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)

Fifteenth Sitting

Thursday 21 June 2012

(Morning)

CONTENTS

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

£5·00

PBC (Bill 001) 2012 - 2013

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

No proofs can be supplied. Corrigenda slips may be published with Bound Volume editions. Corrigenda that Members suggest should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Monday 25 June 2012

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

The Committee consisted of the following Members:

Chairs: Mr David Amess, Mr Peter Bone, Mr Jim Hood, †Jim Sheridan

† Baldwin, Harriett *(West Worcestershire)* (Con)
† Barclay, Stephen *(North East Cambridgeshire)* (Con)
† Blenkinsop, Tom *(Middlesbrough South and East Cleveland)* (Lab)
† Burley, Mr Aidan *(Cannock Chase)* (Con)
† Elphicke, Charlie *(Dover)* (Con)
† Garnier, Mark *(Wyre Forest)* (Con)
† Gauke, Mr David *(Exchequer Secretary to the Treasury)*
† Gilmore, Sheila *(Edinburgh East)* (Lab)
Gyimah, Mr Sam *(East Surrey)* (Con)
† Hamilton, Fabian *(Leeds North East)* (Lab)
† 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)
† McKenzie, Mr Iain *(Inverclyde)* (Lab)
† McKinnell, Catherine *(Newcastle upon Tyne North)* (Lab)
† Malhotra, Seema *(Feltham and Heston)* (Lab/Co-op)
Mann, John *(Bassetlaw)* (Lab)
† Mearns, Ian *(Gateshead)* (Lab)
† Mills, Nigel *(Amber Valley)* (Con)
† Morrice, Graeme *(Livingston)* (Lab)
† 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

Thursday 21 June 2012

(Morning)

[Jim Sheridan *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)

Clause 195

Anti-forestalling charge to value added tax

9 am

Rachel Reeves (Leeds West) (Lab): I beg to move amendment 200, in clause 195, page 112, line 25, at end add—

'(2) No new Order shall be made under section 30(4) or 31(2) of the Value Added Tax Act 1994 unless the Chancellor of the Exchequer has reviewed the full impact of those changes on jobs, living standards and businesses, and placed the review in the Library of the House of Commons.'.

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

Clause stand part.

That schedule 26 be the Twenty-sixth schedule to the Bill.

Rachel Reeves: It is a pleasure to serve under your chairmanship this morning, Mr Sheridan. I am sure there are some haunted faces around the Cabinet table when anyone mentions VAT, so perhaps it is better that the Chancellor is not here for clause 195. Although it makes changes that are more technical than those in other clauses, this clause still indicates the wider shambolic policy making that has defined the Bill.

Through schedule 26, the clause will, from October, impose VAT on supplies in relation to self-storage and approved alterations to protected buildings. The clause and schedule will introduce an anti-forestalling charge on such supplies if, for VAT purposes, they are treated as taking place before 1 October 2012, even though services are delivered or materials are incorporated into a building on or after that date. This is one of the elements of the Budget that have filled so many column inches and taken up so much time in Committee. I am sure that the Chancellor did not expect that when he said in the Budget:

"We will also address some of the loopholes and anomalies in our VAT system. For example, at present soft drinks and sports drinks are charged VAT, but sports nutrition drinks are not. Hot takeaway food on the high streets has been charged VAT for more than 20 years, but some new hot takeaway products in supermarkets are not. Some companies are using the VAT rules that exempt the rental of land to avoid the tax that their competitors are paying. We are publishing our plans today to remove loopholes and anomalies, but we will keep the broad exemptions on food, children's clothes, printed books and newspapers."—[*Official Report*, 21 March 2012; Vol. 542, c. 801.]

Since then, we have seen U-turn after U-turn. It seems that the bigger anomalies are in the Government's policy-making process, rather than in the policies themselves.

Of the two VAT elements in the clause, the Government have already backtracked on one, having recognised that they got it wrong on churches that are altering their historic buildings, and we welcome that change. We tabled the amendment to highlight the concerns expressed by industry representatives, church groups and MPs about those two specific items, and to call attention in Committee to the ongoing confusion and uncertainty that surrounds the Government's post-Budget policy-making process.

Will the Minister confirm whether the Government still intend to go ahead with the planned changes to VAT on self-storage? After all the uncertainty in economic policy in past weeks on matters ranging from hot pasties to static caravans, it is not unreasonable to suppose that some change might be in the offing, as interest in the Budget cools down. The truth is that the Government's policy making over the past few weeks has been a mess. They have had to consult on proposals after announcing them, because they had not bothered to do so before. Time and again, they have had to make about-turns because of the disastrous Budget process that gave millionaires a tax cut, while asking millions to pay more.

To provide some background, the repair and maintenance of a protected building is standard-rated for VAT purposes, but the approved alteration of a protected building was previously zero-rated. The effect of the clause and schedule 26 is that VAT will essentially be payable on all building work carried out on listed buildings that are used as dwellings or for charitable purposes. In the Budget, that was presented as one of a series of corrections to anomalies, which originally included the changes relating to warm pasties. Was the Minister involved in the Budget's scoring process, during which such options were considered? What consultation was carried out with major owners of listed buildings—and smaller owners—who may be affected?

Many churches in hon. Members' constituencies will have made adaptations to their premises to make them more family-friendly and better to accommodate their congregations. When the related measures were termed anomalies in the Budget, did the Treasury know that Church of England churches and cathedrals spent £120 million on repairs in 2010-11, of which £23 million in VAT was reclaimed from the listed places of worship grant scheme? After the Budget and before the £30 million compensatory fund was announced, 29,000 people signed an e-petition against the plans, which would have hit places of worship hard. That shows the concern about the plans more generally.

I welcome the decision to compensate churches through the fund, but we are concerned about what the process implies about the Government's approach to policy making, because it is not only churches that are concerned. Although only churches will benefit from the U-turns to date, not all protected buildings are places of worship, as the Minister knows. A huge number of listed buildings are not places of worship, and they are run by a range of groups, businesses and individuals. The Society for the Protection of Ancient Buildings said:

"VAT affects the ability of owners to care for their buildings, the viability of projects involving historic buildings at risk, and

the survival of firms that work in this specialist field. We wish to see works of care and repair to listed buildings supported, with no perverse incentive to alter or build anew. Owners of listed buildings fall within all income brackets. Poorer owners could be hit disproportionately by the proposal, particularly as wealthier owners sometimes use their homes as businesses. With very little public sector grant aid for secular listed buildings now available, owners are subject to additional controls and sometimes additional costs when appropriate traditional materials have to be used, but very rarely benefit from any corresponding state grants. Loss of any VAT concession for private secular owners would remove what little financial assistance there is for those who maintain many of the country's listed buildings."

What meetings has the Minister had with groups that run listed buildings that are not places of worship? Has he met the Heritage Alliance? Its chief executive, Kate Pugh, said:

"Adapting the finest of our historic buildings for modern use is essential to ensure they remain living, working resources for their communities, economically productive and a source of national pride, inspiration and delight. With its concession to the churches' powerful lobby the Government has acknowledged the dire consequences a 20% increase in costs would have on our historic buildings; but places of worship, significant as these are, make up only 6.5% of listed buildings in England. What about the other 93.5%? Inequitable knee-jerk reactions such as this make for bad policy making. A full, properly considered review of the evidence is essential before such a valuable EU tax relief is lost."

What estimate has the Minister made of the effect of the measure on the specialist construction industry? Will there be any more olive branches on offer to the people who are concerned about the changes, whether they are in the construction industry, the owners of the buildings, or local communities who want their listed buildings protected and improved?

The second part of the proposals relates to self-storage. The changes mean that all provision of self-storage facilities will become subject to VAT, ironing out the varying VAT treatments applied across the industry. Currently, an operator that has not opted to tax its premises and lets out a defined storage area to a customer can treat its services as an exempt supply of land. The new measures make all charges for storage in the UK subject to VAT at 20%. Therefore, anyone putting their excess possessions into self-storage from October will be subject to VAT at 20%, potentially adding 20% to the bill for storing their property.

The Red Book for Budget 2012 sets out that correcting anomalies for VAT purposes will yield £50 million in 2012-13, £115 million in 2013-14, £125 million in 2014-15, £145 million the next year, and £160 million the year after that. Those figures will include the pasty and caravan taxes, so do not reflect the yield only from self-storage and approved alterations to listed buildings.

Will the Minister inform hon. Members what the yield is expected to be, and can he split it between the yield for self-storage and that for listed buildings? Furthermore, does his estimate take into account the amount of storage space used by businesses, as opposed to individuals? If businesses using self-storage claim the VAT back, what effect will that have on the overall yield, and what will it cost the small businesses that offer these services to administer the scheme?

Will the Minister clarify the distinction in industry practice between firms that opt to tax their premises and those that do not? As I understand it, it involves a distinction between self-storage companies, which have proliferated in recent years, and removal companies, which do not give up space directly to their customers. How many firms will be affected, and what will be the administrative burden on them?

We will not vote against the clause and schedule 26 standing part of the Bill, but it is important that the Government stop making policy on the hoof, as it has caused chaos and consternation among those directly affected by the changes, including, in this case, churches and other listed buildings, and the storage companies that we have discussed.

Mr Robert Syms (Poole) (Con): I shall just make a brief contribution. *[Interruption.]* They have heard me before. A large self-storage company is based in Poole, and it was a little surprised at the changes in VAT. Looking at the matter overall, though, many such companies should be able to reclaim quite a lot of VAT, so there may not be a massive effect. Part of the problem is that they tend to bill on a monthly basis—every 28 days. The danger with a 20% increase is that they will lose quite a lot of customers, who will review whether or not they wish to keep their storage facilities. There will be uncertainty. The value of a major public company fell by £50 million because of uncertainty about the impact of the VAT rise. I have written a letter to the Minister on the matter, and I hope that he reads it when it arrives. I look forward to further discussions with him in future.

Graeme Morrice (Livingston) (Lab): It is a pleasure to serve under you, Mr Sheridan. Clearly, you bring a ray of sunshine to this meeting on what is otherwise a very dreich day outside. I am also delighted to follow on from my hon. Friend the Member for Leeds West.

Immediately after the Budget, we said that the Chancellor's plans to close so-called VAT loopholes amounted to another stealth tax on lower and middle-income families and could force up the price of everyday goods and services. Following his recent series of U-turns, the Chancellor must be wishing that he had decided to put the closure of these apparent VAT loopholes at the bottom of his to-do list, rather than planning to hit consumers when they can least afford it. From the Prime Minister's phantom pasty shop in Leeds to the Chancellor's admission that he cannot even remember the last time he ate a pasty, senior Government figures have never looked more out of touch than they have on these VAT reversals on pasties and static caravans.

By the way, Mr Sheridan, coming from Scotland as we do, it would be remiss of me not to mention the great Forfar bridie—our equivalent of the Cornish pasty. At least the Government have seen sense on these proposals and have altered their plans, but as we all know, that was more to do with political expediency, and was forced on them by an outraged British public.

Many of my constituents still have concerns about other aspects of the Chancellor's VAT plans. Several have contacted me about the introduction of VAT on sports nutrition drinks, highlighting their view that the imposition of the standard VAT rates on these drinks will push up prices for such products and damage small specialist manufacturers, as well as hitting jobs in the sector. There is also the fear that it could undermine consumer safety if those who regularly use these products choose to source them from less reputable suppliers via mail order or the internet.

[Graeme Morrice]

The fact that milkshakes, drinking chocolate and Jaffa cakes will continue to be zero-rated for VAT also strikes my constituents as strange, given the desire to encourage healthier eating. Perhaps those products will be the Chancellor's next target.

9.15 am

To get back to the issues before us, I want to focus my remarks on the plans to impose VAT on approved alterations to protected buildings from 1 October this year. Hon. Members will be aware that that move, dubbed the heritage tax by campaigners, has generated considerable concern among those operating in the culture and heritage industries.

Last month, the heads of 17 different organisations, including the Campaign to Protect Rural England, the Heritage Alliance, the Royal Institute of British Architects and the Country Land and Business Association, sent a letter to the Chancellor highlighting their opposition to the Government's decision. They expressed the view that the decision puts the future of Britain's historic buildings at risk by adding an extra 20% to the cost of giving them a sustainable future. They also stated that the removal of the zero rate takes away the incentive to obtain listed building consent, which is likely to lead to owners ignoring the consent system. Those expert organisations further suggest that the decision will have an adverse effect on the building industry, and that specialist building skills necessary for conversion projects will be lost. They point out that projects are already being axed or scaled down.

In a double-dip recession, opportunities for construction work and supporting tourism should be encouraged in every way possible. However, the measure will have the opposite effect, creating new barriers and disincentives for the heritage tourism sector, which currently contributes more than £20 billion a year to the UK economy and supports more than 450,000 jobs.

Although I acknowledge that the Government's listed places of worship scheme will be extended to cover alterations, that accounts for less than half of all listed buildings, and Church groups have already said that the funds available will not be enough. Of course, no additional support will be available to help the National Trust, museums, theatres and libraries in listed buildings that are important for heritage, tourism and local communities.

The damage that the policy is set to do was neatly encapsulated by Ian Theodoreson, chief finance officer at the Church of England and chair of the Charity Finance Group. In a recent article in *The Guardian,* he states:

> "Pay freezes can be unfrozen and departmental budgets can be pumped up again, but this is one of the government's austerity measures that will have a real lasting and devastating impact – on churches, charities, communities and our country's heritage."

Like so many other aspects of the Chancellor's Budget, the decision looks rushed, ill considered and counter to many of the Government's other stated policy objectives on not only jobs and economic recovery, but protecting our historic built environment.

I hope that the Government will listen to the experts in the culture and heritage sector, as well as to Church leaders, on the issue, and rethink their plans to avoid the kind of long-term cultural and economic damage that it is so widely predicted will be incurred if they press ahead.

The Chair: Just for the sake of *Hansard*, the word "dreich" is Scottish code for bad weather.

Sheila Gilmore (Edinburgh East) (Lab): It is a pleasure to serve under your chairmanship, Mr Sheridan—even if it is such a dreich morning. I think the word "dreich" does more than describe bad weather; it describes a mood as well. The word is almost untranslatable. We certainly know all about it—mainly because we have rather a lot of it. The difference here, of course, is that this dreich day is somewhat hot. I suspect that at home it may be just as wet, but considerably cooler.

I want to address the issues of listed buildings and VAT. When we consider some of the work that has been done in the past to some buildings—sometimes churches, but not always—we can see how they can be brought back into use in a very positive way. In my constituency, a Victorian school, which is somewhat surplus to requirements because the population has moved from the inner city, has been converted with considerable skill into a community asset. It has community meeting rooms and a number of organisations have offices there. They share facilities, such as reception and meeting rooms, which cuts the overheads for a lot of voluntary organisations. It has been made to be financially viable; it meets its costs and can continue to be maintained, but it required considerable alteration. Inside, it no longer looks quite like the old school it was. It is a very clever conversion.

A church in Edinburgh has been converted equally cleverly to a similar community use. The entire interior has been modernised with different floor levels and modern materials, such as steel. The VAT status not only performs an extremely useful function, but ensures that such buildings can still be used without some of the fundamental beauty that led to them being listed being necessarily impaired.

From time to time, our local newspaper publishes lists of buildings at risk to try to shame the various owners, whomever they might be—public, private, Churches or whatever—into doing something about them. They are often seen as eyesores; they might have been wonderful buildings, but if they are allowed to rot, they become an eyesore and a problem, and risk eventually getting to the stage of being unsafe and having to be demolished. Our local paper's response is to say, "For goodness' sake, do something about it." Doing something about it is not always as easy as it sounds, because with such buildings it is extremely challenging to achieve the ends that people want. If we want to convert them to community use, there are financial challenges in making them viable in the long term, but it is easier to make them viable in the long term if the costs of conversion are not unduly increased by a proposal of the kind in the Bill.

A few years ago, the local newspaper highlighted the condition of a former roadhouse, which was a common building type. It could have been a beautiful art deco building, built when people were just beginning to get cars and go out of town to enjoy Sunday lunches, which has become common since. It is in a fairly deprived area. The 1930s, when it was built, was the start of a

new era in that respect. It was an area of new, mainly council, housing. Unfortunately, the area generally has fallen on difficult times over the years, although it is again undergoing regeneration.

In the midst of that, the roadhouse became a local pub with, I have to say, a somewhat risqué reputation. It was literally rotting. The owner was not doing very much with the building, and at one point it looked as though we would lose it. Fortunately, it has been completely renovated, with the help of grants from Historic Scotland and the Scottish Government. It is called the White House, and it was always sort of white, but it was very off-white for many years. It now stands as an iconic building in the area. It has been beautifully restored, but, again, for community use, which requires alterations that would be regarded as alterations, not repairs, to bring it up to the modern standards required, or thought appropriate, for public use.

I think that we could all name a number of such buildings, which are not necessarily churches but need to be given every assistance possible. I hope that, on that basis, the Government will reconsider the proposal. I hope that they will appreciate that, especially when organisations are seeking to make improvements so that the building can be used by the community and are seeking public funds to carry out the work, the proposal might be counter-productive: if the alteration costs are increased through VAT, there may be more demand on public funds to achieve the end.

Julie Hilling (Bolton West) (Lab): Does my hon. Friend agree that it is a shame, or perhaps something stronger than shame, that many community groups that have been working for years to raise the money to refurbish a building, whether it be a church or the type of buildings that she has been talking about, will be unable to start work this year, which they had thought they could, because the increase in the charges on them is so enormous? That may mean that many buildings are never refurbished and fall into rack and ruin.

Sheila Gilmore: I fully agree. We have all seen buildings to which that has happened. People say afterwards, "It was a shame to lose that building," but we should not allow that to happen.

Jacob Rees-Mogg (North East Somerset) (Con): If the hon. Lady thinks that buildings are not saved by the tax being put on changes, is she calling for the tax on repairs to be abolished as well?

Sheila Gilmore: I think that there is an issue there, as my Front-Bench team would agree. Having done a lot of work in the housing sector while I was on the local council, I know that the housing association movement, for example, has long campaigned for lower rates of VAT on the work that such bodies carry out. They find that, compared with the costs of the council, which does not pay VAT, the costs for carrying out even quite normal work, let alone major regeneration, are an issue. I know—I recall setting up the finances for some of these schemes with partner housing associations while I was on our local council—that that was quite a considerable factor in working out whether schemes would work, in view of the grant and loan available.

Ian Mearns (Gateshead) (Lab): In the north-east of England—I am sure that this is also the case elsewhere in the country—we have been blighted by the theft of lead from church roofs and other buildings. Unfortunately, because of the nature of those buildings, quite often the level of insurance cover that they have and the level of cover generally that they have do not fully meet the costs of the repair that needs to be done. In fact, some churches have been attacked repeatedly in the past few years as the value of scrap metal and lead in particular has gone up. Therefore, through no fault of their own, the communities that support these buildings have to delay the repairs. This measure places an additional cost on such communities. The costs are becoming prohibitive in terms of getting the work done properly, if at all.

The Chair: Order. Interventions are becoming somewhat lengthy. Can we keep them brief?

Sheila Gilmore: Thank you, Mr Sheridan. Although I was very interested in my hon. Friend's intervention, I am not sure that it was entirely relevant to the matter under discussion. However, the issue that he raises is obviously another important aspect of the additional costs that people can incur.

It is ironic that being in possession of a listed building, whether as a public body, a community body or, indeed, an individual, can be a double-edged sword. Some people resist listing, on the basis that they would be able to do less to the building than they would otherwise. That seems a bit odd, but is perhaps understandable.

9.30 am

When I was on the council, I was fortunate, or unfortunate, in having the last of the city's post-war prefabs in my ward. The aluminium with which they were built was rotting badly, and the council decided to demolish and rebuild those that remained in council ownership. An action group was set up to save the prefabs, and people threatened to tie themselves to bulldozers and so on. The issue became very heated. The population was generally older, as some people had been there for a long time and others had been housed there because the accommodation was on the ground floor and had easy access. I used to get people phoning me up to say that I had killed people; when an elderly person died, that was my fault, as a local councillor, because I had threatened their home. It was all very emotional. At one point, the local community group tried to get the buildings listed, as they were the last remaining prefabs in the area. That request was not granted, but it would have been a double-edged sword, as owners would have found it more difficult to carry out alterations to the buildings, had they wanted to do so. Sometimes we have to be careful what we wish for.

Finally, while I am name-checking things in my area, let me add that we have an old cinema that has a 1930s art deco exterior. It is a very beautiful building, and it is listed to some extent, but we have to be realistic; we want to be able to make alterations to the interior. The building has been sitting unused for a good number of years. That is not desirable and local residents are worried about that.

More generally on VAT, early on as a councillor I discovered that sometimes it is the apparently little

things that trip one up. Sometimes what gets councillors into the greatest trouble with the electorate—or with the local paper, which is often much the same thing—are not the big, multi-million-pound projects, but things that, on the face of it, often seem quite minor, simple and straightforward. They are the sort of things that seem sensible at an official level. Councillors agree to them, and the next thing they know there is public outrage and they are being castigated in the local press. Councillors have to think very carefully about what they are doing and not assume that what seems, on the face of it, to be a sensible tidying-up is the right way to go. That is a word of warning to Government, too. The detail—the small things—cannot be ignored. The consequences have to be considered before proposals are put forward.

Julie Hilling: My hon. Friend talks about consequences. The reality is that once VAT is put on something, under European rules it can never be taken away. Does she believe that the Government have not thought that through properly? If we discover that lots of listed buildings and so on are not being renovated, we cannot go back. Surely that is one of the consequences that has not been totally thought through.

Sheila Gilmore: I hesitate to venture on to the issue of Europe. I see that my hon. Friend the Member for Bassetlaw, who usually sits two places to my right, is not here at the moment. He would, no doubt, also wish to wax lyrical on the subject of Europe. I think one can, in some circumstances, apply for a derogation, but doing so is very complicated. Consequences always have to be considered. One has to think very carefully about what one is doing. The full detail has to be considered, and the implications thought through. Even if one changes one's mind—as I think the Government have discovered, and as we discovered as a council—and does something about it, these things tend to hang around for ages.

We had a project at one point to put up a small and not terribly expensive artwork—at least, it was meant to be art. It was a sculpture made of tyres in our port area. It incurred the wrath of our local newspaper, and the issue went on for years. I was surprised that some considerable time later people would raise this as an issue, saying, "And if you hadn't spent that money on those stupid tyres, you could have—". Well, actually, we could not.

Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): Would my hon. Friend agree that it was in fact a model of the Parthenon by a very famous sculptor, David Mach, who went to the Royal College of Art?

Sheila Gilmore: I certainly concede that. I was not necessarily expressing a view on the sculpture. I certainly know what the opinion of many of my constituents was for many years, because it was framed through a certain view that had been taken. The point I was making was that things like that may seem relatively minor, but they will keep coming back for a long time. That surprised me, because I thought that the subject had had its day. Although it might be to the advantage of my party, I am afraid that issues such as the pasty and caravan taxes may have currency long beyond the time when the Government saw sense. Perhaps they would like to see sense on some other issues before it is too late.

Jacob Rees-Mogg: May I say what a pleasure it is to serve under your chairmanship, Mr Sheridan? Further to my intervention on the hon. Member for Edinburgh East, I just wanted to declare an interest, as I live in a listed building. I thought I should put that on the record. *[Laughter.]*

The Chair: Order.

The Exchequer Secretary to the Treasury (Mr David Gauke): It is a great pleasure to serve under your chairmanship, Mr Sheridan. It is also a great pleasure to follow the brief speech made by my hon. Friend the Member for North East Somerset. There is the concept of the listed building; I hope one day we will have the concept of a listed Member of Parliament, and I would seek to nominate him as the very first.

We have had an interesting debate this morning, but I fear that the substance of the clause has not yet had a fair hearing. I will also speak to amendment 200 and then deal with points that have been raised. Clause 195 introduces schedule 26, which provides for an anti-forestalling charge in respect of supplies of self-storage facilities and approved alterations to listed buildings. That is to prevent forestalling as a result of the changes announced in the Budget, which apply VAT at 20% to those supplies. The Committee will be aware that we committed at the outset to consulting on those and other VAT changes we announced in the Budget. Following that consultation, we are amending elements of the package, and we intend to bring forward those changes on Report.

Although none of the amendments affect the substance of the anti-forestalling legislation in schedule 26, or even the measures to which the anti-forestalling provisions apply, they will entail a minor consequential amendment to the wording of the schedule. We consider it sensible to present the whole package of changes on this issue on Report. I shall set out for the benefit of the Committee the amendments to schedule 26 that we will bring forward then. I hope that is helpful. They are part of a wider package of measures introduced to tackle a number of anomalies along the borderlines of the VAT exemptions and zero rates. The long lead-in time allows businesses time to prepare for the changes but, unfortunately, it also creates opportunities for tax avoidance.

Julie Hilling: Will the Minister give way?

Mr Gauke: I will, but I hope that the hon. Lady bears in mind my point about hoping to address in a moment the issues raised during our debate.

Julie Hilling: I am somewhat puzzled as to why we are debating the provisions. Have I heard the Minister correctly? Is he saying that even though the Committee is debating them, he will do another U-turn and bring measures back on Report? I am confused by what he has said, and I would be grateful if he could explain further what changes are likely to be made.

Mr Gauke: I appreciate that the hon. Lady is confused, and I will try to assist. Essentially, clause 195 and schedule 26 will remain in place, but a minor consequential adjustment is necessary, because of the way that we are implementing the VAT changes. The initial proposal was that the VAT changes would be addressed by a statutory instrument debated on the Floor of the House. However, because we have extended the consultation period by an additional two weeks, as the hon. Lady will remember, we will instead introduce the VAT changes on Report as part of primary legislation. We will all have the opportunity to take part in that debate on VAT changes in the next few weeks, and I am sure that we are looking forward to it. Whereas schedule 26 currently refers to changes made by order, they will actually be made by primary legislation. The changes to clause 195 and schedule 26 are minor, and there is no alteration to the substance, but we will have the opportunity to debate that substance again on Report.

Cathy Jamieson: I want to follow up on the question asked by my hon. Friend the Member for Bolton West. Although I am now clear on the technicalities and the process, will the Minister outline which particular policy changes may be brought in on Report? Will changes on self-storage and/or sports nutrition products be included, for example?

Mr Gauke: As far as policy is concerned, the hon. Lady will be aware that we made our announcements in the Budget. There will be changes to VAT on hot food and with regard to the policy on static caravans.

As for legislation on VAT changes across the board, including the adjustments I have just mentioned and other matters we have debated today, such as alterations on listed buildings and self-storage, all those issues will be addressed on Report, when changes will be brought in. Adjustments were originally going to be made by statutory instrument, but we will now make them all in primary legislation. All the changes announced in the Budget, including the changes that have been amended, will be dealt with on Report. I hope that that provides clarity for the Committee.

Catherine McKinnell (Newcastle upon Tyne North) (Lab): In the interests of absolute clarity on the process and the issues to be debated on Report, is the Minister suggesting that additional changes may happen at that stage? Is he aware of any?

Mr Gauke: No, I am not proposing any further policy changes. We are about to publish our response to the consultation process in the next few days. No further policy changes will be announced, but we will take the legislation through on Report. I hope that those comments are helpful. In the hope of dissipating any confusion that the hon. Member for Bolton West may have about clause 195 and schedule 26, let me say that the substance is unaffected by what we will address on Report.

9.45 am

I return to the proposals in front of us. By way of background, I should say that a package of measures were introduced in the Budget to tackle a number of anomalies along the borderlines of the VAT exemptions and zero rates. It is right that there should be a reasonable lead-in time that allows businesses to prepare for the changes, but that also creates opportunities for tax avoidance. Businesses could attempt to arrange their affairs so that they continue to treat their supplies as VAT free after the VAT liability changes to 20%. Past experience with VAT rate changes has shown that affected businesses set up prepayment arrangements to exploit the lead-in period if no anti-avoidance rules are in place. Accordingly, on 21 March, I announced that legislation, effective from that date, would be introduced as part of the Finance Bill to protect the public finances from artificial avoidance of the change in VAT liability, thus ensuring that the VAT liability changes are fully effective.

This clause will ensure that the new VAT liability will apply as appropriate. It will apply, subject to the transitional arrangements, to construction work which is done after 30 September 2012; to materials which are incorporated into buildings after 30 September 2012; and to self storage facilities which are provided after 30 September 2012, even if the supply is treated for VAT purposes as being made earlier. It will do this by levying an anti-forestalling charge in lieu of the VAT that would have been due if the advance payment had not taken place. While the anti-forestalling charge will apply to supplies treated as taking place on or after 21 March 2012, by virtue of the prepayment, it will not become due until 1 October 2012. HMRC estimates that only a very small number of businesses will be affected, although the individual tax involved in some cases may be quite substantial.

As I said earlier, we will need to make a minor consequential amendment to schedule 26 when we bring forward changes to the package on Report. Those changes will now be made by primary legislation, so paragraph 1 of schedule 26 will need to be amended to reflect that, as it currently refers to supplies becoming standard-rated as the result of an order.

Amendment 200, which was tabled by the Opposition, would simply add a requirement not to make an order to effect the substantive changes without first reviewing the full impact of those changes on jobs, living standards and businesses. That amendment is virtually identical to new clause 3, which was debated and defeated in Committee of the whole House on 18 April. Given the previous defeat of an identical amendment, and given that the substantive measures will be fully debated on Report when we bring forward changes on the issue, I do not consider it a good use of time to debate that amendment at great length today. Suffice it to say that the Government have considered the impact of the proposed changes, and tax information and impact notes were published on Budget day. We will publish revised notes when the consultation responses are published in the near future.

In any case, the changes to policy that we have already announced regarding hot food and static caravans will ameliorate the impact of substantial parts of the Budget proposal. The amendment as worded is academic now in any event, as the Government no longer intend to make an order to effect the substantive changes; they will now be made by amendment on Report. For those reasons, I ask that the amendment be withdrawn. However, let me quickly try to address some of the concerns raised by Committee members about listed buildings and self-storage. On listed buildings, VAT has been

charged on repairs for listed buildings for a long time. It seems strange that there is a more favourable tax treatment for alterations than for repairs.

Julie Hilling: While the Minister is contemplating the differences between repairs and changes to buildings, will he say whether he would support Labour's five-point plan, which says that VAT on repairs to buildings should be reduced to 5%?

Mr Gauke: There are two issues with that. First, the technical point is that there would still be, as I understand it, a distinction between repairs and alterations. I am not sure whether the hon. Lady is saying that Labour's policy would be to have a 5% rate for alterations, but there would still be a distinction. As the distinction between repairs and alterations is quite difficult to assess, such a change would create a great a deal of complexity and result in disputes, which would take up a great deal of HMRC's and taxpayers' time.

Sheila Gilmore: Will the Minister give way?

Mr Gauke: Let me finish the point; I have not finished yet with Labour's five-point plan. The other point—I will make it very briefly, because you would not want us to be diverted, Mr Sheridan—is that the five-point plan, which I do not believe the Labour party has ever costed, would add considerably to borrowing. It would add to our financial difficulties and it would be a reckless gamble with the public finances.

Sheila Gilmore: I want to explore the point about repairs and alterations. I do not deny that sometimes the dividing line can be difficult to discern, but it is discerned as a matter of course in many other situations. In my council, for example, improvement grants do not cover repairs, but they used to be provided for improvements, although that does not happen as often as it used to. I am not saying that people did not try to dispute the distinction, but it was perfectly possible and normal to make that distinction. The difference is perhaps that alterations to buildings give them a new use. Alterations enable the new uses that I mentioned in some of the examples that I gave.

Mr Gauke: To be fair, the hon. Lady acknowledged that the distinction can be a cause of dispute. It can distort behaviour, with people trying to arrange a change to a property in such a way that it is considered an alteration rather than a repair. Disputes about the distinction can cause difficulties for HMRC and taxpayers. It is an anomaly, and it is right that we have sought to address it.

I will address some of the questions that have been asked. On the funding of the listed places of worship scheme, we made it clear when the Budget was announced that we would expand the scheme so that churches would not be affected by the change in policy. We made an estimate at the time based on a Church report that suggested that the cost would be in the region of £5 million. After the Budget, we had further discussions with the Church of England, which led on the matter on behalf of other Churches. It became clear that the cost to the Churches had been underestimated, but we had always made it clear that we would compensate them. We had a constructive dialogue with the Churches, and the Chancellor and I met the Bishop of London and others on a couple of occasions to discuss the matter. Given the new evidence that was presented to us, we expanded the listed places of worship scheme in a way that I think the Church of England and other Churches are happy with. Our engagement on that point has been constructive.

As far as the estimate for the construction industry is concerned, we published a tax information impact note that showed the overall assessment of the impact on the industry as a whole. That tax information and impact note will be updated, but we believe that the impact on the overall construction industry will be marginal. A concern was raised about the transition, and the point was made that plans often take a number of years. We want to be as flexible as possible on projects that were under way before the Budget. The consultation paper made it clear that we want the transitional rules to provide as much flexibility as possible. I hope that reassures the general heritage industry. I have had a number of meetings with the Heritage Alliance, English Heritage and a broad coalition of interested groups on the matter, so there has been strong engagement.

A number of hon. Members have mentioned self-storage. On revenue and the effect on business, I refer the Committee to the summary of impacts set out in the consultation paper. Some 250 VAT-registered self-storage businesses that do not opt to tax their supplies will be affected. Additionally, any unregistered suppliers of self-storage will have to register as a result of the measure. The number of those businesses is not known but is estimated to be about 50. An unknown number of unregistered businesses, businesses that make exempt supplies and charities that are unable to reclaim the VAT charged on self-storage will be affected.

One-off compliance costs have been considered and are expected to be negligible in total. An estimated 300 businesses are expected to incur costs from familiarisation with the new guidance, system changes, repricing and additional bookkeeping, but those costs are all expected to be small. Ongoing annual costs have been considered for the estimated 50 businesses that will have to register, and those costs, again, are expected to be negligible in total.

I am grateful for the letter from my hon. Friend the Member for Poole, and I know he has asked for a meeting about the concerns he has raised. I have not yet responded to him in writing, but, if he would accept my response here, I would be delighted to meet him. I am grateful to him for raising that point.

We will have an opportunity to return to these matters on the Floor of the House, but I hope the Committee appreciates that the clause and schedule 26 will be important in preventing forestalling in response to the upcoming VAT liability change. The provisions in schedule 26 are a fair and proportionate response to the threat of forestalling, and the changes we make on Report will ensure that the anti-forestalling elements will remain effective.

Rachel Reeves: The Minister says that we debated a similar proposal in the Committee of the whole House, but there have since been substantial changes to the Bill,

with the U-turns on pasties and caravans. Given the change of circumstances, I think it is right and proper that we debate the measure this morning.

The Minister says that the Government are making amendments following consultation, but as my hon. Friends the Members for Bolton West, for Kilmarnock and Loudoun and for Newcastle upon Tyne North have said, what is happening is still unclear. What a mess: changes have been made to the Bill, and changes to changes will be made on Report. No wonder people, such as those who run shops selling pasties, are confused. I will be at Leeds railway station later this afternoon, although I will not be able to get a pasty because, as we now know, there is no pasty shop, despite the Prime Minister's protestations. There has been a change to reduce VAT on caravans from 20% to 5%. Instead of correcting anomalies, which the Minister says the Government are trying to do, and which the Chancellor said at the Budget, it seems that, in fact, many more anomalies and much more confusion are being created. Far from taxation being tidied up, it is even more confused than before.

10 am

On listed buildings, the Minister says that he has met with representatives of English Heritage and others, but he does not seem willing to budge in the way that the Government have on VAT for churches. Similarly on self-storage, he says that he is happy to meet with the hon. Member for Poole, but although he recognises the additional costs and bureaucracy involved at a time when the Government say that they are trying to cut red tape for businesses, he does not seem willing to budge.

The hon. Member for Poole put it well when he said that businesses were surprised by the change, and with surprise comes additional cost and bureaucracy. My hon. Friend the Member for Livingston rightly said that the taxes are stealth taxes on families and businesses, and he spoke about something I had not heard of before. I am not sure if I am going to say it correctly, but I am sure, Mr Chairman, that you will correct me if I get it wrong. He spoke about the Forfar bridie.

Graeme Morrice: Yes.

Rachel Reeves: That was not bad, if I do say so myself. I will have to take an intervention if anyone wants to disagree. The Forfar bridie will also be hit by the anomalies and the confusion about VAT.

My hon. Friend the Member for Edinburgh East said that it was not just the weather that was miserable at the moment but the whole approach to the Budget. Many of us will see similarities between her constituency and ours, with buildings needing the adaptations and the VAT changes risking creating eyesores. The Opposition hope that the Minister and the Government will find ways of making assistance available to ensure that that does not happen.

My hon. Friend the Member for Bolton West said that plans to make improvements would be shelved because of the additional costs, leaving buildings to go to wrack and ruin. We very much hope that that does not happen, and that the Government will listen again to the representatives calling on them to make changes, particularly, as my hon. Friend the Member for Gateshead said, at a time when families and businesses face other rising costs including those of insurance and repairs, and also of increased taxation, which we all, apart from millionaires, have to put up with.

I hope that, before Report, the additional confusion will be dealt with, and the changes, and the changes to changes, will be made. I also hope that changes further to those that the Minister has outlined today will be made in time to prevent some of the taxation changes from coming into effect and having a negative impact on families and businesses across the country. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 195 ordered to stand part of the Bill.

Schedule 26 agreed to.

Clause 196

EXEMPT SUPPLIES

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

Rachel Reeves: Clause 196 relates to an element of VAT that is not quite as controversial as the VAT issues that we have focused on already this morning. I declare that I, along with other members of the Committee no doubt, receive support from the Parliamentary Research Service, which will, I understand, benefit from the changes.

The provision has the effect of exempting from VAT the supply of services by a group that consists of persons engaging in exempt or non-taxable activities, as long as the services are supplied to group members at cost and for the purpose of the activities. That is a technical description, but I guess that their experience of the PRS will indicate to Members the types of activity covered. The exemption will potentially benefit charities, universities, colleges, housing associations and businesses that undertake exempt activities, and we are happy to support the measure.

Mr Gauke: May I, like the hon. Member for Leeds West, make a declaration of interest, in that I am a member of the Parliamentary Resources Unit, which could potentially benefit from the clause, as I suspect some of my hon. Friends may be.

Clause 196 introduces the so-called cost-sharing exemption, and will allow qualifying organisations, such as charities and housing associations, to form cost-sharing groups allowing the recharge of participants to be exempt from VAT. I would like to provide hon. Members with some background.

The clause introduces a new VAT exemption into UK law. It will apply when businesses and organisations with exempt or non-business activities come together as a cost-sharing group to share services. Under current UK legislation, such arrangements generally result in VAT being charged between the participants. The VAT charged can become an obstacle to cost-sharing arrangements if the payer is, for example, a charity or a university that is unable to recover the VAT in full.

The cost-sharing exemption provides a solution to the problem by removing the VAT charged between the participants. The exemption has never previously been introduced into UK VAT legislation, because it has not

[Mr Gauke]

been clear how it should be implemented. The wording in the European legislation is open to different interpretations, and in member states where implementation has occurred it has been interpreted in different and, in some cases, contradictory ways.

However, the position has changed. Following a period of extensive consultation since March 2010, including a formal consultation last summer, there is now a better understanding of how the exemption can be applied. The UK is now in a position to implement it.

The clause helps businesses and organisations that seek cost efficiencies to work with others to share costs and resources. It also supports the Government's objective of a fair tax system.

A formal consultation on the introduction of the exemption took place last summer for 12 weeks. Respondents welcomed the decision to allow a wide range of shared services to qualify for the exemption. However, it was also felt that other aspects of the proposals would restrict its potential use. One that was highlighted in particular was the requirement that there should be a cost-sharing vehicle, and that it should be separate from its members and could not be controlled by just one of them.

That condition is imposed by EU law, so we must maintain the requirement that a separate cost-sharing vehicle be set up, for the exemption to apply. However, we have been able to relax the condition relating to control. It will now be possible for one member to control the cost-sharing vehicle and still qualify for the exemption. We believe that that falls within the parameters of the European legislation.

The Government have listened and, where possible, have made changes to provide flexibility for potential users. HMRC has also consulted on the draft guidance to ensure that it meets user needs. It will publish the final guidance ahead of the "go live" date at Royal Assent.

The clause supports the Government's objective of a fair tax system. It reduces one of the barriers to achieving efficiencies through co-operation and collaboration by businesses and organisations such as charities, universities, colleges and social housing organisations. I welcome the cross-party support for it.

Question put and agreed to.

Clause 196 accordingly ordered to stand part of the Bill.

Clause 197

SUPPLY OF GOODS OR SERVICES BY PUBLIC BODIES

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

Cathy Jamieson: It is a pleasure to serve under your chairmanship this morning, Mr Sheridan. As was said earlier, we Scots always bring a ray of sunshine to the Committee proceedings.

According to the background notes and what the Government tell us, the clause implements article 13.1 of the principal VAT directive by inserting a new section 41A into the Value Added Tax Act 1994. It provides that public bodies, Departments and local authorities should not be taxed when making supplies of goods of services, unless those supplies arise out of what are described as "Annex 1" activities or the relief from VAT would cause "a significant distortion of competition."

The Government advise, in the background note, that:

"This provision puts the effective implementation of the article beyond doubt".

I understand from public bodies that in practice they should see no change in the existing tax treatment as a result of the legislative changes, because previously HMRC had given effect to the article by interpreting existing legislation in a way that achieved what was to be a correct result for the article's purposes. However, given that some recent litigation cast doubt upon that approach, suggesting that it amounted to effective implementation of article 51, there was a need to introduce the clause. In essence, the clause is a technical implementation of EU law, which I understand is already implemented in practice.

There is one particular issue that I want to raise about the clause. Discussion of the clause gives me an opportunity to put questions about the VAT treatment of something that is of particular relevance at the moment in Scotland. I hope that the Minister will be able to answer my questions.

The Minister will be very aware of the discussions that are ongoing with the Scottish Government in relation to the treatment of the future Scottish police force, a force that will cover the whole of Scotland and that is to be set up following changes in legislation in Scotland. There will also be a single Scottish fire and rescue service. I am aware that there are ongoing discussions about the treatment for VAT purposes of the new Scottish police force.

I have a number of questions. The Minister has talked about several things this morning: loopholes; anomalies; tidying things up; making sure there is equal treatment; and making sure that nobody is disadvantaged. I would like him to clarify an issue about which concerns have been raised. It is whether the new Scottish police force is to continue to be VAT-rated and will have to pay VAT. If so, would it be the only police force in the UK to which that particular tax treatment would apply?

The reason why I am asking that question is that I have a copy of a letter sent by the Cabinet Secretary for Justice in the Scottish Government to the Convener of the Justice Committee in the Scottish Parliament. As I understand it, this issue of VAT treatment will come up at stage 3 of the Police and Fire Reform (Scotland) Bill, in the not-too-distant future. I quote from the letter, because the Cabinet Secretary for Justice says:

"the Treasury's decision not to agree to the proposed Scottish Police Authority (SPA) and Scottish Fire and Rescue Service (SFRS) being able to reclaim VAT…will mean that the SPA and the SFRS will be the only police and fire and rescue authorities in the UK that are unable to recover VAT."

I disagree with the Cabinet Secretary for Justice in Scotland on many issues. However, it is very important that we get the facts on the record here. He goes on to suggest that the Treasury's treatment of the proposed police service and the proposed fire and rescue service in Scotland is entirely different to its treatment of the new academy schools in England. He says that those schools are

"fully funded by the UK Government yet the Treasury created a new provision to enable them to recover VAT."

Again, it would be very helpful if the Minister could address that issue.

I understand that there have been various discussions between officials in the Scottish Government and the Treasury, and that there were proposals potentially to include a provision in the Bill in Scotland that would make totally explicit the funding link between the local authorities in Scotland and the new police force, which I understand to be part of the issue. The Scottish Government believe that that provision would meet the Treasury's policy for securing what is described as section 33 status. I believe that there was a letter that set that out, and that there have been some amendments on the subject.

It would be helpful if we could have clarity, because this is a situation where everyone cannot be right. Is the Cabinet Secretary for Justice in Scotland correct in what he is saying? Is the Minister correct in what appears to be his understanding of the situation? It would be very helpful if the Minister could say whether there is a loophole here and, if there is, how it could be addressed. Is there an opportunity to address it through primary legislation in the Bill? What discussions have taken place on the draft changes that I understand have been shared with the Treasury in relation to the upcoming Bill in Scotland? I appreciate that the clause cannot fix that, but given that the clause is about the treatment of public bodies for VAT purposes, it is important to consider the matter.

Will the Minister say whether, as a result of the new Scottish police force, and the way that Scottish police and fire and rescue services will be delivered in Scotland, there is likely to be an increase in revenue to the Treasury? Under the changes, we would move from having geographically-based police forces and the Scottish Police Services Authority to having a single force, and away from having geographically-based fire and rescue services to having a single force. Will the Treasury accrue more or less VAT revenue if no changes are made?

10.15 am

Mr Gauke: Clause 197 confirms that public bodies, such as Departments and local authorities, that engage in activities as public authorities are not taxed unless that would distort competition with businesses. I am grateful to the hon. Member for Kilmarnock and Loudoun for setting out much of the detail, but let me say a word or two about the clause before dealing with her questions.

The provisions of the clause are consistent with EU law and the way that successive Governments have applied VAT to public bodies. The clause makes the position clear in law, thereby dealing with comments made by the courts. The public bodies involved should not see any change in practice. VAT is a broad-based tax that is charged on goods and services supplied for consideration and by way of business. For such purposes, the word "business" is not a test of intention, but one of regularity and continuity of scale. Such business activities do not include the statutory activities of public bodies funded through grant in aid or from taxation, such as activities that relate to health care, defence and law and order.

Activities for which a charge is made are in theory within the scope of taxation. Hon. Members will understand that, if applied too rigidly, the provision could have an undesirable outcome. Thus the practice has been that where a public body supplies a service under a statutory regime that is unique to it, that activity is outside the scope of VAT, unless competition with business would be distorted. For example, issuing a passport for a fee is undeniably a service, but it is only done by Government under a clear legislative process. We do not tax any such service as there is no competition with the private sector. By contrast, where an activity is opened up to both the public and private sectors, we would expect it to be taxed uniformly so that businesses are not disadvantaged.

Cathy Jamieson: What if a social enterprise was set up with Government support—for example, through the Cabinet Office? When it comes to considering whether it could compete against the private sector for outsourced services, what would be the position of that body for taxation purposes?

Mr Gauke: I am sure that the hon. Lady understands that this is a complex area. We always seek to remove any advantages that one type of entity has over the other; that has to be the objective. In ongoing discussions, one issue with the VAT system that we face is how it operates for hospices, which is often a difficulty, because they provide an exempt service and cannot recover the VAT that they incur. It is difficult to find a way around that problem through the use of the tax system; it then becomes a funding issue. Funding formulae for public authorities tend to take into account VAT issues, but the broad point is that a social enterprise will be subject to the same law as others—its competitors—and that is the right approach.

Nigel Mills (Amber Valley) (Con): Does the clause have any implications for gym membership fees? There is direct competition between local authorities and private operators in relation to leisure centres and gym membership. Private gyms are involved in a big campaign to exempt their membership fees from VAT, so that they can compete with local authorities.

Mr Gauke: It may come as a shock to the Committee that gym membership fees are not my specialist subject, but the clause has no implications for them. As I have said, the courts have expressed doubts about whether UK legislation explicitly reproduces the EU rules, even though our policies are fully consistent with those rules. The clause therefore amends the Value Added Tax Act 1994 to provide certainty for public bodies and protection for businesses that might compete with them.

The hon. Member for Kilmarnock and Loudoun asked about the Scottish police force. The Scottish Government took the decision to fund the Scottish police force from central taxation. That does not conform, and is not consistent, with other police authorities, which are funded from local taxation. The Scottish Government took that decision in the knowledge that VAT relief would be lost, and they were aware of the consequences. However, I understand that the Scottish Government believe that they will make a significant saving of, if my memory serves me correctly, £15 million, which will more than outweigh the additional VAT costs. I am loth to get into too much detail on that

[Mr Gauke]

point. Although I fully understand why the hon. Lady raised it, it is not directly relevant to the clause, which will certainly not result in any change in revenue from the Scottish police force.

Cathy Jamieson: Will the Minister address the fact that there may be opportunities for local authorities to provide additional revenue to the new Scottish police service, specifically for local projects? What would the VAT treatment for that funding? What is the difference between the new Scottish police force and the Police Service of Northern Ireland with regard to VAT? How will the new offices of police commissioners in England be treated for the purposes of VAT?

Mr Gauke: I am conscious that my words will be looked at very closely, so perhaps I should leave it there, but what I would say is that the Treasury is very willing to engage and work constructively with the Scottish Government to see whether the matter can be addressed. There is, however, limited flexibility, given the legislative situation and the fact that the Scottish Government decided to fund the new police force through central taxation, which is different from how other police authorities are funded. We are happy to engage in dialogue with the Scottish Government to ensure that we get the best possible solution. I want to underline, however, that there are significant constraints, of which the Scottish Government have long been aware. With those remarks, I hope that clause 197 will stand part of the Bill.

The Chair: I am extremely impressed with the Minister's ability to combine his role with that of the Parliamentary Private Secretary. He is doing well.

Question put and agreed to.

Clause 197 accordingly ordered to stand part of the Bill.

Clause 198

RELIEF FROM VAT ON LOW VALUE GOODS: RESTRICTION RELATING TO CHANNEL ISLANDS

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

Catherine McKinnell: Clause 198 aims to repeal the exemption from VAT that low-value goods imported from the Channel Islands have been entitled to. That exemption is part of the low-value consignment relief scheme—to save time, I shall refer to it as LVCR—under which goods costing less than £15 imported into the UK from non-EU countries are exempt from VAT. Although the Channel Islands are part of the UK, they are not part of the EU VAT area, so goods entering from the Channel Islands are VAT-exempt. Large companies such as HMV, which base their dispatch operations in the Channel Islands, have therefore been able to sell their low-value products more cheaply than companies dispatching from the mainland. Some companies, such as Holland and Barrett, have campaigned for the exemption to be ended on the basis that they cannot compete with companies that do not have to charge VAT. The clause would end LVCR for the Channel Islands, so that goods imported from there would be subject to VAT.

We support the removal of LVCR from the Channel Islands to protect the interests of businesses based elsewhere in the UK, and to increase the UK tax take. It is right that UK companies be able to trade in their home market without being undercut. However, we have some concerns about how thoroughly the Government have considered the alternatives to that approach, and they have a serious responsibility to do so given the impact that the move will have on the Channel Islands. The Post Office estimates that it will lose a massive chunk of its revenue, and the scale of job losses in the Channel Islands is estimated to be significant. Some estimate that unemployment in Jersey will increase by 50% as a direct result of major companies relocating away from the island.

That relocation could be to the UK mainland. HMV has said that it will transfer its mail order centre from Guernsey to Birmingham. However, in some instances, those jobs could go further afield, because LVCR will still apply to other non-EU countries such as Switzerland, Andorra, and Gibraltar. Companies will be free to move their dispatch operations to those countries and keep the same benefits. How effective is the clause if that option is left wide open? We know that big companies are mobile. There is nothing to stop them moving their packaging and dispatch operations to wherever the tax regime is best, and that is their right. However, it is the Government's responsibility to look at how to create the best possible regulations in the light of that predictable behaviour.

One solution is to consider withdrawing LVCR from all non-EU countries. It would not be appropriate to commit to that without thoroughly reviewing all the appropriate data, but I ask the Minister to confirm today whether the Government have considered that option and what their conclusion was. Chasing companies from one country to another, and closing loopholes a country at a time, is certainly not sensible tax planning. If the Government plan to do that, they need to ensure that they create a level of certainty for businesses.

Some behaviours can be predicted, and some are less predictable, so one has to question what the actual yield will be from the measure. With regard to the yields that are predicted to result from the Channel Islands loophole being closed, what consideration has been given to the possibility of the loophole being further exploited? We will not oppose the withdrawal of the exemption from the Channel Islands, and we have not tabled any amendments on the subject, but I seek reassurance from the Minister that consideration has been given to the issues, in order to mitigate the concerns that the measure will not achieve its aim.

10.30 am

Mr Gauke: Clause 198 is about low-value consignment relief. Changes were announced in December 2011 and came into force provisionally on 1 April 2012. The clause changes the rules on import VAT applicable to low-value consignments imported by UK customers from the Channel Islands. The changes apply to imports by both consumers and businesses. Through this reform, the Government aim to ensure that UK businesses,

especially small and medium-sized enterprises, can compete on a level playing field with businesses that have operations in the Channel Islands, and to protect Exchequer revenue. The measure is part of our wider programme to tackle tax avoidance and deliver fairness in the tax system.

Let me briefly provide some background for hon. Members. Low-value consignment relief is a relief from import VAT due on commercial consignments imported from outside the EU. The relief is based on provisions in EU VAT law dating back to 1977. Member states may implement the EU provisions in three ways. First, they may exempt from import VAT consignments valued at €10 or less. Secondly, they may increase the threshold up to a maximum of €22, which is just over £18 at the current exchange rate. Thirdly, they may withdraw the relief from mail order supplies.

From 1995 to 2011, the UK set the LVCR threshold at £18. My right hon. Friend the Chancellor announced in the 2011 Budget that the threshold would be reduced to £15 with effect from 1 November 2011 for imports from all non-EU countries. He also gave a commitment to end the exploitation of LVCR.

As hon. Members know, and as the hon. Member for Newcastle upon Tyne North said, the Channel Islands fall outside the EU's VAT territory. The LVCR is therefore applicable to goods imported from the Channel Islands. It is worth pointing out that an extraordinary 83% of all low-value consignments entering the UK from outside the EU by post or courier are estimated to originate in the Channel Islands, and much of that seems to be linked to exploitation of the relief. The Government have therefore concluded that the supply of mail order goods from the Channel Islands is distorting the conditions of competition in the UK market. We are committed to ending that exploitation, so in December 2011 we published draft legislation to remove LVCR from all mail order goods imported from the Channel Islands.

The Committee may know that the states of Guernsey and Jersey were unhappy about our decision. Both states launched judicial review proceedings, seeking a declaration that the proposed changes were contrary to EU law. The High Court dismissed those challenges on 16 March, and we heard on 2 April that they would not appeal against the High Court ruling.

Stephen Barclay (North East Cambridgeshire) (Con): May I take the opportunity to put on the record my support for this initiative, which brings commercial opportunities to, for example, the horticulture sector where there are packaging opportunities as a result of the change? As part of joined-up government, will my hon. Friend draw other Departments' attention to the commercial opportunities that will flow from this, so that businesses such as R Delamore in my constituency can make more use of the opportunities it offers?

Mr Gauke: I am grateful to my hon. Friend for raising that. He makes a very good point about horticulture, which I know is very strong in his constituency. His constituents have faced competition from the Channel Islands because no VAT would have been payable on the products imported from there. Indeed, there are concerns that items may have been imported into the Channel Islands and exported again with no VAT applying, which is clearly unfair competition based on a distortion created by the tax system. That is not fair on his constituents and it is one of the reasons we have moved to close down the relief.

I hope that it will be helpful for the Committee if I turn to the detailed provisions contained in clause 198. The overall effect will be to withdraw low value consignment relief for all goods imported from the Channel Islands under a mail order arrangement from 1 April this year. The changes will lead to the alignment of the VAT treatment of Channel Islands based supplies with those of UK VAT registered companies. As a result of the change, there is already evidence that some companies based in the Channel Islands are relocating to the United Kingdom. For example, as we have heard, HMV, one of the largest exporters on the Islands, is closing its Guernsey operation and consolidating its online facilities in the UK—as the hon. Member for Newcastle upon Tyne North has said, in Birmingham. The Office for Budget Responsibility estimates that the measure will increase receipts by around £100 million annually.

The question was raised about whether other options are available to us. When considering the reform of low value consignment relief, we considered whether we should withdraw the relief altogether from selected other countries. We decided not to pursue those options for the time being as the exploitation of this relief primarily involves imports from the Channel Islands, as I have said. However, we will monitor carefully for evidence of the diversion of supplies from the Channel Islands to other non-EU countries, and if that happens on a large scale, we will remove low value consignment relief from mail order imports from those countries as appropriate.

The issues associated with clause 198 are not new. For several years, there have been representations from UK retailers complaining about unfair competition from firms using the Channel Islands to exploit low value consignment relief. They consider what has been happening to be tax avoidance, which has contributed to the failure of some UK retailers. My officials have also had discussions with the European Commission, which has taken a close interest in the issue following complaints made to it by UK retailers. In the light of those representations, we concluded that we should take targeted action to prevent the exploitation of this relief continuing to damage the interests of UK retailers, particularly smaller retailers who do not have the resources to set up operations in the Channel Islands.

It is a fair point—this criticism has been made—to say that this action has taken too long to implement. For those of us who have been involved in these matters for some time, it is disappointing that action was not taken some years ago to address the unfair competition that some retailers have faced. I am pleased that, under this Government, we have been able to progress the matter much more quickly and achieve real progress in the area.

Of course, I welcome the fact that the Opposition are going to support the measure, although I thought that that support seemed somewhat tepid. It cannot be right that we should not take action to deal with something that provides unfair competition to UK retailers because we are concerned about job losses in the Channel Islands. It is not right that we preserve jobs in the Channel Islands at the expense of people in the United Kingdom

[Mr Gauke]

on the basis of an unfair tax advantage. Therefore, we have taken the action that is both in our interest and that of fair competition.

Catherine McKinnell: On that point, I want to clarify for the record that there was no suggestion in my comments that jobs should be protected at the expense of onshore jobs in the UK. The point was that the decision to make the change must be well considered, given the impact that it will have, and that there is a need to acknowledge the impact on workers in Jersey.

Mr Gauke: I am grateful to the hon. Lady for that clarification, although I would expect the priority of the hon. Lady to be—I am sure that this is her position—removing a distortion in our tax system, especially an unfair distortion that potentially may have been costing jobs in UK retailers.

In conclusion, this Government have listened closely to the views of UK small and medium-sized enterprises and looked at the revenue implications of low value consignment relief. From the evidence collected, the Government have decided to remove LVCR from mail order imports from the Channel Islands, which will enable UK businesses to compete on a level playing field and protect revenue for the Exchequer. It will contribute to promoting fairness in the tax system and tackling avoidance activity. After years of inaction, I am pleased that this Government are able to insert this clause in the Bill.

Question put and agreed to.

Clause 198 accordingly ordered to stand part of the Bill.

Clause 199

GROUP SUPPLIES USING AN OVERSEAS MEMBER

Question proposed, That the clause stand part of the Bill

Cathy Jamieson: We are moving on to consider a number of technical clauses that tidy up a number of areas where things have been perhaps the practice over a period of time but now need to be put on a statutory footing. The background note says that the clause relates to group supplies using an overseas member. It talks about reverse charges and says:

"A reverse charge is a mechanism for taxing supplies of services bought by businesses from outside the UK but consumed within the UK."

It goes on to say:

"Supplies made by one member of a VAT group to another are disregarded (section 43(1) of VATA). Therefore no VAT would be chargeable when supplies from outside the UK are brought into a UK VAT group by a member belonging overseas. Sections 43(2A) to 43(2E) of VATA are anti-avoidance provisions preventing reverse charges from being avoided by buying in services, ultimately for consumption within the UK, via a VAT group member belonging overseas."

It also explains:

"This valuation provision is necessary (as was the concession it replaces) to restrict the impact of sections 43(2A) to 43(2E), in appropriate circumstances, to the bought–in services introduced into the UK via an intra-group charge. Without this provision the charge would apply to the use of the overseas group member's own resources included in the intra-group charges as well as the bought in services."

In essence, my understanding is that the clause puts on a statutory footing the long-standing concession on how the reverse charge on intra-group supply would be valued and applies when the representative member of the group satisfies the commissioners as to the value of the bought-in services. The clause also sets out how the charge is to be calculated and allows HMRC to direct that the value of the bought-in services is to be an open-market value. That provides a power for subsequent amendments to be made to the valuation provision.

We do not have a difficulty with this clause, but it is important to spell out for the record—I am sure that the Minister will want to do so as well—its purpose.

Mr Gauke: I thank the hon. Lady for her support for this clause and for setting out its purpose. Let me also briefly reiterate the position. The Government announced in Budget 2011 that we would legislate an existing VAT extra-statutory concession in Finance Bill 2012. The clause does that, effectively ensuring that taxpayers and UK VAT groups pay VAT on services brought into their UK business via overseas establishments on a fair basis.

Let me provide hon. Members with some background to this clause. It is part of HM Revenue and Customs' ongoing review of extra-statutory concessions, commonly called ESCs. The current law imposes a charge to VAT on supplies within VAT groups in certain circumstances. Generally, supplies within VAT groups are disregarded, so no VAT is charged. The charge to VAT targets an avoidance scheme set up to avoid VAT on services bought from third parties via overseas premises. The ESC restricts the value of the charge to ensure that the anti-avoidance legislation is well targeted and that a fair charge is applied. The clause affects partially exempt VAT groups with members that have overseas establishments that make supplies to UK members of the group—mainly businesses in the financial and insurance sectors.

The clause provides that the valuation of the charge as set out in the ESC is now provided in legislation. It also provides that, where supplies are undervalued, Her Majesty's Revenue and Customs may direct that they are valued at open market value. It therefore preserves the status quo. It is not designed to change the current treatment—for example, by specifically linking the charges to VAT avoidance and not applying them when no avoidance motive exists.

10.45 am

Some respondents to the HMRC consultation, which was held in summer 2011, suggested such substantive changes, but any such changes would have to be part of a wider review of VAT grouping legislation. Most respondents supported the proposed legislation. As requested by some respondents, HMRC will publish clear guidance on how to apply the charges in practice. The guidance has been exposed in draft to interested parties and will be published this summer, prior to the clause taking effect.

In conclusion, the clause enables the Government to continue to prevent avoidance by VAT groups, while ensuring that the legislation provides for a fair charge on services purchased outside the UK.

Question put and agreed to.

Clause 199 accordingly ordered to stand part of the Bill.

Clause 200

POWER TO REQUIRE NOTIFICATION OF ARRIVAL OF MEANS OF TRANSPORT IN UK

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

Cathy Jamieson: This is another clause with which we do not have a difficulty, but it is important to set out what it will do and how it will affect potential consumers and industry. The clause provides for the introduction on 15 April 2013 of a new notification system for arrivals of means of transport in the United Kingdom, and the payment of VAT due.

The Government announced in the 2011 Budget a joint initiative between HMRC and the Driver and Vehicle Licensing Agency to combat VAT fraud on vehicles brought into the UK. According to the explanatory notes,

"a person bringing a new or used road vehicle into the UK for permanent use on UK roads will have to notify HMRC within 14 days of the arrival of the road vehicle in the UK. In the case of an acquisition of a new road vehicle from within the EU, private individuals and non-VAT registered businesses will be required to pay any VAT due at the time of notification. VAT registered customers will continue to make payment via their VAT returns. In the case of a road vehicle imported from outside the EU, VAT will continue to be collected under existing arrangements."

The measure is helpful. In the past, people have purchased, in good faith, vehicles described by the industry as grey imports, without understanding their full history. The clause is, therefore, important, not only because it will enable the Treasury to collect the taxation due, but because it will give confidence to the purchasers of vehicles that everything has been done properly and above board and that they will not be caught out at some point. We support the clause.

Mr Gauke: As we have heard, the clause will provide for the introduction of a new notification system for vehicles brought into the UK, and paying any VAT due. It is a joint initiative between HMRC and the DVLA to combat VAT fraud on road vehicles brought into the UK. At present, road vehicles are notified to HMRC by a variety of forms and a number of means that take place after licensing and registration of the road vehicle by the DVLA. Organised criminals are exploiting that weakness by registering and licensing their road vehicles with the DVLA without payment of VAT.

From 15 April 2013, a person bringing a new or used road vehicle into the UK for permanent use on UK roads will have to notify HMRC within 14 days. Private individuals and non-VAT registered businesses will be required to pay VAT due at the time of notifying the arrival of new vehicles. VAT-registered customers will continue to make payment via their VAT returns. For road vehicles imported from outside the EU VAT will continue to be collected under existing arrangements.

It will not be possible to license and register a road vehicle with the DVLA until HMRC is notified and any VAT due has been paid or, in the case of VAT-registered businesses, is assessed as secure. HMRC will be introducing an online system for notifying the arrival of all road vehicles brought into the UK. That will enable real-time verification of VAT status of notified vehicles, with the collection of VAT up front in some instances. Online notification is expected to be the preferred method of communication, although a paper channel will also be available. To give effect to the clause, secondary legislation amending the VAT regulations, will be laid following Royal Assent.

In conclusion, the clause will reduce fraud and introduce a level playing field for those who bring road vehicles into the UK. The online system will streamline the notification process, reduce the scope for error and improve the service to customers notifying the arrival of a road vehicle to HMRC.

Question put and agreed to.

Clause 200 accordingly ordered to stand part of the Bill.

Clause 201

NON-ESTABLISHED TAXABLE PERSONS

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

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

That schedule 27 be the Twenty-seventh schedule to the Bill.

Cathy Jamieson: I hope, as with other clauses, that consideration of this clause will not take too long. Clause 201 and schedule 27 would amend the VAT Act 1994 from 1 December 2012, by inserting a new schedule 1A, to change the rules for determining when a business that makes taxable supplies in the UK but has no establishment here has to register for VAT. Non-UK established businesses would no longer be able to benefit from the UK VAT registration threshold. The clause would also make consequential changes to other parts of the VAT Act 1994 and the Finance Act 2008.

I understand that the various paragraphs and schedules in relation to this matter have been put forward to bring UK law into line with the judgment of the Court of Justice of the European Union in relation to VAT. In that context, we will not oppose the clause. I have one eye on the clock and I assume that the Minister will be able to respond before the Committee has to adjourn.

Nigel Mills: I am sorry to delay the Minister, but I have some quick comments. This is one of those European Court cases that has produced a rather strange verdict. The impact means that very small businesses that operate in the UK with tiny amounts of turnover will now in theory be meant to register for VAT, when they probably would not have to register in their home countries, and would not register here if they were based here. That creates a perverse situation where a window cleaner from Ireland who pops over to clean the windows of a few friends in Northern Ireland and gets paid for that will in theory be committing an offence by not registering for VAT.

I would like the Minister to set out whether there is any realistic way that that can be enforced. How will we be able to catch all those people who are engaging in tiny amounts of trade? Is there really any gain from the measure? Will the cost not wholly outweigh any VAT that might be collected? This is just another example of

[Nigel Mills]

the EU forcing us to impose on small businesses ridiculous regulations that cannot possibly be complied with, rather than focus on the large businesses that ought to be the scope.

Mr Gauke: Clause 201 introduces schedule 27. Schedule 27 will make changes from 1 December 2012, to limit the UK VAT registration threshold to businesses that are established in the UK. That means that non-UK established businesses will have to register for VAT in the UK, even if their taxable turnover is below the UK's domestic VAT registration threshold.

The change needs to be made following a judgment of the Court of Justice of the European Union in the Schmelz case, in which it ruled that businesses without an establishment in a member state are prohibited from benefiting from that state's domestic VAT threshold. The majority of EU member states require non-established businesses to register for VAT, regardless of the value of taxable supplies made in that member state. The change brings the UK into line with other member states that have no registration threshold for non-established businesses. Although tax receipts as a consequence of the changes are expected to be small, implementation costs are also expected to be negligible.

In conclusion, the clause and schedule introduce a limit to the UK VAT registration threshold to businesses that are established in the UK. That will reduce competition to UK businesses from unregistered businesses based overseas.

Question put and agreed to.

Clause 201 accordingly ordered to stand part of the Bill.

Schedule 27 agreed to.

Ordered, That further consideration be now adjourned. *—(Greg Hands.)*

10.56 am

Adjourned till this day at One o'clock.