failures have happened in Belgium and the Netherlands. Perhaps the hon. Gentleman was late because he was studying those matters in more detail, and if so, I recommend that he is late for this afternoon's sitting too, so that he can pay a bit more attention to what has happened in such havens of trade union-engendered stability. As you might ask me what clause that relates to, Mr Bone, the answer is none of them, so I will deal with the questions raised so far in the debate.

[Mr Hoban]

The hon. Member for Newcastle upon Tyne North asked whether any particular parts of the industry would not be affected. We do not calculate the tax impact in that level of detail, but we have sought to consult fully with the industry to ensure that we get the rules right. There was the process of consultation that I set out, and we have tabled amendments to the Bill at this stage in order to deal with some unintended consequences, so when such problems are found, we listen, as the hon. Member for Bassetlaw will be pleased to know, and we try to get them right.

The hon. Lady also asked about the Bill's impact, in terms of burdens on businesses. Although there will be some one-off familiarisation and training costs for tax specialists, the measure simplifies the tax regime. Bringing the tax computations more closely into line with accounting procedures, rather than regulatory returns, will help to bring benefits to businesses in the long term.

11.15 am

The hon. Lady asked whether I could forecast the medium-term profits of life-assurance companies. I assure her that if I were able to do so accurately, my talents would be used down the river and not in this Committee Room. The profitability of those companies depends on returns on investments and, of course, the best help that we can give is to tackle the legacy we were left by the previous Government and create a more stable economy. I am sure she will welcome the fact that the consumer prices index fell today.

The hon. Lady asked whether these changes will make UK industry less competitive. I do not believe that these changes will damage the competitiveness of the UK insurance sector compared to foreign companies; that is why we have engaged closely with the industry in the design of this and will maintain close links with the industry and discuss the implementation and operation of the new regime regularly. Of course, industry is not slow to tell us when things are not going quite according to plan.

The hon. Lady asked whether it would require new information for policyholders. No new information is required for policyholders and there is no reason why it should have an impact on PAYE, upon which she sought clarification. The changes she referred to in the indexation of gilts had nothing to do with the RPI/CPI change. The hon. Lady asked about the process for parliamentary scrutiny of regulations. We are following the precedent set in previous legislation and the statutory instruments are by the negative procedure, but, of course, she and others are welcome to pray against those if she feels there is need for a debate on those statutory instruments. I look forward to that.

I can assure the hon. Member for Kilmarnock and Loudoun that Kilmarnock FC does not fall within the legislation, unless it happens to be a friendly society selling insurance products—I suspect not. The Government stand very firmly behind the ideals of mutual co-operation and support on which the friendly society movement and the mutual model generally are founded. All life companies and friendly societies have to be brought within the new rules, because the existing regime will no longer work for them under solvency II, but we have been very clear that we are not making any changes to the fundamental principles on which mutual insurers are based. We have made specific consultation arrangements for the mutual and friendly society sector in order to ensure that any particular concerns are fully considered, which is why I do not think that the hon. Lady's amendments are necessary. The fact that we are consulting with the sector at the moment demonstrates that they are unnecessary.

The hon. Lady asked whether the changes were necessary for friendly societies and whether they would have a disproportionate impact. If we were to maintain the existing regime for friendly societies, an additional set of computations would be required. Societies would need accounts under the solvency II regime and the existing regime. I do not think that that is efficient. We are able, as a consequence of this move, to cut the number of pages of regulations for existing friendly societies from 38 to 7; that is of use to them and I hope it is welcomed by them. The hon. Lady should be reassured, as the sector should be, that we will always consult on that. She raised the issue of the retrospective impact of the proposed instruments. Again, we are talking to the sector about those and should be able to clarify any concerns the sector has.

The hon. Member for Bassetlaw touched on pensions. There is some press coverage to suggest that some of the taxation issues related to solvency II will have an impact on pensions; that is not the case. With that, I hope that the Committee will see this large and capacious group of new clauses pass into legislation.

Question put and agreed to.

Clause 55 accordingly ordered to stand part of the Bill.

Clauses 56 to 125 ordered to stand part of the Bill.

Clause 126

Restrictions in respect of non-trading deficit

Amendments made: 135, in clause 126, page 76, line 13, leave out from 'any' to end of line 15 and insert 'relevant non-trading deficit which the company has for the accounting period.'.

Amendment 136, in clause 126, page 76, line 15, at end insert—

'(2) The reference to a relevant non-trading deficit for an accounting period is a reference to the non-trading deficit which the company would have under section 388 of CTA 2009 (loan relationships and derivative contracts) if credits and debits given in respect of the company's creditor relationships (within the meaning of Part 5 of that Act) were ignored.'.—*(Mr Hoban.)*

Clause 126, as amended, ordered to stand part of the Bill.

Clauses 127 and 128 ordered to stand part of the Bill.

Clause 129

Intra-group transfers and demutualisation

Amendments made: 137, in clause 129, page 78, line 19, at end insert—

'(5A) But if there is a difference between—

(a) the net amount recognised by the transferee in respect of the transfer of contracts of long-term insurance or contracts made in the course of capital redemption business, and

(b) the net amount recognised by the transferor in respect of the transfer of those contracts,

the amount of the difference is to be taken into account for the purpose of calculating the BLAGAB trade profit or loss of the transferee for the accounting period in which those contracts are transferred.

(5B) The difference is to be taken into account—

(a) as a receipt (if, when added to the net amount in subsection (5A)(b), the result is the net amount in subsection (5A)(a)), and

(b) as an expense (if, when subtracted from the net amount in subsection (5A)(b), the result is the net amount in subsection (5A)(a)).

(5C) The net amount recognised by an insurance company in respect of the transfer of the contracts is determined by subtracting—

(a) the total amount in respect of liabilities relating to the contracts that is or would be recognised for the purposes of a balance sheet drawn up at the relevant time by the company in accordance with generally accepted accounting practice, from

(b) the total amount in respect of assets relating to the contracts that is or would be recognised for those purposes,

and "the relevant time" means the time immediately before the transfer (in the case of the transferor) and the time immediately after it (in the case of the transferee).

(5D) The Treasury may by order amend any of subsections (5A) to (5C).'.

Amendment 138, in clause 129, page 78, line 19, at end insert—

'(5E) This section does not apply to any amount that arises in respect of a transfer so far as the transfer consists of a with-profits fund transfer.

The reference here to a with-profits fund transfer is a reference to—

(a) a transfer of business from a with-profits fund to a fund that is not a with-profits fund, or

(b) a transfer of business from a fund that is not a with-profits fund to a with-profits fund.'.—*(Mr Hoban.)*

Clause 129, as amended, ordered to stand part of the Bill.

Clause 130

TRANSFERS BETWEEN NON-GROUP COMPANIES: PRESENT VALUE OF IN-FORCE BUSINESS

Amendments made: 139, in clause 130, page 78, line 27, at beginning insert 'either'.

Amendment 140, in clause 130, page 78, line 28, at end insert 'or, if they are, the transfer consists of or includes a with-profits fund transfer within the meaning of section129(5E),'.

Amendment 141, in clause 130, page 78, line 31, leave out 'business (or part of the business) transferred' and insert 'relevant transferred business'.

Amendment 142, in clause 130, page 78, line 38, at end insert—

'(2A) In subsection (1)(c) "the relevant transferred business" means—

(a) if the transferor and transferee are not members of the same group of companies when the transfer occurs, the business (or part of the business) transferred under the insurance business transfer scheme, and

(b) if the transfer consists of or includes a with-profits fund transfer, the business transferred by the with-profits fund transfer.'.

Amendment 143, in clause 130, page 78, line 41, leave out from 'apply' to end of line 42 and insert 'so far as section 129(5) applies in relation to the transfer.'.—*(Mr Hoban.)*

Clause 130, as amended, ordered to stand part of the Bill.

Clauses 131 to 146 ordered to stand part of the Bill.

Schedule 16

PART 2: MINOR AND CONSEQUENTIAL AMENDMENTS

Amendment made: 144, in schedule 16, page 388, line 41, leave out paragraph (c) and insert—

'(c) in step 2, for paragraph (a) (together with the "and" at the end of it) substitute—

"(a) so much of the amount for the purposes of section 73 of FA 2012 of the adjusted BLAGAB management expenses of the company for the period as, on the assumption that the company had no BLAGAB non-trading loan relationships profits for the period, could be subtracted at step 6 under that section without producing a negative amount, and",'.—*(Mr Hoban.)*

Schedule 16, as amended, agreed to.

Clause 147 ordered to stand part of the Bill.

Schedule 17

PART 2: TRANSITIONAL PROVISION

Amendment made: 145, in schedule 17, page 417, line 8, leave out sub-paragraphs (2) to (5) and insert—

'(2) Each new holding is treated for the purposes of corporation tax on chargeable gains as if it were a holding of the company with a base cost and an indexation allowance as at 1 January 2013 equal to the total of the base costs and indexation allowances of the old holdings that are carried into the new holding.

(3) In the case of securities ("new securities") comprised in a new holding, the amount of the base cost or indexation allowance of an old holding that is carried into the new holding is equal to the proportion which the new securities derived from the old holding bear to all of the securities comprised in the old holding.

(4) For the purpose of calculating the indexation allowance of a new holding in respect of any period falling on or after 1 January 2013, it is to be assumed that, on that date, there had been a disposal of the holding for a consideration of such amount as would secure that on the disposal neither a gain nor a loss would accrue to the company.

(5) For the purposes of this paragraph—

(a) references to a base cost are—

(i) in the case of a section 104 holding, references to the amount of qualifying expenditure within the meaning of section 110 of TCGA 1992, and

(ii) in the case of a 1982 holding, references to the amount of expenditure that would fall to be deducted if the holding were disposed of,

(b) references to an indexation allowance are—

(i) in the case of a section 104 holding, references to the indexation allowance as found in accordance with section 110 of TCGA 1992, and

(ii) in the case of a 1982 holding, references to the indexation allowance within the meaning of Chapter 4 of Part 2 of that Act,

(c) the base cost and the indexation allowance of an old holding are calculated on the assumption that the holding is disposed of immediately before 1 January 2013,

(d) "section 104 holding" has the same meaning as in section 104(3) of TCGA 1992, and

(e) "1982 holding" has the same meaning as in section 109 of that Act.'.—*(Mr Hoban.)*

Schedule 17, as amended, agreed to.

Clauses 148 to 176 ordered to stand part of the Bill.

Schedule 18 agreed to.

Clause 177 ordered to stand part of the Bill.

Schedule 19 agreed to.

Clauses 178 and 179 ordered to stand part of the Bill.

Clause 180

Controlled foreign companies and foreign permanent establishments

Stephen Williams (Bristol West) (LD): I beg to move amendment 2, in clause 180, page 105, line 19, at end add—

'(2) Notwithstanding the provisions of Part 4 of Schedule 20, the Schedule will not come into force until a full impact assessment has been prepared in conjunction with the Department for International Development reviewing the effect on developing countries' tax revenue, and details of aid and technical assistance being provided to developing countries in order to increase the capability and technical expertise in their tax regimes to collect the taxes that are due in their countries, has been laid before and approved by the House of Commons.'.

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

Clause stand part.

Government amendments 46 to 51, 146, 52 to 56, 147, 57 to 59, 187, 60 to 110, 188 and 189 and 111 to 113.

Amendment 3, in schedule 20, page 520, line 31, at end insert—

'42A Notwithstanding the provisions of this Part, this Schedule will not come into force until a full impact assessment has been prepared in conjunction with the Department for International Development reviewing the effect on developing countries' tax revenue, and details of aid and technical assistance being provided to developing countries in order to increase the capability and technical expertise in their tax regimes to collect the taxes that are due in their countries, has been laid before and approved by the House of Commons.'.

Government amendment 114.

Amendment 190, in schedule 20, page 522, line 2, at end insert—

'(3) HM Treasury and HM Revenue and Customs shall publish an assessment of the implementation and impact of the changes made in this schedule each year from commencement for the first three years of operation, including—

(a) the impact of the changes on developing countries and whether any further aid or technical assistance needs to be provided to those countries to safeguard their tax revenues;

(b) the cost of the changes to the Exchequer and whether they are consistent with HM Treasury forecasts;

(c) whether the rules operate as expected and provide certainty to companies.'.

Government amendments 115 to 117.

That schedule 20 be the Twentieth schedule to the Bill.

Stephen Williams: It is a good job that I was not late to the Committee this morning otherwise I may not have realised that we were getting to this clause with such haste. Our movements so far have been at a glacial pace, and I thought that it would safely be Thursday or even next week before we reached amendment 2, which I tabled many, many weeks ago and the briefing of which I read many, many weeks ago. This is a confessional moment; I have not picked up my red box, which is located behind your dais, Mr Bone, and the briefing and notes on amendment 2 are lurking within that box. With the indulgence of the Committee, I hope that you will bear with me as I talk briefly to the amendment, while trying not to turn too red in the process. Inspiration on the Front Bench may well be forthcoming, but I will try to do without it and read the amendment—if I can find it in that red box while my hon. Friend helps me out—but it might be a bit difficult.

The purpose behind this amendment was to strive for joined-up government, in particular between Her Majesty's Treasury and the Department for International Development. We all know that it was a goal of all three principal parties at the last general election to ramp up the proportion of overseas aid that our country spent as a proportion of GDP to 0.7% by a target date of roughly 2013, though there was some variation in this. This coalition Government have committed to doing that, and we will be the first major economy in the world to get to that goal of 0.7% of GDP.

That investment will be made in developing countries around the world and we want to make sure that the investment on behalf of British taxpayers is well made. The reason why I am discussing this in a Finance Bill is that some of the decisions that we make in this Bill have repercussions beyond our own shores. Clause 180 is about controlled foreign companies, which is something I used to work on in my previous career many moons ago, before I became a Member of Parliament. The regime changes that are proposed by clause 180 and schedule 20 will have an effect on the ability of overseas Governments to collect their own taxes. The purpose of this amendment is to encourage strongly the Treasury and the Department for International Development to co-operate on a cross-Government basis to build the tax gathering capacity of overseas Governments to collect their own taxes.

The primary purpose of Members of Parliament and of this Committee is to be guardians of our own public expenditure. I am sure that my hon. Friend sitting next to me would say that it is possibly the primary duty of all Members of Parliament and the House of Commons to safeguard the public purse, make sure that money is well spent and protect our tax base. So I understand why the Treasury is putting forward the amendments to the existing controlled foreign companies regime, in order to protect the UK tax base and to increase it by bringing back to the UK companies that have perhaps chosen to structure their activities in other regimes. What I am trying to draw attention to, without the inspiration that appears not to be in my box after all—it is probably in another folder in my office—is a briefing from the coalition of charities. I should mention ActionAid and Christian Aid, which are charities that I am sure that all members of the Committee would support. They are part of the inspiration for this amendment and were going to brief some members of this Committee tomorrow, though that briefing will no longer be necessary. I give way.

John Mann: I am glad to hear that he is so inspired. Since the coalition Government came in, a new country has been created in South Sudan, which by definition therefore cannot have had any tax infrastructure. How precisely and within what time scales would this amendment impact on British assistance to South Sudan in terms of their taxation system?

Stephen Williams: I thank the hon. Gentleman for his intervention. Clearly I cannot answer in great detail. I am not an expert on the situation in South Sudan, but it is a good question as to how a new state starting from scratch will need to build up its governance in all areas, whether in the military, the treasury or its tax-gathering capacity.

John Mann:. I clearly was not explicit enough in my question and the hon. Gentleman may not have fully understood. How precisely would this amendment, if passed, assist that process?

Stephen Williams: If this amendment were passed, it would require the UK Government, both through the expertise available within HMRC and through the development aid assistance that comes from the Department for International Development, to publish how they will work to increase on the ground the professional capacity of overseas states to collect the taxes that are properly due under their national laws.

The reason why I mentioned joined-up government in the context of an enormous increase in the Department for International Development's budget is that, given the budget pressures elsewhere, it would be perverse to increase the largesse that British taxpayers spread across the world while the foreign Governments who receive that increased assistance are unable efficiently to collect the tax revenues that they are due. That is the amendment's central purpose.

11.30 am

Sheila Gilmore (Edinburgh East) (Lab): The hon. Gentleman gave what he thinks might be the view of the hon. Member for North East Somerset, but is it not the case that, from a British point of view, if developing countries lose a lot of tax income, that has a direct impact on us, not least through the aid budget?

Stephen Williams: Exactly. The hon. Lady reinforces my point. I am sure we are all in favour of joined-up government. We know that the Department for International Development will be spending more money, whether in South Sudan or in other parts of Africa and Asia, on education programmes, maternity programmes and all the other aid programmes on which we would want to spend that budget.

Of course, we want all those countries to be in a position to grow their own economy and to collect their own taxes so that they can stand on their own two feet and fund Government programmes to further the development of their population, to increase confidence that they can be well run and democratised, and to allow people to make the rational choices, or perhaps the irrational choices, that we make every five years in our own elections, which are conducted on issues of tax and spend. At the moment, many of those countries are in a relationship where much of what their Governments do is essentially done because foreign Governments, such as ours, or international agencies, such as the United Nations or the European Union aid programme, make those basic services possible.

I am sure we would all want to reach a position where overseas countries are able to fund their own programmes, but Governments cannot fund programmes if they cannot collect efficiently the taxes that they have decided are due from businesses that operate in their country, whether those businesses are in the extractive industries or in more advanced secondary industries.

I look forward to the inspired response of my coalition colleagues on the Treasury Bench, particularly on how the Treasury, with the professional expertise of HMRC available to it, will advise overseas Governments on the possible impact of the amendment and the clause.

Nigel Mills: Does my hon. Friend agree that schedule 20 would be a terrible way for developing countries to run their own tax regimes, with 97 pages of extremely dense and complex legislation that even experts cannot follow and that has taken years to produce? A simpler and more understandable tax system might be better.

Stephen Williams: My hon. Friend makes an excellent point, with which I am sure we would all concur. Britain has given many things to the world, including to parts of the country that we used to run, such as the rule of law and parliamentary democracy. Indeed, we have even given many parts of the world better electoral systems than we have in this country. One thing I hope we do not give to the rest of the world is the capacity for legalese, very fat Finance Bills and ponderous legislation that we all have to endure as Members of the House of Commons. I look forward to hearing from my colleagues on the Front Bench how the Treasury will be able to work alongside DFID to advise foreign Governments on the repercussions of the clause and, more generally, to consider how we can increase the tax-gathering capacity of overseas Governments so that they can raise their own resources and will not in future be so dependent on allocation of resources from other states.

The Exchequer Secretary to the Treasury (Mr David Gauke): It is a pleasure to serve under your chairmanship, Mr Bone. I note that amendment 2 is grouped with the clause stand part debate and the various other amendments relating to it. I will seek to address all the points relating to clause 180 and schedule 20 as well as the relevant amendments.

Clause 180 introduces new controlled foreign companies rules, which are a key part of our corporate tax reforms. Together with the reduction in the rate of corporation tax to 22% in 2014 and the introduction of the patent box, these reforms are another step towards our aim of creating the most competitive corporate tax system in the G20, a tax system that will provide the right conditions for business investment and growth in the UK. The CFC rules are designed to protect the UK tax base from artificial diversion of profits. The reforms will ensure

[Mr David Gauke]

that this is done in a way that reflects modern, global business practices, significantly reducing the compliance burdens of business.

Reform of the UK's controlled foreign companies rules is frequently identified by multinationals as the key priority needed to improve the UK's tax competitiveness and to ensure it remains an attractive place to do business. The UK needs CFC rules to protect against artificial diversion of UK profits to low-tax jurisdictions. The CFC rules were introduced in 1984 and we have accepted that in an increasingly global economy, it was time to reform and modernise these rules. Business also believes that reform is needed, a view so strongly held that some businesses were starting to leave the UK.

In November 2010 we published the corporate tax road map, which set out our plans to give businesses a competitive and stable tax system that provides the right conditions for investment in the UK. Since then we have cut the main rate of corporation tax, most recently to 24%, and this will continue to fall to 22% by 2014. Last year we introduced an opt-in exemption for foreign branches of UK companies and made interim improvements to the CFC rules.

John Mann: Will this have a direct impact on the British football industry? One does not even know who owns certain football clubs at the moment. Is there anything in the provisions that will improve the tax take and therefore, indirectly, the transparency of the British football industry?

Mr Gauke: No. There has been considerable consultation on this matter. We have received representations from a number of sectors, but I am not aware of any representations from the football industry. Perhaps if I can develop my remarks and set out the role of CFCs, it may help the hon. Gentleman and the Committee more generally. I think he will see that CFCs are not likely to be relevant to the ownership of football clubs. This is with regard to multinationals with entities that are based outside the UK.

In this Finance Bill, alongside the reforms to the CFC rules, we are also introducing a patent box to encourage innovative activity in the UK. Following extensive consultation, we have developed detailed proposals that meet our policy aims, and we are now putting them into statute. Since we embarked on CFC reform, the flow of businesses leaving the UK has been stemmed. Indeed, recently we have seen businesses wanting to return to the United Kingdom, or coming here for the first time.

Catherine McKinnell: The Minister said that the flow of businesses out of the UK had been stemmed. Can he clarify what that flow has been?

Mr Gauke: The hon. Lady will be aware of a number of entities that left around 2007-08. Indeed, those of us who have been debating these matters for some time will remember the debate we had at that time, as a number of companies left the UK. The entities that are returning include WPP, which recently announced that it was looking to return to the United Kingdom. I am delighted to say that Rowan and Lancashire have already come here. Once the rules are in place in 2013, we anticipate that more businesses will follow.

Catherine McKinnell: The Minister refers to "a number" of companies. Will he specify what that number is? Were the businesses that have agreed to locate in the UK the same ones that moved out of the UK?

Mr Gauke: The likes of WPP, Shire and UBM have re-domiciled out of the United Kingdom, and there is significant interest in their return. It is clearly in the interest of the UK economy to have head offices located here. It is helpful to have decision makers based here. If head offices are already based here, the UK becomes a more attractive location for others. The cluster effect caused by having expertise in the UK will have beneficial knock-on effects. Clearly, it was damaging for the UK economy when companies such as WPP, UBM, Shire, Rowan and Lancashire moved away. I am sure that both sides of the Committee welcome the return of such companies. I will say a little more about that in a moment.

I return to amendments 2 and 3, which have been tabled by my hon. Friend the Member for Bristol West. He made a remarkably fluent speech in the circumstances. *[Interruption.]* I will try to resist responding to that suggestion by my hon. Friend the Member for Poole that it might have been better than the speech that was prepared. None the less, I think that my hon. Friend the Member for Bristol West set out well the case for the amendments, which ask the Government to prepare an impact assessment on the effects of clause 180 and schedule 20 on developing countries' tax revenues. Amendment 190, which we have not yet debated, also asks for such an assessment to be made each year from the commencement of the rules and for the first three years of their operation.

11.45 am

However, as I explained recently to the International Development Committee, it is not feasible to produce the assessments proposed by either of the amendments. Any assessment of the impact of CFC reform on developing countries would need to focus on, and would require, a full understanding of the interaction between multinational companies and the tax regimes in the developing countries in which they are located. It would be an assessment, not of our tax rules but of the tax rules of a range of other countries.

While this Government do not think that any such assessment would be feasible, they are committed to ensuring that developing countries have the assistance they need to make sure that their own rules reduce tax avoidance and protect their tax base. Our corporate tax system is not the best way to help those countries. It is designed to protect the UK's tax base, not those of other countries. The key issue is ensuring that developing countries have effective systems that build and protect their own tax base and to ensure that they can access and act on tax information. These amendments also ask for details of aid and technical assistance being provided to developing countries to improve their tax regime.

Grahame M. Morris (Easington) (Lab): Could the Minister clarify that? If there is a UK-based company with one subsidiary in a tax haven and another in a developing country, presumably at the moment that developing country would be protected from loss of tax revenues if that company relocated the business in a tax haven. That is because the UK tax law would be caught in our net, but with these changes, presumably that protection will no longer be afforded. The hon. Member is shaking his head, but this is what the NGOs ActionAid and Christian Aid are saying. I would be interested in the Minister's view of whether that is a correct assessment.

Mr Gauke: I understand the point that the hon. Gentleman makes. We do not believe that the estimates produced by some of the NGOs in this area are accurate. If he would like, I will spend a moment or so saying why those assessments are not accurate. For example, ActionAid estimates a £4 billion impact on developing countries. It is worth pointing out how that calculation was reached. It was based on financial data from only 10 UK multinational companies. ActionAid assumed that companies were liable to pay the headline rate of tax in that country and concluded that a fifth of the tax base of developing countries would be lost. We do not see the evidence for that. The difficulty with this assessment is that it seems to take no account of the fact that many developing countries offer tax holidays or incentives to foreign businesses to encourage them to operate there. A common feature of developing countries' tax systems is reducing the corporate tax liabilities that are due. This means that there is often little incentive for companies to shift profits from developing countries to low-tax jurisdictions. I will give some examples of that, provided by PricewaterhouseCooper's assessment of international tax jurisdictions in its worldwide tax summaries. For example, headline rates are broadly 30% in Kenya, Rwanda and Tanzania, but those three countries provide for an effective 0% tax rate for companies investing in designated zones, subject to some conditions.

This is provided either in the form of a tax holiday or a 0% rate for 10 years, or indefinitely in the case of Rwanda. Kenya provides investment deductions of 150% for qualifying investments above a certain amount incurred outside Nairobi or the municipalities of Mombasa or Kisumu. Rwanda also grants tax incentives in the form of profit tax discounts. Broadly, these are based on the number of Rwandans employed. The rate of profit tax discount ranges between 2% for employing between 100 and 200 Rwandans to 7% where a company employs more than 900 Rwandans. The reason why I have digressed into that area is that none of that is taken into account in the ActionAid assessments. It assumes that the headline rate applies, and that is how it reaches its assumptions.

Ian Mearns (Gateshead) (Lab): The Minister mentions the ActionAid assessment. I read the ActionAid briefing on this issue with some interest. I am surprised that British companies, in which there are significant Government interests, have many hundreds of subsidiary companies in tax havens, including some of the large banks in which the Government hold a significant financial interest. RBS and Lloyds, for example, have many hundreds of subsidiary companies registered in tax havens. The vast majority of the electorate will be surprised, too. The Minister needs to think about how we are going to tackle this problem.

Mr Gauke: The hon. Gentleman makes two separate points. First, in respect of those companies with subsidiaries around the world in low-tax jurisdictions or, in some cases, tax havens, there are issues about our ensuring that we properly collect the tax that should be paid in the UK. The focus of the clause ensures that tax relating to profits made in the UK should be collected here, in a move towards a territorial system. We are determined to do that.

Secondly, the UK can play the most effective role in developing countries by not using our corporate tax system in trying to be the world's policeman. The CFC rules should, rightly, be focused on how we protect our tax base. If there is some benefit in the old CFC rules for developing countries, that is incidental and not what they were designed to do. We can and do help developing countries build up their capacity. In a moment, I will say a little bit about what we are doing in that regard.

Several hon. Members *rose—*

Mr Gauke: I give way to the hon. Member for Edinburgh East.

Sheila Gilmore: Having started by saying that it would not be possible or feasible to carry out an assessment of the impact of the measure, the Minister gave a considerable amount of information about how he thought that tax regimes would work. Is it so difficult to make that assessment? Given the information that countries have lower rates than we think, those regimes would not be that effective. Presumably, the information is there.

Mr Gauke: I was quoting the PWC worldwide summaries to demonstrate how complex the matter is. I set out in a brief summary some of the complexities in the Kenyan and Rwandan tax systems. Were we to attempt to make an assessment in the way requested in the amendments—I appreciate the good intent of the Committee members who tabled them—the challenge would be that, although HMRC or the Treasury might be capable of assessing how the UK tax system works, they do not have the information to get to grips with the complexity in other tax jurisdictions.

Mr Robert Syms (Poole) (Con): The Minister is explaining a remarkably complex, difficult area. Nevertheless, the hon. Member for Bristol West made some good points at the beginning, even without his notes. Might it be more beneficial to meet the Minister at some point, with representatives of the charities, to take this matter a little bit further? That might help. I do not think that we will decide much today about this complex area.

Mr Gauke: I reassure my hon. Friend that I have had meetings with ActionAid and Christian Aid on that subject, and the fact remains—there is no getting away from this—that the UK Government are not in a position to make an accurate assessment of the impact that changes to CFC rules will have on developing countries. Where such analysis has been done, it has been somewhat simplistic and with flaws in the methodology. We as a country can build up capacity in developing countries and make an effective contribution, and I will say a word about how we can do that in a moment.

Catherine McKinnell: In many ways, the point that I wished to make has been superseded by comments from my hon. Friends. It appears, however, that the Minister is making a powerful argument for amendment 190, which seeks to monitor the effect of these changes on an ongoing basis. Will the Minister clarify why he believes that it is not possible or appropriate—I am slightly unclear as to which the Minister means—for Her Majesty's Revenue and Customs and the Treasury to make an assessment at this stage of the impact that the changes will have on developing countries? We are talking in terms of such things being outside our jurisdiction, yet under the current regime and CFC rules, the tax affairs of companies in foreign jurisdictions that are controlled in the UK come within the interest and information collection remit of HMRC. I therefore wish to understand why at this juncture the Minister does not believe the measure appropriate or possible, and which of those he means.

Mr Gauke: First, our tax system is complex as it is, so let us not attach additional complexity. Its purpose is to collect tax that is due in the UK, and the focus pursued by this Government—which the preceding Government had already begun to look at—is on territoriality and the tax that relates to profits made in the UK. Our tax system is there to do that, not to be a world policeman.

Secondly, as far as analysis is concerned, let me again make the point that the impact of CFC reforms on developing countries will depend on the tax systems in those countries. HMRC and the Treasury do not necessarily have all the data and expertise to make an assessment for those countries, and that will depend on the policies of those countries which, as I demonstrated with the examples of Kenya and Rwanda, can change. Those countries put in place tax regimes to attract investment and be competitive, and that has a major impact on the implications of any policy in that complex area.

The information that I have provided on Rwanda and Kenya comes not from internally-sourced HMRC information but from work done by PWC. I understand why the amendments have been tabled and the good intent, but they ask for something that HMRC and the Treasury are not in a position to do with any great robustness. Robust analysis is not possible in that area.

12 noon

Nigel Mills (Amber Valley) (Con): Does the Minister agree that in trying to support developing countries to get their tax policy right, we should not accidentally clobber them with two things? First, if they give a tax holiday or tax waiver to a company to help it to invest in their country, a rich country such as ours should not then tax that profit through an anti-avoidance regime, so that all the incentive does is move tax from the developing country to the richer one.

Secondly, what often happens is that a company wants to set up a hub in a certain area, employ people, and make things there to service a market of neighbouring countries. We do not want the rules accidentally to stop that, so that we end up trying to tax that company because it is trading with five of its neighbours, instead of only in one territory. Rather than deal with the concerns that the amendment addresses, we need to get some other issues right, so that we do not stop such countries trying to attract the investment that they want.

Mr Gauke: My hon. Friend is absolutely right that we do not want to prevent investment in developing countries, and I do not believe that anything in the clause and schedule would do so.

Grahame M. Morris: I do not want to labour the point that the hon. Member for Amber Valley has touched on, but there was the suggestion that—the Minister gave the examples of Kenya and Rwanda—countries are doing something unusual to attract business investment by offering incentives, or tax disregards. Is that not what we do in the United Kingdom with enterprise zones? We forgo potential tax revenue in order to achieve economic activity, unfortunately not in County Durham, but in Oxfordshire or wherever the enterprise zones are declared. Is that not an established principle in the short term in order to generate activity for those developing counties? We surely should not be denigrating that.

Mr Gauke: The hon. Gentleman is absolutely right, and I was in no way criticising Kenya or Rwanda. My point was that some assessments in this area have assumed that headline rates will always be what is paid, and do not take into account that developing countries will often have tax incentives to encourage investment. I am not critical of that in any way; it is very much a decision for the relevant developing countries. They recognise the need to be competitive in tax terms. All I am saying is that some analysis in this area has been somewhat simplistic, and has assumed that it is always the case that the headline rate applies for every pound of profit made, but that does not accurately reflect what happens in developing countries.

It would be relevant to the debate to explain a little about the support that the UK provides through the Department for International Development and HMRC to provide robust, fair and sustainable domestic taxation systems in developing countries. Our priorities for achieving that are capacity building, improving the exchange of tax information, and increasing transparency in the extractives sector to address corruption.

T o outline some specific examples for the Committee of our work in that area, in Burundi, through DFID support from January to June 2011, revenue collection was 37.4% above the level for the same period in the previous year. Through the twinning of HMRC and the Ethiopian Revenues and Customs Authority, the UK has helped the accountability, political neutrality and transparency of revenue collection in Ethiopia. From 2002 to 2011, tax collected in Ethiopia increased by 700% in absolute terms. We also support the African Tax Administration Forum by providing technical support; for example, we send tax experts to train staff on the ground, particularly in the area of transfer pricing.

Earlier this year, HMRC hosted senior officials from the Uganda Revenue Authority in order to share knowledge and experience of risk and intelligence techniques. HMRC has delivered technical assistance in Rwanda, covering the taxation of banks, construction and telecommunication companies. Through DFID, we have also provided funding to help Kenya and Ghana exchange tax information with other countries in line with global standards. The Government are supporting efforts to promote transparency and accountability in the extractives sector, and we are currently working through EU proposals on the transparency of payments made to foreign Governments by the extractives industry.

Such projects play a vital role in helping the Governments of developing countries to put effective tax policies in place and collect the tax they are owed, and I can put that in the context of the considerable efforts that we have made on overseas aid. Last year we spent 0.56% of our gross national income on overseas aid, and we are committed to spending 0.7% of GNI on overseas aid from next year.

Amendment 190 asks that the cost of changes to the controlled foreign companies rules be assessed to determine whether they are consistent with Treasury forecasts. The Exchequer impacts of the changes to the CFC rules are set out in tables 2.1 and 2.2 of Budget 2012, and the total cost of the changes is detailed in the Budget 2012 policy costings document. The total cost of reform is £910 million in 2018-19. As part of the Government's approach to better tax policy making, we are committed to improving transparency. The tax information and impact note or TIIN published in December 2011 and updated at Budget 2012 sets out the impacts of CFC reform. This measure will be monitored and assessed alongside other measures included in the Government's package of corporate tax reforms. However, the immediate impact of the reforms is clear from the reactions of business to the introduction of the regime. The changes have been widely welcomed, and have not only succeeded in halting the flow of companies from the UK, but have begun to reverse that direction of travel.

Catherine McKinnell: The Minister has said that the impact of the changes is immediately obvious from the reaction from business, but does he accept that other behavioural changes that may result from the measures in the short, medium and long term, in terms of organisations restructuring to take further advantage of the rules, could impact on the numbers?

Mr Gauke: Of course we have made various assumptions and assessments of the behavioural impacts of CFC reform, just as there are assumptions regarding the behavioural impacts of every tax measure. We believe that reform of CFCs is a very important part of tax reform to make the UK more competitive. As a consequence of CFC reform, we anticipate that more companies will be headquartered in the United Kingdom. Businesses will domicile here, and that is an asset to the UK economy. It is a very clear signal that Britain is open for business, which is something that I am sure Members on both sides of the Committee will welcome.

Catherine McKinnell: As I understand it, the Minister is saying that the positive figures in the Red Book, and the positive net effect of the changes, will mean increased revenue to the Exchequer as a result of companies relocating to the UK. Is that a correct understanding? It seems that the Minister is suggesting that by 2016-17 there will be a positive net effect of £35 million for the Treasury, as opposed to a reduction of £805 million. Those figures do not seem to add up to a significant net positive effect for the UK.

Mr Gauke: As far as the numbers and the costings are concerned, the changes in the various numbers we have seen from one iteration to another between December 2011 and March 2012 are to do with changes in the modelling and further evidence coming forward, as opposed to one number being a static cost and another taking into account the relocation of companies, if that is what the hon. Lady is suggesting. There is a cost within the scorecard, as I have made clear, because of the changes to the CFC regime, but we think that that is a cost that is justified by the increased competitiveness of the UK as a location in which to do business that is brought about by these changes.

There has been cross-party consensus on the need to address CFC reform. The previous Government commenced the process, and we on the Government Benches may be somewhat critical of the progress that they made, but we welcomed their desire—at least in their last year or two in office—to have a more effective and competitive CFC regime.

Sheila Gilmore: Will the Minister explain in more detail where the advantages are coming from? There is clearly a loss of tax, and the amount of tax that would be gained from such companies relocating would appear to be relatively small compared with that loss. Is the Minister's primary argument that there will be other advantages? Can he quantify those advantages?

Mr Gauke: More businesses will be domiciling in the UK as opposed to moving out, which is what they were doing in 2007-08. Those of us who were talking to tax professionals on a regular basis in those years heard horror stories about how many companies were considering relocating and how many multinationals were looking to move their offices out. That tide is now being stemmed and reversed. It must be good for the United Kingdom to have head offices located here and to have, for example, the likes of Aon, a US insurer, choose to locate its head office in the United Kingdom. The fact that senior staff are moved here and that decisions are made from here is beneficial to the reputation of the UK as a place to do business. There are benefits to having professional services firms locate here. The fact that the UK is seen as being the centre for businesses is one that I hope we would all welcome.

Catherine McKinnell: Will the Minister give way?

Mr Gauke: I am keen to make progress, but I will give way.

Catherine McKinnell: I thank the Minister for giving way again. He is simply responding in advance to some of the queries that I will raise when I speak to amendment 190, if you will allow me to do so, Mr Bone. The Minister talks about the benefit to the UK of such companies relocating their headquarters to the UK, but he still completely fails to provide any indication of the actual economic benefit. Obviously, the concept is good, but in the current economic climate, in which tax losses are estimated at £910 million—that could be conservative—and given that the potential impact on developing countries is as yet unquantified, it is important that the Government are able to set out an economic argument for the proposal.

Mr Gauke: As far as the costings are concerned, these are our central assessments, which have been signed off by the Office for Budget Responsibility. I have certainly received plenty of representations saying that the reforms will not cost as much as we anticipate, because the dynamic effect will be that much greater, and that more businesses and individuals, paying a lot in tax, will relocate here. That is our assessment, and it is a fair and reasonable one. The measures add to our competitiveness, in the same way that corporation tax rate cuts add to our competitiveness. They make the UK a place to which businesses from around the world want to relocate—I will say a little more about the emerging evidence for that—and they send a clear signal that Britain is open for business, which we should welcome.

12.15 pm

John Mann: I know that intellectual property rights are incorporated into schedule 20; are image rights incorporated, and if not, why not?

Mr Gauke: The hon. Gentleman is right to say that intellectual property rights are an important part of the CFC regime. I am not sure whether he is seeking to return to the issue of football clubs, because that is one area where image rights tend to play an important part. Perhaps I should say a word or so to confirm my earlier point that CFC rules apply to UK resident companies that have foreign subsidiaries. Football clubs do not tend to have those, so it is not clear whether the CFC legislation would have any particular impact on them, and there is no consultation response to suggest that it would.

Image rights as part of intellectual property rights more generally are included, but if the hon. Member for Bassetlaw is going to argue—it is not always easy to anticipate his arguments—that football clubs may establish foreign subsidiaries, that the image rights would be held in them, and that this would provide a tax break for them, I have to say that that is unlikely. Any artificial diversion of profits from outside the UK to elsewhere would be addressed in the anti-avoidance regime that applies to CFCs. I hope that I have not only answered his question but anticipated his next questions.

As I have said, the Government are committed to making better tax policy. In March 2011, we published our tax consultation framework, which recognises the importance of fully engaging with those who will have to operate the rules in the development of tax policy. Such engagement allows the Government to explore, develop and test new ideas to improve the tax system and to ensure that change is well targeted, that its likely impacts are understood, and that the legislation is fit for purpose.

Our consultative approach is the way to ensure that we get difficult reforms right and that the rules operate as expected. The new CFC legislation has benefited from extensive consultation with all interested parties from November 2010 through to the publication of the Finance Bill in March 2012. The consultation process has been open. We have published clear policy objectives, options and decisions on detailed policy design followed by draft legislation. The Government have supplemented that through discussions with a variety of working groups to understand better the impact of policy decisions on the businesses that will be affected.

Following publication of the Finance Bill in March, we have listened to further representations from business and advisers, and carried out further work. As a consequence, we are making a number of amendments to the legislation that will reduce uncertainty for businesses and HMRC in applying the rules. I shall provide more information on those later.

To ensure that those operating the rules have certainty about how they apply, we will publish guidance, which will be written in consultation with interested parties. In fact, draft guidance covering some of the key areas of the new CFC rules was published today for consultation. Further to that, HMRC is encouraging discussions between companies and their customer relationship managers and will provide clearances on all aspects of the new CFC regime. Those are all ways in which companies will be provided with greater certainty about the way in which the new CFC rules will apply to them. Through our approach to engagement, we will keep the regime under review to ensure that it is operating in the intended way.

The changes to the CFC rules are a key part of the Government's corporate tax reforms—reforms that will provide the right conditions for business investment and growth in the UK. Clause 180 should be introduced without delay. I therefore hope that hon. Members will not press their amendments.

I turn now to the amendments I mentioned earlier. We have been in discussion with business and advisers on them since the publication of the Bill in March. A number of the changes prevent a CFC charge from arising when the CFC's profits are already taxed in the UK by other means, including when a shareholding is taxed, or when a tax arises under the debt cap rules or through transfer pricing. Some of the changes ensure that the rules that establish whether a foreign company is a controlled foreign company work properly and have the intended scope. Further changes ensure that the finance company rules work as intended, in particular in their application to banks and insurance companies. A number of other minor amendments improve the clarity and certainty of the new rules. That is further evidence of how we have worked closely with business to ensure that the new rules are effective and provide certainty to those applying them.

I appreciate that I have spoken for some time, and the only consolation for that is that I hope I have saved the hon. Member for Newcastle upon Tyne North from having to make some remarks. However, I have to say a word or two about the reaction from business. These reforms have been well received. I have already mentioned some businesses; following the publication of the Bill in March, one of the big four advisory firms announced that it was in discussion with 10 to 15 multinational companies that were considering locating substantial operations in the UK as a result of corporate tax reforms. The Confederation of British Industry commented that these much-needed changes

"will help make the UK a more attractive place for companies to invest, do business and create jobs".

That confirms the message that Britain is open for business.

Reform of the CFC rules has long been identified as a priority by business. The new rules are designed to protect the UK tax base from the artificial diversion of profits, and are a further step towards achieving our aim of having the most competitive tax system in the G20. I hope that the clause and schedule 20 will stand part of the Bill.

Catherine McKinnell: I intend to speak to clause 180 and amendment 190. The Minister anticipated some of my questions and concerns, but unfortunately not all of them so I want to cover a few of the issues that have not been dealt with yet. To recap where we are with clause 180, in the past multinationals based in the UK have had to pay corporation tax not only on their profit in the UK but on that made through subsidiaries and branches abroad. In 2009 dividends paid back to the UK parent companies from subsidiaries were exempt from tax, but it left the CFC rules as the main measure of taxing overseas profits.

The Opposition acknowledge that the CFC rules have stopped companies moving their profits out of the UK to avoid tax, but they have also provided a disincentive for some companies to base themselves here in the UK. As the Minister explained, the clauses we are debating today are the culmination of a series of announcements and consultations over a number of years. They effectively mean that profits made in other countries by a multinational based here in the UK will no longer be taxed by the UK and only those profits made in the UK will be taxed.

When in government, the Labour party committed to moving towards a more territorial regime. We consulted extensively on how the rules could be changed to provide more certainty to business to ensure that the UK remained an attractive place to base multinational companies, but also to ensure that the UK tax base was not eroded by profits being moved offshore. We were aiming to legislate for changes in Finance Bill 2011 and so we support the principle of the legislative proposals. Anything that will make the UK a good place to do business, and will help our economy to grow out of the current double-dip recession, has to be a good thing. We have grave concerns, however, that the Government have not properly thought through the detailed consequences of some of the proposed changes. Unfortunately, the Minister has compounded those concerns because he is not willing to provide data or analysis on the potential implications, particularly for developing countries.

The amendment moved by the hon. Member for Bristol West would address those concerns before the legislation was implemented. The Minister, as I said in my earlier intervention, has made a strong case for amendment 190, and I would be interested to hear why he considers that an ongoing assessment of the impact of the changes is not advisable.

Additionally, given the complexity of schedule 20, which I think the hon. Member for Amber Valley referred to as being 60 pages long—

Nigel Mills: The schedule is 97 pages long.

Catherine McKinnell: Was that 96 pages?

Nigel Mills: No, 97 pages.

Catherine McKinnell: Okay.

A slightly less esteemed, albeit important, body, the Institute of Chartered Accountants in England and Wales, has described the schedule as "appallingly dense" and largely inaccessible, even to experienced readers. Whether the proposals will cost more than the Government's current estimate, and—I know the Minister has sought to provide reassurance on this point—whether they will provide the certainty that business requires, are legitimate concerns.

The main subject of amendment 2 is the impact on international development, and Members on both sides of the Committee have made it clear today that that is a concern. A number of non-governmental organisations and outside organisations are also concerned about the potential impact on developing countries.

In a written answer to a parliamentary question last week, the Minister confirmed to me that the Government had not assessed the effect on other countries of the proposed changes to the CFC rules, stating, as he has confirmed today, that

"these rules are designed to protect the UK Exchequer by preventing artificial diversion of UK profits."—[*Official Report*, 14 June 2012; Vol. 546, c. 561W.]

From that, and from his comments today, I take it that the Minister does not think carrying out such an assessment is either appropriate or necessary.

As the Minister mentioned earlier, the Government recognise that tax revenues are essential for development. In an article entitled "Free trade in Africa shows a way out of poverty," the Prime Minister said:

"An African free trade area could increase GDP across the continent by about $62bn a year. That's $20bn more than the world gives sub-Saharan Africa in aid. Backed by investment in people and infrastructure, sound government and effective tax systems, imagine what this would mean: businesses growing, new jobs on offer, families on the up, living standards transformed."

I know that the Government are committed to ensuring that the aid that the UK gives to developing countries is not undermined by a lack of support for those countries' revenue bases. That is why it seems unusual that the Government are reluctant to carry out any form of assessment of the potential impact of the CFC rules, despite the widespread concerns that have been expressed. The Government have also recognised publicly that

"tax avoidance in developing countries deprives governments of the vital income needed to build and maintain their public services."

The very means by which they can protect their tax base could be undermined by these measures.

12.30 pm

The Government have been asked during the past two years to carry out an impact assessment of the CFC rule changes, but have refused on every occasion to do so. It is not only the NGOs—ActionAid and Christian Aid have already been mentioned—that are asking for that assessment. Organisations such as the OECD and the International Monetary Fund have also recommended "spillover analyses" of the impacts on developing countries of changes of this type.

May I quote from a 2011 report by the UN, the IMF, the World Bank and the OECD? Entitled "Supporting the Development of More Effective Tax Systems", it states:

"The G-20 countries' lead role in the debate on"

the

"international tax system creates an obligation on them to ensure its smooth functioning. In that context, it would be appropriate for G-20 countries to undertake 'spillover analyses' of any proposed changes to their tax systems that may have a significant impact on the fiscal circumstances of developing countries."

It seems strange that, although the Government are willing to accept support and advice from and collaboration with those esteemed international organisations, they are completely disregarding the advice being given on these taxation changes. I would be grateful if the Minister could provide a better explanation of why the Government do not deem it appropriate or necessary to carry out any form of assessment of the impact of the changes. That is the basis for the first part of our amendment 190, which says:

"HM Revenue and Customs shall publish an assessment of the implementation and impact of the changes made in this schedule each year from commencement for the first three years of operation, including…the impact of the changes on developing countries and whether any further aid or technical assistance needs to be provided to those countries to safeguard their tax revenues".

Some tax experts, I acknowledge, disagree that there will be the level of impact suggested by ActionAid—the estimate is about £4 billion. The Minister explained in some detail why the Government did not take that estimate on board. He mentioned that it was an assessment of 10 companies. I might add for the record that those 10 companies make up more than 20% of the FTSE 100 companies, so their proportion of the market is one that it is difficult not to take into consideration.

The Minister also explained that the tax treatment in each of the countries concerned was complex and not as simple as the assessment undertaken by ActionAid suggested. However, surely that makes the argument as to how vital it is that the Government use their resources and the information that they have available on the tax treatment of UK-controlled companies to inform an assessment that can be used and relied on and can give an indication of what the impact of these changes will be.

Ian Mearns: Given the complexity of the subject, does my hon. Friend share my significant concern that a lack of transparency in the operation of CFCs and the way in which the taxation of subsidiary companies is dealt with could mean that, frankly, multinationals are getting away with an awful lot?

Catherine McKinnell: I agree. In fact, the Government ought to be concerning themselves not simply with subsidiaries but with branches in those countries where the legislation has been recently relaxed and what the impact of the new regime will be on transparency and in terms of a potential increase in avoidance. That is my second concern, which I will come to shortly.

I would like an explanation from the Minister on the question of developing countries. The amendment tabled by the hon. Member for Bristol West relates to that issue, and I have concerns to express in discussing the Opposition's amendment 190. If the Minister does not credit the ActionAid assessment of the potential impact, why should not the Government carry out their own, or use some of the international agencies that would, I am sure, be willing to support such an assessment of how the measures may hinder the ability of developing countries to safeguard their tax base?

It seems a false economy to invest UK Treasury intake, up to £1 billion, which the impact assessment suggests the figure could be, in changes that will undermine the very progress towards which our international aid money, which increases year on year, is going. The Government need to explain why they have not carried out any assessment of that, and what they are going to do about it in coming years.

The second part of our amendment relates to concerns about the impact of the measures in terms of the cost to the Treasury, which could be much higher than expected. The arguments were briefly explored in the Minister's comments. Serious concerns have been expressed that the Government have not factored into their costings the fact that companies may restructure to take advantage of the new regime, which would result in a much higher cost to the Exchequer, and more profits no longer being subject to UK tax.

The Government have said that they have "hopes" that some of that cost will be offset by companies bringing some of their functions and profits home to the UK. The Minister has failed to set out today the possible economic benefit of the relocation in the UK of those companies, including how many jobs would be created. Instead of engaging in evidence-based policy making, the Government have put forward vague evidence for positive impact, which seems to be based on anecdotal conversations with businesses. We do not object in principle to changes to the CFC rules, but it seems unusual at this juncture, and when we face the current economic challenges, for the Government not to have carried out a more detailed cost-benefit analysis of the changes.

The final issue dealt with by our amendment is tax avoidance, which was raised by my hon. Friend the Member for Gateshead, and the potential for that to increase as a result of the proposed changes. There is concern that they will result in less transparency than there is under the current regime, and that avoidance could therefore increase. I am sure that if that were to be the consequence, it would be unintended.

In the 96 or 97 pages of the provisions there are 10 targeted anti-avoidance schemes. That shows the level of concern, on the part of those who drafted these complex measures, that such schemes should be anticipated and headed off at the pass. The Government should today make a commitment to improving transparency, and that is what is called for in the third part of our amendment. It would mean that in

"each year from commencement for the first three years of operation"

the Government would undertake an analysis of

"whether the rules operate as expected and"—

importantly, as well, for business and investment in this country—

"provide certainty to companies"

as the Government intended. I am sure that hon. Members will agree that it is a reasoned amendment and a reasonable approach. Concerns about the changes have been set out, and it seems sensible for the Government to undertake an ongoing analysis of the impact for developing countries, Exchequer and Treasury forecasts and businesses themselves.

Sheila Gilmore: Thank you, Mr Bone, for the opportunity to contribute on this issue. I want to speak primarily in support of amendment 190, but to make some general remarks as well.

Fundamentally, such provisions appear to give us a choice. If we seek to tax the foreign income of companies that operate in the UK, they may simply move elsewhere.

The Minister spoke about some that either had done that or were threatening to do so. If such a company moves away entirely, we clearly do not get tax from it at all, and there are other implications for the economy in terms of employment and so on. It would be useful to see more information on how that is quantified and the degree to which a UK-headquartered company contributes to our economy. That is one argument. If we continue to seek to tax the foreign earnings of companies headquartered here, they may go. We could be killing the goose that might have laid the golden egg.

On the other hand, a company might be headquartered here, but we potentially still get very little tax from it, because changes in the CFC rules mean that foreign earnings will not be taxed. At times, we seem to be almost conceding to blackmail—"If you tax us, we go. If we stay, you can't tax us, because we can still divert our earnings in such a way that we don't pay very much tax."

It is important for the Minister to outline the impact on the UK in more detail. Leaving aside the question of other countries, will we simply see a substantial loss in tax income? It is clear from the figures in the Red Book that the Treasury anticipates a loss in tax income to the country as a result of the changes. What are the countervailing advantages? What do we gain either directly through tax income coming in other ways or through the impact that such companies have on our economy if they are headquartered here? If we will lose a lot of tax without that countervailing gain, it raises serious questions about how the change will work.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): My hon. Friend makes an important point about what is likely to be the case in future, bearing in mind the forecasts of increased or reduced revenues to the Exchequer. Does she agree that it would make an important contribution to the debate if the Minister outlined what changes in corporate and company behaviour he expects or predicts as a result of the changes?

12.45 pm

Sheila Gilmore: I thank my hon. Friend for her intervention. It would be useful to know about that matter in more detail. It is important to be able to say whether, after a year, or after two or three years, the changes have had the impact that we say they have, or think that they will have, whether some companies return to operate in this country and what effect those types of company have here. I have heard it argued—it may be an exaggeration—that although many such companies have headquarters here, the extent of their operation is limited and a lot of their earnings, and therefore their profits, are located somewhere else. We have to ask whether such a small operation is really of such overwhelming benefit to our economy and whether that makes it worth losing the tax that was previously secured.

Another argument for change is that it would be simpler for companies to understand. Given the nature of the legislation that we are considering and comments by some about its impenetrability, it is not clear that change would simplify things. In fact, it may make it even more complex. Given such a large change in the way in which foreign earnings are dealt with and that there is substantial potential tax loss, it is incumbent on the Minister and the Government to tell hon. Members in due course about its impacts, about the tax loss and about the tax gain from having companies headquartered here, if there was not such a gain previously, and whether such companies have used tax havens less or whether much of their income is still located in tax havens rather than here. Those are important questions for the Government to deal with.

Presumably, a lot of relevant data will be available. We should not neglect to collect information about the tax paid by such companies and compare it with their previous situation, when they were taxed differently. We should know if companies have expanded their operation and about the impact of that on our economy. It would be a pity if we were not collecting such information and wanting to publish it.

A lot of people working in international development have asked questions and are gravely concerned about a possible adverse consequence of the changes, albeit unintended, for developing countries. The Minister said that the legislation on controlled foreign companies was never intended to aid developing countries. He said that that was not its primary purpose, that it was intended to deal with tax being collected from companies with foreign earnings, which was an issue of importance to the UK, and about how such companies tie up their inter-company arrangements. That may be so, but the opposite does not necessarily apply. The fact that the legislation was not intended as an aid to developing countries or to help them collect tax does not mean that the inverse is not the case and that a piece of legislation that we put in place, such as a review of our tax system and our policies, could not and will not have an adverse consequence on developing countries which may find that they lose income as a result.

As the hon. Member for Bristol West put it extremely well, we must think about the implications of this legislation on a lot of what we do across the Government. It sometimes feels as if we have one set of policies and priorities for one part of the Government, and a completely different set for another part. The Department for International Development is trying to build the capacity of developing countries in various ways through the provision of international aid, but if as a result of changes made in this Committee we create a situation in which those countries suffer a loss and are not able to collect as much tax as they might otherwise have done, it is almost as if we are simply pumping out money to fill a gap that we helped to create. That may be inadvertent and not deliberate, but it does not seem particularly sensible and that is where concerns arise.

The Minister has said that the situation is not as straightforward as organisations such as ActionAid have suggested. It is often alleged that such organisations exaggerate their case and perhaps present a rather alarmist view that may not stand up to great scrutiny, and in particular, the figure of £4 billion mentioned by ActionAid has come in for considerable criticism. The reality, however, is that some tax loss will arise in some of these countries. Not all of them have tax holidays, although some may do.

Seema Malhotra: My hon. Friend cites the ActionAid estimate of £4 billion in lost tax that could be avoided by UK-based multinationals because of this change.

[Seema Malhotra]

Does she agree that as we want to avoid any unintended consequences of this provision, and as there are differing points of view, it is extremely important that we understand what assessment has been made of its impact? HMRC and the Treasury should make that assessment publicly available to inform the debate so that nothing happens that we would all regret.

Sheila Gilmore: I agree with my hon. Friend, and it would be helpful to have a projection of what might happen. Equally important—this will resolve some of the disputes about what the losses might be—is to see how things work out, assuming that clause 180 goes through and is enacted. The only way that we will know whether ActionAid and other organisations that have campaigned on these issues are right, or whether the Government are right to feel that much of this debate has been over-egged and is unduly alarmist, will be to see what actually happens. Until we can measure and clearly assess what is happening on the ground, the matter will still be unresolved and we will not be much further forward. It is often the case—we have seen this with other legislation, I think—that those campaigning against the change say, "The world is going to come to an end and we are all going to be sleeping in the streets," and the Government say, "No, no, no, that's just not true. Everything will be fine."

If we talk in hypotheticals, the debate can become, not sterile, but difficult, and we appear to be doing that here. If that is the case, and we cannot necessarily prove it either way, to suggest that impact assessments are carried out and published does not seem unreasonable; they would be helpful. If it turned out that many of the fears were unfounded, people would no doubt acknowledge that, but if it transpired that there was a problem, we would have to turn our minds to ways in which to deal with it—ways in which countries could be assisted—and we would be able to do that only if we could gather the information.

I was unconvinced by the Minister's assertion that it would be too difficult and complex to gather the information and to understand it. This is not the only issue that affects developing countries in relation to tax—it is one among many—and we need far more information sharing and transparency about international taxes generally. We must do things other than simply consider that one aspect; we need far better information about what tax is paid by the international companies in the various countries in which they operate; without it, it is hard to catch the tax in the appropriate place. Company structures can be complicated, with manufacture or extraction being carried out in certain countries and complex arrangements between the parent company and the companies operating in the developing countries. One way in which income is taken out of developing countries is through interest being paid by the subsidiaries on loans to start up, modernise or improve their businesses.

Many organisations that campaign on international development consider it important to get clear information; transparency is a first base from which to move forward. We should do that internationally in any event, and Britain should take the lead, both in how we operate and in how we encourage international organisations to operate. I presume that this is the kind of debate that the UK is leading at the G20, and that we will continue to do so, to ensure, not in isolation but in conjunction with our partners in the developed and developing worlds, that that begins to happen.

If the information will be gathered in any event, it should not be too difficult to assess the impact of the provision. If it had an adverse affect on developing countries, we would have to think carefully about how to help them plug a gap that had been created by our own actions. I do not think that we want to be in the position, in two or three years' time, of huge campaigns being generated, perhaps by organisations such as ActionAid, saying how dreadful this has been, and calling on the Government of the day, which might not be the same as the current one—

1 pm

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

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