

# 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)**

*Seventeenth Sitting*

*Tuesday 26 June 2012*

*(Morning)*

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CLAUSES 206 and 207 agreed to.

SCHEDULE 32 agreed to.

CLAUSES 208, 210 and 211 agreed to.

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

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**The Committee consisted of the following Members:**

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

- |   |   |
|---|---|
| † Baldwin, Harriett ( <i>West Worcestershire</i> ) (Con)                  | † McKinnell, Catherine ( <i>Newcastle upon Tyne North</i> ) (Lab) |
| † Barclay, Stephen ( <i>North East Cambridgeshire</i> ) (Con)             | † Malhotra, Seema ( <i>Feltham and Heston</i> ) (Lab/Co-op)       |
| † Blenkinsop, Tom ( <i>Middlesbrough South and East Cleveland</i> ) (Lab) | † Mann, John ( <i>Bassetlaw</i> ) (Lab)                           |
| † Burley, Mr Aidan ( <i>Cannock Chase</i> ) (Con)                         | † Mearns, Ian ( <i>Gateshead</i> ) (Lab)                          |
| † Elphicke, Charlie ( <i>Dover</i> ) (Con)                                | † Mills, Nigel ( <i>Amber Valley</i> ) (Con)                      |
| † Garnier, Mark ( <i>Wyre Forest</i> ) (Con)                              | † Morrice, Graeme ( <i>Livingston</i> ) (Lab)                     |
| † Gauke, Mr David ( <i>Exchequer Secretary to the Treasury</i> )          | † Morris, Grahame M. ( <i>Easington</i> ) (Lab)                   |
| † Gilmore, Sheila ( <i>Edinburgh East</i> ) (Lab)                         | † Pugh, John ( <i>Southport</i> ) (LD)                            |
| † Gyimah, Mr Sam ( <i>East Surrey</i> ) (Con)                             | † Rees-Mogg, Jacob ( <i>North East Somerset</i> ) (Con)           |
| Hamilton, Fabian ( <i>Leeds North East</i> ) (Lab)                        | Reeves, Rachel ( <i>Leeds West</i> ) (Lab)                        |
| † Hands, Greg ( <i>Chelsea and Fulham</i> ) (Con)                         | † Smith, Miss Chloe ( <i>Economic Secretary to the Treasury</i> ) |
| Harrington, Richard ( <i>Watford</i> ) (Con)                              | † Swales, Ian ( <i>Redcar</i> ) (LD)                              |
| † Hilling, Julie ( <i>Bolton West</i> ) (Lab)                             | † Syms, Mr Robert ( <i>Poole</i> ) (Con)                          |
| † Hoban, Mr Mark ( <i>Financial Secretary to the Treasury</i> )           | † Williams, Stephen ( <i>Bristol West</i> ) (LD)                  |
| † Jamieson, Cathy ( <i>Kilmarnock and Loudoun</i> ) (Lab/Co-op)           | † Williamson, Gavin ( <i>South Staffordshire</i> ) (Con)          |
| † Kirby, Simon ( <i>Brighton, Kemptown</i> ) (Con)                        | Wilson, Sammy ( <i>East Antrim</i> ) (DUP)                        |
| † Lavery, Ian ( <i>Wansbeck</i> ) (Lab)                                   |   |
| † McKenzie, Mr Iain ( <i>Inverclyde</i> ) (Lab)                           | Simon Patrick, James Rhys, <i>Committee Clerks</i>                |
|   | † <b>attended the Committee</b>                                   |

## Public Bill Committee

*Tuesday 26 June 2012*

*(Morning)*

[MR PETER BONE *in the Chair*]

### Finance Bill

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

#### Clause 206

##### INDEXATION OF RATE BANDS

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

10.30 am

**Catherine McKinnell** (Newcastle upon Tyne North) (Lab): I welcome you again to the Chair, Mr Bone, on the final day of this Finance Bill Committee. I assure you that the Committee will be as thorough and scrutinising as it has been from the start. It is an honour to serve under your chairmanship today.

I will address clause 206 and introduce some of the queries and concerns that arise from the clauses on inheritance tax. We all remember what a priority inheritance tax was for the Government when they went into the last general election. Their manifesto pledge to raise the inheritance tax threshold to £1 million lasted just 12 days and did not make it into the coalition agreement. That was good news for Opposition Members because the pledge was a millionaires' charter that would have given the richest people in this country a tax break at a time when the incomes of millions of hard-working families are being cut.

I can therefore happily say that these clauses do not introduce a large rise in the threshold. Instead, clause 206 will limit the threshold by changing the automatic index-linking of the nil rate band—the amount that can be inherited before inheritance tax is payable—to the consumer prices index inflation measure, instead of to the retail prices index. We do not oppose that change. The vast majority of people will be unaffected by the measure; only 6% of estates are large enough to be subject to inheritance tax. Labour's last Budget in 2010 confirmed that the nil rate band would be frozen until 2015 as a deficit reduction measure. We therefore see the change as a reasonable measure to slow down the rate at which the threshold will grow after that.

Will the Minister confirm whether his Government's policy is to lift the freeze after 2015? What are the Government's future plans?

**Charlie Elphicke** (Dover) (Con): Is the hon. Lady saying that she opposes any rise in the threshold, now or in the future? Or does she believe that there should be a rise in the threshold at some point?

**Catherine McKinnell**: I am not in any way saying that I am opposed to rises in the threshold. I am grateful that the hon. Gentleman gives me this opportunity to make it clear that I do not think it is appropriate at this stage, given the current economic situation and the burden that is falling on those who earn the least, for the threshold to be frozen for those who are most able to bear such a burden. I seek confirmation of the Government's policy on the freeze and any potential future rises.

The measure before the Committee will collect more revenue from the people who can afford it most. For that reason, we will not oppose or seek any amendment to the clause.

**Jacob Rees-Mogg** (North East Somerset) (Con): It is a great pleasure to serve under your chairmanship, Mr Bone, although, to some extent, there is sorrow that we are ending this marvellous consideration of the Bill. This Committee has been a feast of delights, joys, wit and entertainment from both sides.

On inheritance tax—or death duty, as it more popularly ought to be called, because it is not on inheritance but on death—I want briefly to remind Conservatives of what they really believe. We believe that this is a monstrous tax, one of the cruellest taxes that falls on people at the worst time when they are facing the loss of a member of their family, somebody to whom they were probably devoted. This tax takes something that has been built up over years, sometimes generations, and penalises it at a 40p rate, snatching it into the grasp of Revenue and Customs. One would think that the undertaker turns up followed immediately by somebody accounting for the Inland Revenue. That is a cruel and sad thought. The Conservative party was amazingly popular when it said it would raise the threshold to £1 million. The right hon. Member for Kirkcaldy and Cowdenbeath (Mr Brown) decided that a general election could not be called, so popular were the Conservatives at that point. The opinion poll ratings shot up; it made us almost as popular as the veto of the European treaty did. There is a lesson to learn from that of sticking to the true Conservative principles of low taxation and not taxing capital, because that is a tax on something that is not fundamentally liquid. That is bad whether it is on death, wealth or property.

**Grahame M. Morris** (Easington) (Lab): I am sorry to interrupt the hon. Gentleman's flow. Will he advise the Committee whether he agrees with his right hon. Friend the Member for North Somerset (Dr Fox)? On a radio interview during the week, he said that he believed in the abolition of inheritance tax.

**Jacob Rees-Mogg**: Somerset is such a place of wisdom and sense that it is no surprise to me that I agree with my right hon. Friend and immediate neighbour, with whom I am sometimes privileged to be confused when people forget the word "East" in my constituency. I take it as a matter of honour to be compared to the great man, and his wisdom is known across the nation. What he said is absolutely right.

**John Mann** (Bassetlaw) (Lab): To clarify the hon. Gentleman's core Conservative principles, which he advises his colleagues to consider for the first time in the

Committee, will he say whether it is his view that taxation, as he suggests, should be lowered, but that everybody who avoids the set rates of tax should be pilloried and identified, from Prime Minister onwards—for example, Mr Jimmy Carr? Would he like to name other tax avoiders, who ought to be named and shamed in the true new Conservative tradition?

**Jacob Rees-Mogg:** I am grateful to the hon. Gentleman, who sometimes manages to put a more Tory case than I can myself. It troubles me that Bassetlaw is not about to become an outpost, an honorary part of Somerset, when he has so robust and staunch a view.

Tax avoidance is perfectly legal, and people are entitled to prevent the Revenue, as Lord Clyde said, “putting the largest possible shovel” into their stores, by making such arrangements as they see fit and are legal. Some things might turn out not to be legal.

**Grahame M. Morris:** Leaving aside the point about tax avoidance, I do not think that that defence would hold in the court of public opinion. In relation to the hon. Gentleman’s advocacy of the abolition of inheritance tax, how would he pay for that tax cut? That cut of £4 billion would benefit a very small proportion of people, a lot of them in Somerset.

**Jacob Rees-Mogg:** I am grateful to the hon. Gentleman for that point. There is a serious economic argument for getting rid of inheritance tax. On the propriety of taxing people on death, I would question whether it is right for the Government in principle to impose a tax at that point.

On the economic argument, taxing capital ties it up in inefficient ways. There are a variety of reasons for that, not least that there are all sorts of exemptions relating to inheritance tax that encourage people to make particular types of investment, which may not be the best economic use of capital. They may invest in or hold goods that are exempt, buy trading farms or put the money into land—raising the price of land, already currently high—and not necessarily into other productive investments. There is a great prejudice in favour of a private business as against a public business, but public businesses may need investment more than private trading companies. Private trading companies may be over-capitalised because that is a way to get round inheritance tax. Our public companies find it hard to raise capital. Bank deposits are lowered; if someone has a bank deposit that is the easiest way to levy inheritance whereas if the money is in a corporate structure, it is taken out of inheritance tax.

The anomalies that are caused through inheritance tax are economically very damaging and ensure that capital is not best used. It seems crucial that any tax system should do the least damage to people’s investment decisions, because our economy will grow only if capital is used efficiently and productively. I argue strongly that death duties lead to the unproductive use of capital.

The only reason for death duties, as they currently stand, is as a “Let’s soak the rich” approach to taxation.

**Ian Mearns** (Gateshead) (Lab): The hon. Gentleman is giving a stout defence of those who avoid paying and subsequently may fall foul of inheritance tax. If the apocryphal Mr Carr were to fall unfortunately under

the number 53 Saltwell park omnibus one day, his estate, which he has put offshore, would fall foul of inheritance tax, because the offshore trust would revert back to his estate. Is the hon. Gentleman saying that such an estate should not be subject to any inheritance tax?

**Jacob Rees-Mogg:** It is not for me to discuss the affairs of particular comedians. All I will say is that it is interesting that both Ken Dodd and Mr Carr have got into trouble over their tax affairs, and I wonder if there is any connection between them, or whether Mr Dodd is funny and the other is not. That may be a minority taste, even among the Committee.

**Ian Mearns:** I think it was Ken Dodd who said that comedians were not accountants, but some accountants are comedians.

**Jacob Rees-Mogg:** I do not wish to be pedantic, but I think it was George Carman, his QC, who said that, rather than Ken Dodd himself. The point is none the less well made.

On death duties relating to offshore trusts, once again, we are seeing perverse decisions being made to try and get round the tax system that are not necessarily for the best and most productive use of capital.

**Grahame M. Morris:** This is an important point. The hon. Gentleman is arguing that the abolition or the reduction of inheritance tax would act as a stimulus to the UK economy, but what is the opportunity cost, and how would the hon. Gentleman propose to fund that? Would he increase indirect taxes such as VAT, which would be regressive, with the burden falling on the poorest?

**Jacob Rees-Mogg:** The hon. Gentleman makes a good point. If you are in favour of any tax cut, it is necessary to work out where the revenue will come from to replace it.

I make two observations on death duties. First, the amount is small for a complex area of taxation, and it is expensive for the Government to enforce. Some £4 billion is not a large amount of money in a Government system that is taking in the order of magnitude of £700 billion a year at expenditure level.

**Julie Hilling** (Bolton West) (Lab): It interests me that the hon. Gentleman says it is a small amount of money, when the Government say that they have to make enormous changes to welfare benefit, which would produce less money than he is talking about here. Again, is that intended to hit the poor and benefit the rich?

**Jacob Rees-Mogg:** The hon. Lady misattributes what is going on. Any welfare reform requires a large number of individual steps, each one of which raises a remarkably small amount of money, but that does not mean that those steps do not need to be taken. Cumulative steps are needed to implement major reform of an expenditure area of £200 billion a year. On something in welfare reform only affecting £1 billion or so, yes, the individual amount of expenditure is small. If that were the only thing being done, it would not be worth it for that amount of money, but if the £1 billion is part of a much bigger and more sensible reallocation of resources, it becomes important in its own right.

[*Jacob Rees-Mogg*]

To return to inheritance tax—death duties—£4 billion is an amount that the economy could make up very easily if more sensible capital allocations were made and if money were released from being tied up in tax avoidance schemes, not only of a legitimate kind but of the kind that the Government specifically encourage. A small trading business is 100% exempt from inheritance tax, but small does not have to be small; it could be very large. That business therefore maintains higher levels than it needs and does not necessarily invest that money as it otherwise would, because the money may simply be used as a means of protecting the investment. That could be unleashed if people were not devoting their capital to ensuring that their heirs and successors inherited in the end.

**Catherine McKinnell:** The hon. Gentleman is making an interesting argument and clearly an impassioned one. Does he therefore suggest that inheritance tax would be more acceptable to him and perhaps many of his party colleagues if it were linked directly to specific investment decisions? For example, the charity tax, which we will debate in the next clause, is a targeted relief. If inheritance tax was targeted at specific business investment decisions, would he then accept it as a form of duty?

10.45 am

**Jacob Rees-Mogg:** I am grateful to the hon. Lady for asking that, because it is important to clarify that it is exactly what I do not believe. The Government are the worst possible organisation to guide people on what investment decisions they ought to make.

**The Chair:** Order. We are getting a little away from replacing the retail prices index with the consumer prices index. Perhaps the hon. Gentleman could get back to the point.

**Jacob Rees-Mogg:** I will come back immediately to replacing the consumer prices index with the retail prices index, but my general point is that the inheritance tax threshold should be raised as much as possible whatever index you choose. I would choose an infinite index, better than the CPI, so that its effect would be ameliorated altogether and removed. The Government should certainly not develop and devise schemes to encourage people to invest in certain ways, because Governments always get people to go into schemes that might have been a good idea five years ago but are not now. That is the nature of Government and we have seen that historically.

My point is that inheritance tax is inefficient, ties up capital and is unfair, because of the time at which it strikes people, and that capital taxation as a rule is a bad form of taxation. There is no transaction flow with it to produce the cash for people to pay the tax falling upon them. Transactional taxes, be they income or sales taxes, are related to a flow of funds which is then available for the tax to be siphoned off. Capital taxation singularly fails to do that. It leads to bad decision making, inefficiencies within the economy and ultimately less money to the Exchequer. Thus, I think that

Conservatives should stick to their guns and persuade our Lib Dem Friends—and indeed Members from Bassetlaw who seem keen to come in this direction—that what we should do is have thorough-going blue water policies.

**Julie Hilling:** It is, as normal, a pleasure to serve under your chairmanship, Mr Bone. The issue of inheritance tax is extremely interesting, because in 2007, to great fanfare, the Tory party announced that it would introduce a £1 million threshold for inheritance tax. It now says that because of its Lib Dem colleagues in the coalition, it has had to go back on that. Interestingly, in 2009, the right hon. and learned Member for Rushcliffe (Mr Clarke) announced that the rise in inheritance tax thresholds would not go ahead in the Tory Government's first term anyway. They are perhaps choosing to put the blame a little bit—perhaps a little unfairly—on their coalition partners. It has, of course, been a great disappointment to Tory voters that the Government have not increased the threshold, though I am not saying that they should have done. It is a conundrum.

I was in a meeting with the chief economist for the Greater Manchester chamber of commerce last night, and I asked him about inheritance tax. He felt it was fairly useless in some ways, because those whom it is meant to capture are not being captured as they use avoidance tactics, so each time, revenues tail off. He said the very wealthy avoid paying it, because they can pay for advice.

Last night, when I decided to speak on the clause, I googled IHT. The first item that came up was “How to avoid paying inheritance tax”, as was the second. Clearly, the people who should be paying it—millionaires—are not.

**Mr Aidan Burley (Cannock Chase) (Con):** It is not just millionaires who have to pay inheritance tax. It is everybody who has an asset, such as a house, that is liable at the 40% rate. That is the point made by my hon. Friend the Member for North East Somerset: it hits the poorer disproportionately hard.

**Julie Hilling:** The hon. Gentleman has pre-empted my next comment. I wanted to talk about the dilemma relating to whether to use the retail prices index or the consumer prices index.

**Ian Mearns:** I am grateful to the hon. Member for Cannock Chase, who has just massively inflated the value of my house.

**Julie Hilling:** I thank my hon. Friend for that intervention. When the Tory party talked about raising the inheritance tax threshold to £1 million, it said that that would help 9 million families, and that only millionaires would pay the tax. We know there are families, particularly in the south of England, who are of ordinary means and are caught in the inheritance tax trap. Again, it is one of those taxes that affect the squeezed middle. The rich, thanks to the reduction from 50% to 45% tax and other measures in the Budget, are getting away with paying less tax. We are helping the super-rich, but the squeezed middle is suffering in all sorts of different ways. Think of the changes to child benefit and tax credits, and all the other means that have hit that squeezed middle.

The proposal to raise the threshold by CPI rather than RPI is unfair. We say that that will not keep pace with inflation. A major difference between CPI and RPI is that RPI includes housing costs. Given that we are fundamentally talking about a housing cost, it seems a little odd not to raise the threshold according to RPI.

I am consistent: I think the Government have been mealy-mouthed in all the cases where raises have used CPI rather than RPI, be it for pensions or other benefits. There must be hundreds of thousands of people worried about the proposal—people whose only asset is the family home. We are not talking about the rich. The people who are caught and most affected are those who do not pay accountants for advice, and cannot afford to, because all they have is the property. This is another example of the Government attacking the squeezed middle.

However, as my hon. Friend the Member for Newcastle upon Tyne North said, only 6% of estates are affected by inheritance tax. I assume that is the 6% who are not paying accountants. I wonder if the figure is actually higher. Will the Minister explain why CPI, not RPI, has been chosen in this instance?

Are the Tories still going to raise the IHT threshold enormously? What will the Minister do about avoidance measures? Given all the ways of avoiding it, one wonders if the Government are planning to crack down on avoidance tactics on IHT, in order to increase the tax take and ensure that the rich pay their fair share of taxes. It seems to Opposition Members that throughout the Budget the rich are not paying their fair share. The burden is falling on the low-paid—those who live ordinary lives—who are facing tax hikes in all sorts of areas.

**John Mann:** Again, welcome to the Chair, Mr Bone. Another week passes by, and we have more interesting revelations from the Government. I wish to ask the Minister about the impact of the change from RPI to CPI on the behaviour of tax-paying individuals, and whether he believes that the change will lead to a difference in the taxpayer's behavioural attitude.

I am somewhat concerned by the changes, because the Government chose in the Budget specifically and particularly to target pensioners. I suspect that, even later today, more will be revealed on how pensioners and pension funds are being disproportionately hit by the Government's economic policies—something that the Budget failed to address, and so pensioners pay the price. This change, which runs through the Budget and is reinforced by clause 206, means that pensioners pay a greater price than everybody else. That is our concern about the Government's meddling with indexation.

I welcome the fact that, at last, the hon. Member for North East Somerset, a true, clear and unequivocal Conservative, is putting forward the Conservative party's position—the position that it takes in its bones, ethos and whole ideology—as opposed to the mishmash that we get from those who lead the coalition, represented by the Ministers here today, whom we see U-turning every week.

I disagree with the hon. Member for North East Somerset on many points of principle, but it is refreshing to have an open, honest debate. Indeed, he and I are considering taking this debate further, post-Committee, during a visit to Taunton cricket club to enjoy a true

English tradition—willow on the bat, and all that—as the north comes to the south-west. *[Interruption.]* Willow on the ball. I am glad the Minister is listening today.

The question is the impact on behaviour. Death duties have done a lot for this country. The National Trust was created because death duties allowed stately homes to be handed over for the enjoyment of everyone. In my constituency, the Newcastles had to hand over Clumber park and Clumber hall, a wonderful major tourist attraction that will hopefully benefit from the tourists coming for the London Olympics. That attraction underpins the local economy and provides green lungs for the industrial workers, all created because death duties required that family generously to hand over the whole estate to the people through the National Trust. There are such examples all over the country. This is the essence of modern Britain today.

**Julie Hilling:** Does my hon. Friend agree that the National Trust has also meant that there are other ways for the economy to benefit from death duties? Longleat and Woburn safari parks were created because the families had to pay their death duties. Even though the families retained the parks, they became open to the public, creating great enjoyment for visitors.

**John Mann:** My hon. Friend hits on a point dear to my heart, because many years ago I was the chair of the all-party group on endangered species, which should perhaps be recreated. Those safari parks contribute to maintaining the ecology of the world's fauna, which is fundamental to our role in the modern world. This is not just about Britain showing itself in all its glory to tourists, and creating opportunity for our own people; it is also about making our contribution to the world's species—all provided for by the generosity of those who have paid death duties.

11 am

**Ian Mearns:** When my hon. Friend chaired that group looking after the interests of endangered species, did he have the foresight to include Liberal Democrats?

**John Mann:** I hear what my hon. Friend says, but this is the last day of Committee, and I urge him to show more generosity. Surely we need to see some free thinking from the Liberals in at least one vote in this Committee. What is the point of being in a political party if all you do is act as lapdogs to an equivocating Government? There is not even any following of the true Conservative tradition, as outlined by the Member for North East Somerset. He would prefer no death duties, and I would prefer an inheritance tax at an appropriate level. I am concerned that any change to the system might encourage the kind of disgraceful tax avoidance we have seen from persons unnamed—and one who has been named by the Prime Minister, Mr Jimmy Carr. I was most surprised when, in the Budget, I heard the Chancellor talk about tax avoidance—as opposed to evasion—being “morally repugnant”. My ears pricked up, because that means the behaviour, rather than the legality.

Returning to my question to the Minister about what the change in indexation will do to the behaviour of individuals, I look forward to hearing what analysis the Government have carried out on the behavioural impact.

[John Mann]

The Prime Minister says that Jimmy Carr is morally repugnant—the Chancellor has given him the opportunity to say so—but what about the many others? Newspapers are naming person after person. They all seem to be directly connected to one particular political party, perhaps because it is that party that is attempting, John Major-style, to take the moral high ground.

Courageously, the Member for North East Somerset has distanced himself entirely from the party leadership on this issue. He is clear and consistent that the Tory party of the past—I do not think I am misrepresenting what he said—believed that it was a patriotic duty to avoid paying taxes, as long as that was within the law. That is where we disagree. I am absolutely with the Prime Minister and the Chancellor. They clearly say that there is a moral duty to pay all taxes and not attempt to avoid them. I want to see consistency in approach. Will this change in indexation affect behaviour, so that people are more, not less, likely to avoid taxes in the way that so many donors, Cabinet members and others are alleged by the media to have done—a way that is unpatriotic, morally repugnant and unacceptable in modern Britain? That is a point on which the Prime Minister, the Chancellor and I combine coherently, and to which we adhere.

**Julie Hilling:** Does my hon. Friend agree that there may be other consequences for some of those who have been avoiding their taxes? I for one will never buy another record by Gary Barlow, and I am sure I must be in good company. There will be other consequences for the people who so publicly and horrendously avoid doing what ordinary people have to do, day in, day out: pay their taxes. We have no choice, but those who make their money on the backs of ordinary people are not being patriotic and are not paying their dues.

**John Mann:** Who is Gary Barlow?

**Mark Garnier** (Wyre Forest) (Con): The hon. Gentleman makes a powerful point about millionaires and highly paid people avoiding tax, but it is not only millionaires who do so. Many people around the country will offer a tradesman a cash payment, which is just as morally repugnant.

**Nigel Mills** (Amber Valley) (Con): That is evasion.

**Mark Garnier:** My hon. Friend is right. People look at the very rich avoiding tax, which is wrong. I disagree with my hon. Friend the Member for North East Somerset, in that tax avoidance uses the letter of the law to get around the spirit of the law, and it is very different from tax planning. Avoiding tax is endemic, and people are doing it at every level. That moral point is very strong, because it is universal.

**John Mann:** We are beginning to build a new, tax-collecting coalition across Government. The hon. Gentleman is right, and the scrap metal trade, the problems created by it, and the criminality that comes from it is a classic case of the cash economy. It is not that one should be morally condemning those who are

managing to get their way through the cash economy; the problem with the cash economy in areas such as mine is that it is economically inefficient and non-aspirational. The idea of getting by with a bit of wheeler-dealing, rather than forming a company, having proper accounts, and participating in and aspiring to grow in the real economy, holds down aspiration in areas such as mine, and it has done for generations.

This is not about a moral crusade, but about economic efficiency, from the poorest to the wealthiest—*[Interruption.]* From a sedentary position, the Government Whip mentioned Ken Livingstone. I unequivocally condemn any Labour politician who avoided taxation in the way that he did, and he paid a heavy price. Knowing what happened, if I had my way and had any influence over the Labour party, he would not have been a candidate because of his moral stance. It is wholly unacceptable that a person running for senior office—

**Jacob Rees-Mogg:** Will the hon. Gentleman give way?

**The Chair:** Order. Before the hon. Member for Bassetlaw does so, I am sure that he will relate his points to RPI and CPI.

**John Mann:** I absolutely will, Mr Bone. I am illustrating the behavioural effect of changing indexation. The question I am posing to the Minister, who will want to answer soon, is whether changing the indexation will affect behaviour. I am doing so—hopefully I am in order, Mr Bone—using examples of the kind of behaviour that I would like to illustrate. Mr Kenneth Livingstone is one of those examples, and the way that he avoided taxation cost the Labour party the London mayoral election. Such is the price paid by political parties when one from their fold is not prepared to do the decent thing and does not see it as a moral obligation to pay taxes.

**Grahame M. Morris:** I do not intend to take issue with my hon. Friend's comments about the Labour mayoral candidate, but I seek his views on the opportunity cost and what the consequences should be. Government Members are defending individuals' right to employ tax avoidance mechanisms, whereas Opposition Members share the country's moral outrage. The hon. Member for Richmond Park (Zac Goldsmith) has advocated a Bill, to which the Government may well be committed, allowing for the recall of Members of Parliament. Would a Member's employing such methods be taken into account if they were to be recalled? We see a constant drip-feed in the press of cases of celebrities who employ such methods; the politicians who do so will surely be next.

**John Mann:** That is an interesting suggestion. The coalition, if it is expanding to Richmond, will be broader still, and all the better for it. We need to root out the concept of tax avoidance at the top. We should start with politicians: every Cabinet member should declare unequivocally that they do not avoid tax. The Government's and the Prime Minister's new press secretary should do the same thing. Donors to all parties should be judged on that basis, and those who are avoiding tax should

pay the money back. Political parties should agree among themselves—perhaps we could agree in principle today—that all parties should refuse donations from those who avoid tax. They should not be eligible to donate. The hon. Member for North East Somerset caught my eye earlier, so I will give way to him.

**Jacob Rees-Mogg:** The hon. Gentleman has moved on slightly, but in the interests of balance, I ought to defend Ken Livingstone, who behaved perfectly legally. All he did was delay tax. If he had paid the money out to himself, he would have been subject to tax in the normal way. There is no obligation on socialists to pay a higher rate of tax than the law allows to be taken. If they want a higher rate of tax, the socialists need to win elections to put a higher rate in place, as they would be completely entitled to do.

**John Mann:** I thank the hon. Gentleman for his candid, straightforward clarity. This is the debate that should be taking place across the country. On the one hand, there is our principle, which clearly, perhaps accidentally, the Prime Minister and the Chancellor have strayed into—hence each and every person associated with the Conservative party has this new scrutiny test to pass. On the other hand, there is the unequivocal position of, shall we say, the Tory shire counties, which totally oppose the Prime Minister and Chancellor and are diametrically opposed to the coalition Government. That is the big new split in the modern Conservative party. “Modernist” and “traditionalist” are mere descriptions; the fundamental issue is what lies behind.

I repeat my question to the Minister about indexation. Will the proposed change in indexation improve or worsen the behaviour of those whom the Chancellor describes as “morally repugnant”?

**The Exchequer Secretary to the Treasury (Mr David Gauke):** It is a great pleasure to see you in the chair, Mr Bone, for the last Committee day. For those who are worried that we are reaching the end of the process, such as my hon. Friend the Member for North East Somerset, Report stage is only a few days away. That is something for us all to look forward to.

We have had a broad-ranging debate but I will focus my remarks on clause 206, which would make changes to the indexation of the IHT nil rate band. The nil rate band will remain frozen at its current level of £325,000, up to and including 2014-15. From 2015-16, the automatic annual increase in the nil rate band will rise in line with CPI rather than RPI.

The hon. Member for Newcastle upon Tyne North asked what the Government policy is for the future of the nil rate band threshold. Clause 206 is the answer to that: it is frozen and then will increase in line with CPI. The IHT nil rate band is automatically indexed every year in normal circumstances, unless Parliament sets a different figure. Indexation works by referencing the nil rate band to inflation over 12 months to September in the previous year, subject to a rounding up to the nearest £1,000. From 2015-16, the measure of inflation used will be CPI rather than RPI. That change will ensure that the nil rate band more accurately reflects the rate of inflation. The Government seek consistency across all areas of direct tax.

11.15 am

The nil rate band has been frozen at £325,000 up to and including 2014-15, as per the 2010 autumn statement. The measure was confirmed as the right course of action at that point, and given the economic circumstances, it is still the right action. Clause 206 confirms that the nil rate band will remain frozen at its current level of £325,000 until 2014-15. The nil rate band will then rise in line with the CPI, instead of the RPI, from 2015-16.

We have had a broad-ranging debate, and I am sure there will be many opportunities to debate avoidance in the broadest terms. Although perhaps not directly relating to clause 206, the hon. Member for Bolton West raised the specific point of inheritance tax avoidance, which the Government take seriously. As the Committee will hear shortly when we come to clause 208, we will take action, when necessary and appropriate, where there are steps we can take.

The behavioural impact of clause 206 is not in itself likely to be significant. The effect of moving from RPI to CPI will, over time, bring more estates into inheritance tax and will raise additional revenue. The sums we are talking about are relatively small, so there is unlikely to be a dramatic impact on avoidance.

On the extent of the additional revenue that the measure is likely to raise, the tax information and impact note states:

“This element of the reform is expected to increase receipts by approximately £20 million in 2015-16.”

**Julie Hilling:** I hear what the Minister says about clause 208, but I wonder whether he intends to do anything else to close some of the other loopholes. He has addressed one small element, but what about all the other tactics that people use to avoid inheritance tax? Will he look to bring in other measures to close those loopholes?

**Mr Gauke:** We are committed to tackling inheritance tax avoidance, as we are with other taxes. Where there is evidence of new avoidance behaviour, HMRC acts quickly with litigation and, if necessary, the Government will act quickly with legislation to shut down such avoidance. Inheritance tax has a behavioural impact and often there are steps consistent with Government incentives whereby people minimise their inheritance tax liability. Where an action is inconsistent with the spirit of the law or the intentions of Parliament, we will, of course, take action as necessary. The Bill contains such an example.

I will try to avoid being drawn into the deep philosophical issues raised by my hon. Friend the Member for North East Somerset on the role of capital taxation, but I remember reading recently of the debate within the wider Conservative movement in the 1960s on the balance between reducing taxes on capital and reducing taxes on income. Of course, the rates at that point were particularly high. One of the most prominent and articulate exponents of the view that we should not tax capital as much as we did then was the then editor of *The Times*, which shows that not just wealth but political principles can be inherited.

*Question put and agreed to.*

*Clause 206 accordingly ordered to stand part of the Bill.*

### Clause 207

#### GIFTS TO CHARITIES ETC

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

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

That schedule 32 be the Thirty-Second schedule to the Bill.

**Catherine McKinnell:** We have had a wide-ranging, passionate and well considered debate on raising the inheritance tax threshold by CPI rather than RPI. Clause 207 deals with specific targeted tax relief relating to charitable giving, which can be set off against inheritance tax liability. Despite the wide-ranging—and raging—debate on clause 206, the Government's intentions were clear. Unfortunately, at this stage, I cannot say that clause 207 is entirely clear.

On the face of it, the reduction of inheritance tax from 40% to 36% on estates where 10% has been given to charity, seems to be a tax break for large-scale charitable giving. We now know that the Government are no longer in favour of the principle of the default charity tax, which placed limits on existing tax relief for large donations—or are they? Clause 207 is still in the Bill, so we must assume that it was the charity tax that was the mistake, rather than this tax measure. As we know, the charity tax has already joined the growing pile of ill-thought-out taxes that the Government have had to scrap.

There is a serious point here. If the Government's intention were truly to encourage large donations to charity through the clause, we would not be opposed to that. However, the mixed messages they have sent out do not help that cause. If they want people to give with confidence, it seems strange to put on a tax in one place and remove a tax from somewhere else. I would be grateful if the Minister clarified the Government's position definitively on charitable giving and how the clause fits into that agenda and the decision to scrap the measures on charitable giving.

We also have some concerns about how the measure would work in practice. I would be grateful if the Minister clarified that. I understand that under the clause the reduced rate of inheritance tax will not be applied across the whole estate. Rather the estate would be treated as three components—survivorship, settled property and general—and the reduction would apply only to the remainder of the component of which 10% was given. So if a person gives away 10% of the smallest component of their estate, they would be eligible for the reduced tax on the remainder of that one component, but would still be charged the full rate of inheritance tax on the other, potentially larger, components. I see some furrowed brows in front of me. The provision seems more complex than necessary and restricts the discretion of the individual who would like to give. That complexity also risks diluting the attractiveness of the incentive.

Was that the Government's intention? Will the Minister explain why the measure has been designed in that way? Did she consider applying the reduction across the whole of a non-exempt estate? Compared with what would have been given otherwise, how much new giving

do the Government expect as a result of this rather convoluted proposal? Does she have an estimate? Unless the Government expect a large increase in charitable giving to occur, this is just another tax break for existing charity donors, which is the exact opposite of the recently abandoned policy.

Will the Minister please clarify those points? Will she also clarify the following? If beneficiaries will not receive more as a result of the plan, why do the Government expect large-scale charitable giving to increase? Did the Government intend the measure to be a tax break for people who already give large amounts to charity, to encourage them to give more? Are the Government aware that there is a risk that the measure will be seen as a tax break exclusively for the wealthy? That does not necessarily sit in line with their current deficit-reduction strategy, which they have claimed will ask the wealthiest to pay the most.

**Julie Hilling:** I must apologise for an attack of hay fever, which makes speaking a little difficult. Anything that the Government do to encourage charitable giving has to be good, particularly when the community, voluntary and charitable sector across the piece has suffered so hugely from the cuts to Government Departments. My local charities have suffered because they have lost money from Government grants, local authority grants and health grants. It is a very tough time for charities; anything that encourages giving is a good thing. This measure is not about avoiding tax, but about building a better civic society. It is going back to the days when the philanthropy of entrepreneurs at the end of the 19th century did so much to build civil society, the charitable and voluntary sector. We can look at the model villages that were built and all the initiatives that took place. Anything that encourages the new entrepreneurs to give to charity must be a good thing.

It is interesting that the measure is talked about as supporting the big society agenda. This week the Archbishop of Canterbury said that the big society is “aspirational waffle designed to conceal a deeply damaging withdrawal of the state from its responsibilities to the vulnerable”.

Does the Minister think that the measure will go any way to repair some of the damage done by the state withdrawing from the community and voluntary sector?

It gives a confused message to people thinking of donating when a clause, now withdrawn, capping donations to charities is put alongside one that seems to give money to charities. It sends a confused message to wealthy entrepreneurs and people who want to engage in philanthropy.

As my hon. Friend the Member for Newcastle upon Tyne North said, this seems an extremely complicated way to assess the tax take. I have just done some sums around the worked example that we were given. Not only do the tax man and beneficiaries lose money, but the balance of money lost does not go to the charities. There is a loss somewhere in the calculations. I do not know where the money goes, but it does not seem to go to anybody in these worked examples. It is not the most simple and straightforward measure. We know that the most straightforward taxes are the ones that people are most likely to opt into. If taxes are too complicated, people are less likely to opt in. If it is not clear and transparent to people who want to give to charity how

the beneficiaries' take will be reduced, they are less likely to go ahead. I think that the Minister should look again at how the calculations are worked out.

I agree with my hon. Friend that, obviously, anything to increase charitable giving is a good thing, but we need to be clear about the message.

11.30 am

**The Economic Secretary to the Treasury (Miss Chloe Smith):** It is a pleasure to serve under your chairmanship, Mr Bone.

To answer hon. Members' questions, I will start with both a measure of context and an explanation of exactly what the clause does. The clause and schedule 32 introduce a new incentive to encourage people to provide more for charities in their will. Their estate will benefit from a lower rate of inheritance tax if more than 10% of it is left to charity.

The main point of context here is that the measure is only one—we discussed another last week—that the Government have introduced to support philanthropy and charitable giving at all life stages and in all walks of life, which is significant. Last week we discussed the gifts of pre-eminent objects scheme, which, importantly, encourages large-scale giving during the donor's lifetime. Only last week, I introduced into the Commons the scheme that will enable charities to claim gift-aid style payments on bucket donations, which is another important example at the other end of the scale of how the Government intend to support philanthropy and encourage giving.

**Ian Swales (Redcar) (LD):** Does my hon. Friend the Minister feel that any clarification is needed on when a charity is a charity? We all assume in such discussions that we are thinking about Cancer Research UK, and so on. How does she feel, for example, about foreign charities that are outside the reach of the Charity Commission, or about family-controlled trusts? Does she feel that the legislation has any room to be more specific about the scope of what is meant by a charity?

**Miss Smith:** My hon. Friend asks an excellent question, which relates more broadly than only to the clause under discussion. We might wish to apply such stringency to any piece of legislation that seeks to encourage charitable giving.

In this case, as with all our other charitable measures and legislation, avoidance, abuse and fraud are examined extremely carefully. I assure my hon. Friend that that has been the case with these provisions, and as in examples elsewhere, guards against avoidance, abuse and fraud have been included. I can also assure him that measures to combat potential fraud run very clearly through the Small Charitable Donations Bill, for example, which is perhaps what inspired him to get up and speak. Her Majesty's Revenue and Customs and the Charity Commission would expect, in many cases, to apply similar definitions to achieve the same objective of getting money to genuine charitable causes.

**Grahame M. Morris:** To follow on from the point made by the hon. Member for Redcar, can the Minister be more specific? If I may push her a little further, does the scope of the clause or her assurance specifically rule out the overseas trusts and family trusts that the hon. Gentleman referred to?

**Miss Smith:** If I may, I will come to that question in due course. I have a number of technical points that I need to address about what the clause does and some of the protections around it, but I will return to the hon. Gentleman's point.

Continuing with the broad background, IHT—inheritance tax—is currently charged at a single rate of 40% on the net value of an estate above the inheritance tax threshold, after deducting all available reliefs and exemptions. Gifts made to charity and charitable legacies are already exempt from inheritance tax. The intention behind this measure is that reducing the inheritance tax rate to 36% on chargeable estate assets will provide an additional incentive for individuals to leave charitable legacies or to increase the amount that they already leave to charity.

Let me answer at least two of the questions from the hon. Member for Newcastle upon Tyne North. She asked whether the provision was a tax measure for large-scale giving. My answer is yes. This Government wish to encourage giving, as I laid out in our objectives. The Government are keen to help the charitable sector and I can tell the hon. Lady that the additional revenue for charities is expected to build up gradually over the period to 2016-17 to an estimated £95 million. That clearly answers her question about whether the clause brings additional benefit.

The changes were consulted upon over the summer and broadly welcomed. Even though a relatively small proportion of estates pay inheritance tax, it is encouraging that respondents felt that the incentive would encourage charitable legacies from a broad range of estates. It would also provide an opportunity for charities and advisers to discuss charitable legacies with people who are, or are considering making a will.

Respondents were also keen to see a balance between simplicity, so as not to discourage potential donors—a point made by others this morning—and flexibility, for example, to maximise the chances of charitable legacies from more complex estates. So the provisions in schedule 32, which have been amended since that exposure as part of the draft Bill, provide some additional flexibility. I believe those provisions achieve that balance.

Schedule 32 sets out conditions to be met for an estate to qualify for the lower inheritance tax rate. The provisions take account of the different classes of assets that are charged for inheritance tax when someone dies; assets they might own outright or jointly and, indeed, in interest in trusts. If the amount left to charity from one or more parts of the estate is at least 10%, after taking account of any reliefs and exemptions made due, those parts will be eligible for the lower inheritance tax rate of 36%. To answer a question from the hon. Member for Newcastle upon Tyne North, to provide a greater encouragement for charitable legacies, there is an option for various parts of the estate to be merged. So a larger legacy from one part of the estate can be offset against a smaller legacy from another part to achieve the reduced inheritance tax rate from the estate as a whole, if the overall legacy is at least 10% of the estate. She asks how I or the Government reached that conclusion. It is absolutely clear that the intention is to encourage that a legacy should be 10% or more of the estate. That incentive and intention clearly come through that part of the Bill.

[Miss Chloe Smith]

Schedule 32 also amends the provisions relating to the instruments of variation, which allow assets left in a will to be redirected to other beneficiaries. Unlike wills, these are not public documents and charities do not have access to them, so schedule 32 provides that charities must be notified of the instrument if a redirection is made to charity. For clarity, the changes set out in the schedule and clause will apply to deaths on or after 6 April 2012.

Let me answer a few more of the questions that were posed. On overseas trusts in particular, the gift will qualify if it is a charitable legacy that already qualifies for charitable exemption from inheritance tax. I can confirm that legacies are valid only if they are given to charities that are or would be charities under the law of England and Wales. So they must meet the public benefit test that the Charity Commission for England and Wales would apply. In line with my comments at the beginning, it is also important to say that this Government are keen to encourage giving at all stages of life and from all walks of life. There is a simple way to check if a charity is eligible and that is to ring HMRC or the Charity Commission, though I shall not read out the telephone number into the record.

**Ian Swales:** Is the Minister saying that only charities registered with the Charity Commission will qualify?

**Miss Smith:** As I said, legacies are valid only if they are given to charities that are or would be charities under the law of England and Wales. I believe that answers my hon. Friend's question.

Let me sum up the measures before the Committee, the intention of which is clear. The measures introduce a lower rate of inheritance tax where 10% or more of a deceased person's net estate is left to charity. There is a clear incentive to encourage more people to leave bequests to charity in their will or to increase their existing charitable legacies. That sits against a background in which the Government are keen to help the charitable sector. The Government listen to the charitable sector and make amendments where necessary, as I have laid out in the context of clause 207 and schedule 32. We expect charities to receive additional benefits of up to £95 million.

*Question put and agreed to.*

*Clause 207 accordingly ordered to stand part of the Bill.*

*Schedule 32 agreed to.*

### Clause 208

SETTLED EXCLUDED PROPERTY: EFFECT OF CERTAIN ARRANGEMENTS

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

**Catherine McKinnell:** I shall deal with the clause very briefly, you will be relieved to hear, Mr Bone.

I note the Minister's written ministerial statement on the clause, which was issued on 21 June. The provision seeks to extend the applicability of inheritance tax to

settled property outside the UK that has been acquired via a conversion of UK assets without giving rise to a transfer of value, which are currently exempt.

The Minister has specifically made provision that the new rules will not be retrospectively applied, which might be a welcome notice for some Members, but I would be grateful if, while explaining this clause and the written ministerial statement, he explained why that specific measure has also been included.

**Mr Gauke:** As we have heard, clause 208 closes a complex avoidance scheme involving the acquisition of interests in offshore trusts to avoid inheritance tax charges. The clause ensures that UK assets used to acquire such interests are charged to inheritance tax in the same way as if they had been transferred to a UK trust, bringing such trusts within the scope of inheritance tax.

HMRC has found an avoidance scheme that exploits the special rule on settled overseas assets. Promoters of the scheme set up offshore trusts that are funded with overseas assets. Interests in those trusts are then sold to wealthy UK-domiciled individuals. Complex arrangements convert UK assets, which would otherwise be chargeable to inheritance tax, into excluded property, avoiding the inheritance tax charge that normally arises when UK assets are put into trust. Any loans taken out to fund the arrangements also reduce the value of a person's estate for inheritance tax purposes. An individual can, therefore, escape inheritance tax charges on assets in offshore trusts and reduce the value of their estate.

Clause 208 amends the rules on settled excluded property, whereby a UK-domiciled individual enters into arrangements through which they acquire an interest in excluded property and, in doing so, reduce the value of their estate. Assets settled in an offshore trust will cease to be treated as excluded property. UK assets used to acquire a settled interest will be treated as if the person had transferred them directly to a UK trust. An inheritance tax charge will apply to the transfer equal to the reduction in the value of the estate. Inheritance tax charges will also rise if the assets are held in the trust for more than 10 years, or when the assets are taken out of the trust. The changes will target only individuals or trustees entering into such arrangements; they will not affect most individuals or businesses. This measure was announced at the Budget and the changes in clause 208 will take effect from 21 March 2012.

11.45 am

The provisions apply to new schemes entered into on or after that date and to existing arrangements entered into before 21 March 2012, but only in relation to IHT charges arising on or after that date. The hon. Member for Newcastle upon Tyne North raised the amendments. Clause 208 may not deter some variants of the scheme and may also inadvertently apply to some arrangements not made for tax avoidance purposes.

As announced last week, amendments to clause 208 will therefore be introduced on Report. The amendments will aim to ensure that the new provisions effectively stop potential variants of the scheme involving acquisition of interests in settled property, target the intended schemes correctly and do not affect existing arrangements. The amendments will also revise the date that the changes in clause 208 take effect to 20 June 2012.

The reason for that is that we have received feedback that suggests that the provisions in clause 208 may inadvertently apply to some existing arrangements not made for tax avoidance purposes. The amendments will correctly target the provisions. The clause closes a particularly contrived avoidance scheme involving offshore trusts that seeks to avoid IHT charges.

**Catherine McKinnell:** I apologise for interrupting the Minister's flow. I seek clarification on his comment about shifting the date. I understand that the original date was 20 or 21 March. Will the Minister confirm that? Given that he is moving on to say that these are particularly contrived tax avoidance measures, has there been a calculation of the loss to the Exchequer in that interim period?

**Mr Gauke:** This is a particularly contrived scheme. The difficulty with the original provisions is that, on the basis of feedback that we received from interested parties, there was a concern about inadvertently having an impact on arrangements that were not driven by tax avoidance and were not part of these contrived arrangements.

I do not have the information about costs that the hon. Lady seeks, but I will write to her. We made an assessment that there was a danger with the original position of inadvertently affecting some innocent arrangements. We did not want to do that, which is why we have made the announced changes. That will get us to the place we want to be: closing down a contrived avoidance scheme, preventing people from using an offshore trust to avoid IHT charges in particular circumstances by reducing the value of a person's estate. That very much supports the Government's aims in our anti-avoidance strategy to protect revenue.

**Catherine McKinnell:** I appreciate that the Minister is not able to provide the specific figure relating to the interim period that I requested. Can he indicate the overall saving or increase to the Exchequer from that measure? I would be grateful if he could clarify that now.

**Mr Gauke:** On further reflection, I may be able to help the hon. Lady and the Committee on that point. The purpose of the clause is more to protect revenues than produce additional yield. By that, I mean that the yield—the additional sums we will receive as a consequence of the clause—is likely to be negligible. However, there is a concern that the scheme could grow considerably if we do not take action and that, as a consequence, revenue may be reduced more significantly. Consequently, a delay from 21 March to 20 June is likely to have a negligible impact on yield, but none the less will still protect revenue for future years. I hope that provides some clarification.

**Catherine McKinnell:** That does provide clarification and some reassurance. However, I would be grateful if the Minister could confirm when the scheme first came to the attention of Her Majesty's Revenue and Customs and the Department, and thereby give some clarity about how long the scheme may have been in existence and the revenue therefore left unprotected.

**Mr Gauke:** The hon. Lady raises a fair point about when the scheme first came to light. It might help the Committee to point out a degree of context. There were

similar schemes in 2005 and 2009 and action was taken then. This particular scheme came to HMRC's attention in August last year, but we think that the actual cost to the Exchequer so far has been negligible and the risk is in relation to revenue. As a consequence, now is the right time to act, although we have taken into account some of the representations that we have received, ensuring that the measure is properly targeted.

**Catherine McKinnell:** The Minister will understand and realise that this is exactly the sort of tax avoidance that the public are particularly concerned about. Members of the Committee and of the public will be concerned that, after the scheme came to the attention of HMRC and the Treasury, it took 10 months to take the correct legal preventative measures to close it down and ensure that revenue was not lost. Will the Minister comment on why it has taken so long to get the legislation right? He says that the loss to the Revenue is negligible, but can he provide a figure—if not today, then in writing—to provide reassurance to Committee members and the public that this sort of avoidance is not slipping through the net?

**Mr Gauke:** On the wider point, HMRC is active in closing down these schemes. There has been a lot of publicity about such schemes in recent days and in many of those cases HMRC has taken strong action. Often, that can be dealt with through litigation. In some cases there is a need for further legislation. In the past year or so we have taken legislative measures regarding seven schemes. In this case, it was a particularly complex arrangement and it was not until January this year that HMRC felt that it fully understood the way in which the scheme would work. The evidence that HMRC has seen is that there are only a very small number of cases where people have made use of the scheme, but other intelligence shows that promoters' marketing material and tax planning conferences have identified the potential for the scheme to expand rapidly. That is something that we want to address.

This is a particularly complex and contrived arrangement but we need to ensure that the legislation targets it effectively and avoids affecting innocent arrangements. It has taken a little time to get this right—I fully accept that. It highlights one of the tensions in the tax system. Where there are particular exemptions for a tax designed to avoid an unfairness in the system, that can be exploited by some scheme promoters in a way that Parliament never intended. As the hon. Member for Newcastle upon Tyne North pointed out, this is exactly such a case.

We do not believe that the cost of the delay in sorting this matter out is insignificant, but the measure will protect millions of pounds of revenue over the next five years. It is therefore still a worthwhile step, and I hope that the clause stands part of the Bill.

*Question put and agreed to.*

*Clause 208 accordingly ordered to stand part of the Bill.*

## Clause 210

PREVENTION OF AVOIDANCE: SUBSALES ETC

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

**Catherine McKinnell:** It is me again, Mr Bone.

**Mark Garnier:** It is still a pleasure to serve under your chairmanship.

**Catherine McKinnell:** It is, Mr Bone. Once again, we continue with the theme of tax avoidance, a subject that is close to the hearts of all Committee members. Some are strongly in favour of closing down tax avoidance loopholes, which is what the measure does.

In my understanding, by making it clear that selling an option to buy a property is not sub-selling, the measure has closed a loophole that allows buyers to claim they are exempt from stamp duty because they come under rules designed to avoid stamp duty being payable twice. The clause amends the sub-sale relief rules for stamp duty land tax purposes by setting out that the grant or assignment of an option cannot satisfy the requirements of the SDLT sub-sale rules.

The measure has effect from 21 March 2012, and is aimed at blocking a specific SDLT avoidance scheme considered by most people to be ineffective anyway, because it did not work in the intended way. The scheme, as I understand it, involved an individual purchaser of a property granting a non-connected company an option to acquire the property at market value. The new measure provides that the grant or assignment of an option cannot be a transfer of rights for the purposes of the sub-sale rules, and it only affects individuals.

I believe that the Minister will explain in more detail the clause's technicalities. Therefore, I will save the Committee from my explanation, and I will allow him to do so.

**Nigel Mills:** He is paid to do that.

**The Chair:** Order. Was the hon. Gentleman intervening?

**Nigel Mills** *indicated dissent.*

**Catherine McKinnell:** I have some questions for the Minister, based on my interpretation of how the clause will work and what the effects may be. The Budget document gives little detail on how much the measure is expected to raise, which may be because the effect is negligible, but I would be grateful if he explained why those figures are not available. Has the practice of sub-selling already been eradicated by the measure's announcement? Will the Minister provide those figures to the Committee now or subsequently?

At the time of the Budget, it was announced that a more general consultation would take place on sub-selling, and I would be grateful if the Minister provided more details about that. Does he think that there may be a case for restricting the practice more widely in general, and is that something that we should give further consideration to?

12 noon

**Mr Gauke:** Clause 210 amends the stamp duty land tax rules on a transfer of rights or sub-sale, and the change puts beyond doubt that a particular SDLT avoidance scheme does not work. It will be a pleasure to

run through some technical elements of the clause, but before I do so, I will say a word or two about the background.

The SDLT rules contain provisions for a transfer of rights or sub-sale, which is where someone enters into a contract to purchase land but then, before completing the purchase, agrees either to transfer their rights under the contract to a third party or to sell the land on to a third party. The provisions result in SDLT being charged only to the ultimate purchaser; the transaction involving the original purchaser is disregarded. That single charge reflects the economic reality of the transactions, as the intermediate purchaser never takes possession of the land.

Such transfer-of-rights rules frequently feature in attempted SDLT avoidance schemes. A new scheme that became popular in the months leading up to the Budget involved combining the transfer-of-rights rules with the use of an option. HMRC, based on legal advice, is firmly of the view that the scheme has never worked in the way its promoters claim. The scheme was widely marketed and used, however, so clause 210 has been introduced to make it absolutely clear that the scheme does not work.

The hon. Member for Newcastle upon Tyne North asked how much tax has been avoided through the scheme and how much additional tax the change will bring in to the Exchequer. Because HMRC is firmly of the view that the scheme has never worked, no tax has been successfully avoided. None the less, the clause puts the matter beyond doubt. Were HMRC to be wrong, which I do not believe it is, tens of millions of pounds could be at risk. That is why there is no expected Exchequer impact. Any revenue raised through the measure would have been raised through the courts in any event.

Clause 210 inserts a provision into the transfer-of-rights rules to make it clear that the use of an option—the avoidance scheme's key feature—does not bring transactions within the rules. A consultation on reforming the sub-sale rules will be launched this summer. There is a possibility of introducing legislation in Finance Bill 2013, if necessary, subject to the outcome of that consultation.

Furthermore, as announced at the Budget, the Government will take action to close down future SDLT avoidance schemes, with effect from 21 March 2012, where appropriate. The measure was not published in advance of the Budget due to the risk of forestalling. A limited, confidential consultation was conducted with external interested parties.

The clause supports the Government's objectives to create a fairer tax system and to tackle SDLT avoidance, so I hope it will stand part of the Bill.

*Question put and agreed to.*

*Clause 210 accordingly ordered to stand part of the Bill.*

## Clause 211

RATE IN RESPECT OF RESIDENTIAL PROPERTY WHERE  
CONSIDERATION OVER £2M

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

**Catherine McKinnell:** The clause raises stamp duty on residential properties from 5% to 7%. The raise was one of the measures mooted as a “mansion tax” before the Budget, which, it was said, would in part replace the lost 50p rate as a new tax on wealth.

When the Chancellor scrapped the 50p rate in his Budget, he gave the richest 1% of the population a tax cut, but he told us that these clauses would make up the difference. He told us and the public that the 50p rate caused “massive distortions,” a euphemism for the kind of legal tax avoidance that the majority of his party find repugnant. He told us:

“It raises at most a fraction of what we were told, and may raise nothing at all.”

It was on that basis that the 50p rate was cut. In other words, lots of people found ways to get round the 50p rate in its first year, so the Chancellor decided to abolish it. One has to question whether that is a sensible way to run a tax system. If we abolished all the taxes that the rich did not like, did not pay or tried to avoid, we may be left with few taxes.

Clause 211 is in the package that is supposed to raise the money lost through the 50p tax cut. Indeed, the Chancellor told us:

“Thanks to the other new taxes on the rich that I have announced today, we will be getting five times more money each and every year from the wealthiest in our society.”—[*Official Report*, 21 March 2012; Vol. 542, c. 805-6.]

That claim was later thoroughly debunked by the experts. The Institute for Fiscal Studies stated clearly that it was far too soon to know how much the 50p rate would raise. It said:

“If the future of the 50p rate is to be determined on the basis of evidence... then Budget 2012 will be too soon to form a robust judgment.”

The independent Office for Budget Responsibility later confirmed that,

“the results of the evaluation are highly uncertain”.

If we do not know how much the 50p tax rate would have raised, how can we be sure these stamp duty measures will cover its loss? Even in combination with other schemes, these new charges cannot come close to raising as much as the 50p tax did. Will the Minister tell us if this is a watered down version of a more stringent original measure? This measure would raise much less than a mansion tax or a tax on wealth.

It means only one thing: if it is not avoided, the very rich will pay more tax on their very expensive house purchases than before. However, when one looks at the detail, clause 211 introduces SDLT at 7% on the purchase of residential property, where chargeable consideration is more than £2 million. On the purchase of a residential property with chargeable consideration of £2,000,001 the SDLT charge increases from £100,000 to £140,000. The clause is effective from 22 March 2012.

**Harriett Baldwin** (West Worcestershire) (Con): The hon. Lady asserts, as the basis of her argument, that the 50p tax rate was a money-raising measure. Is she familiar with the numbers released by HMRC in response to one of my parliamentary questions? They showed that in 2009-10, the number of people paying income tax on incomes over £1 million was 16,000 and they paid £13.4 billion in income tax. In 2010-11, when the 50p rate

was brought in, that number had fallen to 6,000 and they paid only £6.5 billion in income tax. Therefore, it cost the Treasury money. [HON. MEMBERS: “Ah!”]

**Catherine McKinnell:** Hon. Members make their “ah” noises, but that is the point I am making. The 50p tax rate was in its infancy. It has been well documented by both the IFS and the OBR that sufficient avoidance measures were put in place to avoid paying at the full rate. It is highly uncertain what the longer-term implications of that tax rate would be.

**Stephen Williams** (Bristol West) (LD): I gather from the hon. Lady’s tone that she and her colleagues attach great importance to the 50p tax rate which, as she just said, was in its infancy. If it is so important to the Labour party, how come the top rate of tax was 40% for roughly 12 years and 352 days of the 13 years that it was in office, and the 50% tax rate was introduced only when the general election was under way?

**Greg Hands** (Chelsea and Fulham) (Con): Answer!

**Catherine McKinnell:** I am delighted to answer. The hon. Member for Bristol West overlooks the point that not only was a general election due, but we were in the middle of an extremely deep recession, which has now become a double-dip recession. We were on the way out of it at that point, and the 50p tax rate was put in place to ensure that, as part of the recovery effort—

**The Chair:** Order. I remind Members that we are talking about:

“Rate in respect of residential property where consideration over £2m”.

We will finish at 9 o’clock tonight, but we can finish earlier if Members wish.

**Catherine McKinnell:** Thank you, Mr Bone. A discussion on the 50p tax rate is relevant to this clause and in this context, due to the specific assertions that the Chancellor made when he put the changes in place. They are part of a package of taxation measures that he claimed would put the burden more on the shoulders of rich. Our concern, however, is that the burden is falling more on the shoulders of those who can least bear it.

**Stephen Williams:** I thank you, Mr Bone, for your indulgence, and the hon. Lady for giving way. She answered my question by saying that that the measure was introduced in the dying days of the previous Labour Government because we were in the middle of a recession at that point. It could have been the middle, because that concedes that it started a lot earlier. We now know that the recession started in 2007. The structural deficit started under the previous Government in the 2001-02 tax year. If the 50p top rate was so important, why was it not introduced much earlier?

**Catherine McKinnell:** I agree with you, Mr Bone, this is getting somewhat—

**Stephen Williams** *rose*—

**Catherine McKinnell:** We are looking at the past 10 years of taxation policy. We are actually focusing on a change being brought in by the Chancellor and the specific assertion he made that this stamp duty land tax will outweigh the impact of cutting the 50p tax rate. If the hon. Gentleman wants to come back with a relevant point, I would be grateful and will respond.

**Stephen Williams:** To focus the hon. Lady's attention precisely on the clause, which is about a tax that raises money from the wealthy, who are able to buy properties worth more than £2 million: why were effective taxes on the wealthy not introduced from 2001-02 onwards to bridge the structural deficit, and from 2007 to deal with the recession?

**Catherine McKinnell:** I thank the hon. Gentleman for his intervention. He makes a valid point: particularly at this time of recession, it is vital that we put the right taxation policies in place, which take a sufficient amount from those who can afford to pay and ensure that they do pay. That is why we do not oppose, but welcome the measure today. We are trying to probe its impact and whether it sufficiently outweighs the choice to cut the 50p top rate of tax now, given the economic circumstances that the country faces.

**Julie Hilling:** Does my hon. Friend agree, first, that the second part of the double-dip recession we face was made in Downing street, and, secondly, that the measures in the Budget let the rich off and punish the poor?

**The Chair:** Order. No. As, I think, the Minister kindly mentioned earlier, we will have a Report stage after Committee. It would be more appropriate for recent comments to be made at that stage. We must stick to what is relevant to the clause.

12.15 pm

**Catherine McKinnell:** I will not tempt your wrath, Mr Bone, by responding to the question asked by my hon. Friend the Member for Bolton West about how this recession was made in Downing street. Suffice it to say that there are significant concerns.

Previously, a stamp duty land tax of 5% applied to the purchase of expensive residential properties. Since 22 March 2012, SDLT of 5% has applied to the purchase of residential property on chargeable consideration in excess of £1 million, but not more than £2 million. Will the Economic Secretary explain where those figures came from? Why was the level of £2 million chosen? Why was the provision not applied to £1 million properties, which were previously considered expensive enough for the 5% rate? Will she also explain where the figure of 7% came from? What are the evidential bases of the percentages? Where do the costs of the properties to which the rates are being applied derive from? Were other rates considered as part of any consultation? Was an analysis carried out of how those rates might have worked? Has the Economic Secretary considered the fact that 75% of properties worth £2 million or more are in London? Was that a factor in the decision not to apply the 7% rate to £1 million properties, which are more widely distributed? It is clear that a number of questions need to be answered.

The measure will affect not just owner-occupiers; it is likely to affect the whole market, including investors in residential property, which will now be less attractive to them. Institutional investors and commercial landlords have traditionally invested in this market. The increased SDLT will result in a lower yield for investors and might result in higher rents for the tenants of the properties. Investors may now switch to commercial investments and pay SDLT at a rate of 4%. Have those possibilities been modelled and considered?

The Government have called on private landlords to lower their rents for tenants. A large £2 million property split into flats could easily be subdivided into smaller flats to be occupied by non-millionaire tenants. Will the Economic Secretary end up having to give tax incentives back to investors who exit the residential market as a result of the change? It would be reassuring if all of the issues had been considered before the policy was decided.

The main question that I would like the Economic Secretary to answer is whether she believes that the measure is a credible replacement for the removal of the 50p rate of income tax. Unfortunately, I do not think that she will be able to answer that question because, while 300,000 people will benefit from the tax cut, only 4,000 houses are sold each year for more than £2 million, so 99% of those who will gain from this tax cut for the richest will be totally unaffected by the rise in stamp duty. The concern is that that has been the Chancellor's plan all along. He has reduced the tax on very high incomes across the board, whatever a person's spending habits, and increased a tax that will affect only people who buy expensive houses. Does the Economic Secretary accept that only 1% of those previously paying the 50% tax will have to pay higher stamp duty?

**Mr Robert Syms (Poole) (Con):** Will the hon. Lady not at least acknowledge that it is very difficult to avoid paying stamp duty tax on a house? As long as people are selling houses and we know the numbers, it is possible to get the revenue, so it is a good tax in that regard.

**Catherine McKinnell:** I thank the hon. Gentleman for his reasoned and rational contribution, which sits in contrast to some of the previous contributions made by Government members of the Committee. He makes a good point that stamp duty is a difficult tax to avoid and that it is, therefore, a good tax. We do not oppose the measure in itself, as long as all of the issues that I have raised have been well considered and thought through. In itself, it is not something that we oppose, but the concern is whether this is a genuine replacement for the 50p tax rate and whether it sufficiently enables that burden to remain on those who have the ability to pay the higher rates of tax, rather than shift it on to the squeezed middle to whom we often refer. Sometimes there is frustration about exactly who those people are. They know who they are, because they face the difficulty every day of paying their bills and dealing with the cost of living. My argument, which I made at the beginning of the debate on this clause, is that the fact that a tax is easy to avoid, can be avoided or has been avoided is no argument for scrapping it. It is actually an argument for putting better measures in place to make sure that the tax is collected.

I refer again to the IFS and the OBR on the 50p rate. They said clearly that, even though the yield in the first year was not as high as one would have hoped, over the course of this Parliament, for example, it was highly uncertain what future yields would be, as avoidance measures were put in place in its first year of implementation. That could not continue indefinitely, so inevitably it was expected that the yield would be higher over the coming years.

My final question to the Economic Secretary relates to the Chancellor's assertion that this tax would offset the cut in the 50p rate. How will the other 99%, who will not be hit in any way by the imposition of this tax, pay their fair share? This strikes me as a missed opportunity to contribute to reducing the deficit.

**Simon Kirby** (Brighton, Kemptown) (Con): I am slightly confused and perhaps the hon. Lady can clarify the matter. Is she referring to 1% of the 6,000 people who we have heard will pay the top rate of tax? It seems a very small number compared with the number of properties sold each year, either above £1 million or indeed above £2 million. It does not seem to make sense. Can she clarify that for me?

**Catherine McKinnell**: Yes I am referring to the 1% of those who were previously paying the 50p tax rate. As I said, 300,000 people—14,000 millionaires in particular—will benefit every year from the reduction of the 50p tax rate, but only 4,000 houses are sold each year for more than £2 million. So 99% of those who gain from this tax cut for the richest will be unaffected by this increase in stamp duty. How is the higher rate of SDLT going to offset the cut in the 50p tax rate as the Chancellor of the Exchequer, not I, has claimed?

**Jacob Rees-Mogg**: I think I should speak up for my hon. Friend the Member for Chelsea and Fulham, who probably represents more houses in this category than any other Member in Parliament, with the possible exception of the hon. Member for Cities of London and Westminster (Mark Field). He, of course, is not allowed to speak, considering his position. It is important to question what the 7% rate will actually do and its effect on the London property market. The hon. Member for Newcastle upon Tyne North made some excellent points in this regard. I will put aside most of what she said about the 50p tax rate, but she raised some important issues on the knock-on effects.

I declare my own modest interest. The house next door to me has just dug out its basement in London. Will we see people across London not moving house, but digging out their basements? What effect will that have? Will we see people buying two flats in a block and putting them together to avoid the increase in the tax, which is quite substantial? We are talking about £40,000 that is payable as soon as people go over that £2 million level, but not payable at even £1 below that limit, or at £2 million itself. What effect will that have on encouraging people to rent, rather than move property? What effect will there be in London on the mobility of labour, and particularly the international movement of labour, which is very important for the City of London? Is it coincidence that we have discussed clause 210 on stopping anti-avoidance schemes just as the rate of stamp duty land tax has gone

up? As the Government have got increasingly greedy with stamp duty—the previous Government started this, of course—has avoidance become more of a problem, leading to a constant effort to plug holes, although the situation is sieve-like, and it is never possible to plug enough of them? When the number of property transactions has been declining, is it sensible to put up taxes on property at all?

**John Mann**: The hon. Gentleman quoted a figure of, I think, £40,000. Is he aware that the Government have brought in the community infrastructure levy, which has just begun to take effect in the first few councils? That raises amounts of £20,000 and £30,000 per new property, in the hon. Gentleman's constituency and everywhere else, and it includes conversions or expansions of existing properties.

**Jacob Rees-Mogg**: I will speak very specifically to the issue before us, because I do not want to take up a lot of time in Committee, and I know we must finish at 9 o'clock. Tempted though I am by the hon. Member for Bassetlaw to move along all sorts of highways and byways, I intend to stick exclusively to the increase in stamp duty land tax, and to caution the Government that there will come a point at which, if we keep on attacking the golden goose, it will stop laying eggs.

We have found stamp duty to be an easy way of raising tax. It was a very good way to get it when the economy was booming. The rates would go up and there was little effect in a rising market. I am not convinced that that is the situation we are now in. The increase will probably be a disincentive to moving house. It will have an effect on planning in London, as people seek to build upwards and downwards, and on neighbourhoods.

We want a very liquid, high-turnover property market, with as few imposts on it as possible, which is one of the advantages that the UK housing market has had over continental housing markets. That contributes to the mobility of labour. The provision is probably not a good way to raise increased tax. To go back briefly to the 50p point, if the Government had been bolder and cut the 50p rate to 40p—bang!—it would have raised more revenue.

**Sheila Gilmore** (Edinburgh East) (Lab): The hon. Member for North East Somerset may have shot the Government's fox, in relation to whether they will derive from the increase the amounts stated. Stamp duty has, over the years, proved to have clear impacts on the property market and people's behaviour. That is, indeed, precisely why there was a stamp duty holiday, for a period, for first-time buyers.

A lot of property market experts report that ending the holiday and re-imposing stamp duty has led to fewer transactions. The tax affects people's behaviour. The argument that more money will be levied through stamp duty than through the 50p tax rate is based on certain assumptions. After all, it was the Chancellor who made the comparison, and Conservative Members who in the Budget debate put up their fingers to tell us—because we obviously cannot count to five—that one amount was five times the other.

12.30 pm

The provision is an important part of the Chancellor's Budget policy, so if there is any likelihood that the increased rate of tax will affect people's behaviour and lead to them not moving or carrying out the relevant transactions, but instead doing various things that might enable them to stay where they are, such as making more space, the expected tax take will be less. Why should we expect people's behaviour to be affected at the bottom end, and say that people looking for cheaper properties are perhaps more likely to buy when stamp duty has been waived for a period, but not at the top end? It seems that there will be an impact on people's behaviour.

I think a Government Member suggested that stamp duty was a difficult tax to evade. Well, it may be, provided that a property is actually purchased, but stamp duty does not apply where a property is not purchased. That is the bit about behaviour. If stamp duty is so difficult to avoid, we have to ask why there are so many measures in the Bill to prevent people avoiding it. We discussed that when we considered clause 210, which addresses the avoidance of stamp duty land tax.

We also know—this was part of the big Budget debate—that one of the ways in which people avoided the 5% stamp duty land tax was by creating situations in which a company, rather than the individual, purchased the property. The Government declared that they wanted to take steps both to address such avoidance in future transactions and, through another mechanism, to recoup some of the losses on past transactions. Sadly, people may be able to avoid even that kind of tax.

Such avoidance was not so uncommon in the past, when there were cut-offs at various levels—at one point, a higher rate of stamp duty was levied at £100,000. I recall people offering arrangements such as, "Well, we'll call it £99,000, and we'll sell you the furniture for £10,000," or whatever. The same amount of money was passed, but it came under the stamp duty threshold. I am not defending that practice, but I am aware that it happened at times.

People find ways to get around stamp duty, and perhaps that will be true of £2 million houses, too. There may be different ways of doing so; I am not a tax-avoidance lawyer, so I have not thought of what those ways might be. I would not be surprised if somebody was working out how to make a transaction in such a way that it falls beneath £2 million but that some other service or sale takes places on which the tax is not levied. In all those circumstances, the amount generated by the tax may well be less than anticipated. On that basis, the promise that the measure will plug the gap, and perhaps do even better, may not be met.

I am slightly worried by the glee with which Government Members want to tell us that the 50p tax rate does not raise any money or might even be a money loser, as was suggested earlier. The Government have repeatedly told us that we have to address the deficit and raise money. What annoys so many of our constituents, and so many people up and down the country, is that they do not have the ability to accelerate their income and pull it back into a previous year, as appears to have happened in the first year of the 50p tax rate. Most people cannot go to their employer and say, "Will you pay me next year's money this year so I can avoid paying tax?", or "Will you pay me next year, rather than this year?"

That is probably what people are doing at the moment; given that there is an exit year, as well as an entry year, they will just delay their income. If the tax had gone on, of course, it would be much harder for people to do that, as has been suggested. It must be understood why people are so angry about some of these matters. It is almost as if we are being told to be delighted that the tax did not raise what it should have done, and that people clearly tried to get out of it.

There is an argument for property taxes such as SDLT. As we have seen over the past week in the big debate about tax avoidance, income taxes are avoidable on lots of levels by many people, particularly by those who are self-employed or have companies. All those mechanisms have been under discussion. There is an issue about how to ensure a reasonable tax take, proportionate to income and wealth, and create a fair and progressive tax system. That is one reason people have suggested that a property tax might achieve that in a way that an income tax might not. That is one argument for continuing with council tax, although a lot of people do not like that either. That is a property tax that it is quite hard to avoid. I suspect it is also the reason why Liberal Democrats, both prior to the election and since, have advocated a mansion tax. They realise that wealth is not being taxed as effectively as it might be, and want to ensure that it is.

It has been spun that the 7% is a mansion tax, but it is a pale shadow of one. The crucial point is that it may not raise the money needed to deal with the problems the country faces. It is significant that we should hear today that public borrowing rose more than expected in May; it has hit £17.9 billion, compared with £15.2 billion the year before. That increase in borrowing was driven by a fall in income tax of just over 7%, and an 11.7% jump in welfare benefits. Sadly, it is hurting, but it is not working.

**John Mann:** I shall be quick. I support the clause and will defend and promote it as appropriate. However, I worry in that members of the Committee and the wider public are not aware of how the Government are attacking the entrepreneur and the person who wants to build a small house.

It is appropriate that a large mansion should be taxed in this way as a minimum, if not more. At the same time, this very day across the country, from Somerset to Nottinghamshire, the community infrastructure levy is being introduced. That means that anyone building a small house on a plot of land will, for the first time in this country, be taxed a huge amount by the Government. Converting a small property such as a barn will be taxed for the first time in the same way as the large developer. That is a tax on the aspiration of Britain.

That skewing of the housing market and the attempt to dampen aspiration among those who wish to get up or move on to the housing ladder emphasise the flaws in the Government's housing and taxation policy. It would be better if the clause imposed a higher mansion tax than that proposed and introduced a cap at the bottom to allow the person who wants a plot of land on which to build their own house for the first time to get on the housing ladder. Anyone wishing to do that should not be taxed between £20,000 and £30,000 extra. The country hardly knows that is going on. It is our duty, therefore, to tell people about the new tax that the Government have brought in on aspiration and home ownership.

Will the Minister consider, over the next few months, whether the tax in the clause could be increased by 1%? A cap could then be created for small, affordable, starter houses, allowing the aspirant entrepreneur to get on to the housing ladder by building a small home, without the burden of the state taxing them, for the first time, £20,000 to £30,000 each. For some people, that would be decisive. Will the Minister give a commitment to the Committee to look at this matter, and see whether a small tweaking would provide an opportunity for entrepreneurship, and not dampen down aspirational home owners in the way that the Government are now doing sneakily?

**Miss Smith:** If I may say so, Mr Bone, with due respect to your chairmanship, this morning's debate has involved one of the more egregious avoidances of a clause's point that we have seen.

**The Chair:** Order. If it had been out of order, I would have ruled it out of order.

**Miss Smith:** I apologise, Mr Bone. I meant no disrespect to your chairmanship, but I would like to pay some disrespect to other comments that we have heard today. The point was made about the rich paying more, which is an idea that my constituents certainly welcome. If people are asked, "Should a purchaser of a £2 million home pay more in tax than someone who purchases a £1 million home, and in turn, more than someone who purchases a £100,000 home?", the answer would be a resounding yes. That is what the clause does in part.

**Jacob Rees-Mogg:** The purchaser of a £2 million home pays more than someone who purchases a £1 million home, or a £100,000 home, even if the rate is the same. It does not require a higher rate for fairness.

**Miss Smith:** Let me go into what the rate does—my hon. Friend will know well the technical terms, "a slab" and "a slice" that apply to this tax, and rather broader reform would be required if we were to fully tackle what he has just asked for.

The new rate is one of a package of measures that is targeted at the wealthy. As the Committee knows—they can check the figures in the Red Book—the package ensures that the Exchequer will gain five times more money each and every year from the wealthiest in our society, compared with how much those people benefit from the Budget. For clarity, the package includes other changes to stamp duty land tax, such as clause 210, the cap on tax reliefs, and measures to address avoidance. Members have asked whether the measures take more from the rich, and those answers can be found in the Red Book.

Clause 211 introduces a new rate of stamp duty land tax for residential properties worth over £2 million from 22 March 2012. SDLT is a tax on land transactions, both residential and commercial. Purchasers are charged a percentage of the price paid for the land or property that they acquire. Before the changes were introduced, the rates of SDLT on residential properties rose from 0% for properties up to £125,000 to 5% for properties over £1 million. The clause introduces an additional 7% rate for residential transactions over £2 million, again with an effective date of on or after 22 March 2012. As the

measure applies only to properties costing more than £2 million, it is clearly a charge on the wealthiest individuals.

It is clear to those who listened to this morning's debate that many of the comments made by Opposition Members have been debunked enough, and I thank some of my hon. Friends for doing that here today. I will add to their comments the point that the Office for Budget Responsibility made in the context of the Budget announcements, which is that the package put forward was based in part on central and reasonable figures.

12.45 pm

**John Mann:** The Minister wants to debunk, but will she just confirm that, with the community infrastructure levy, the Government are taxing everyone who builds a new home or converts a non-residential dwelling into a new home? They are applying now, for the first time ever, a tax of between £20,000 and £30,000 per property. It is brand new this year; it has never existed before. Will the Minister confirm that that is a fact?

**Miss Smith:** I am grateful to the hon. Gentleman for giving me the chance to deal with that question before moving on to the rest of what I need to say this morning. It is my understanding that Department for Communities and Local Government plans help to ensure that the externalities involved in the very broad community infrastructure levy reforms are properly funded. It is my understanding that if the land is worth less than £125,000, no SDLT is due; nor is it due on the finished house. I am sure that other Ministers would be happy to discuss that with the hon. Gentleman in due course.

**John Mann:** On that point, I hope that the Minister will consider reassessing the facts and the inaccurate information that she has been presented with to suggest that land must be worth £125,000 before the community infrastructure levy is applied.

**The Chair:** Order. This is getting out of order. The hon. Gentleman made the point before. He was asking for the rate to be increased, but he now appears to be debating the actual charge. Unless he wants to rephrase the question, that might be out of order.

**Miss Smith:** Perhaps it would be best if I offer to return to the hon. Gentleman on that topic or, indeed, ask other Ministers to do so. They might be better equipped to discuss the matter, given what this clause allows us to discuss.

I want to deal with other points before making some brief comments about what the clause does. The hon. Member for Newcastle upon Tyne North asked as one of her first questions whether the measure had been watered down. She asked: is it less than a mansion tax? It seems to be less than a tax on the wealthy, she said. The idea of a mansion tax from her and perhaps the idea of a tax on the wealthy from her is the closest we have got, all Finance Bill long, to a statement of what the Opposition's plans are on tax. If she has an idea of what a mansion tax or, indeed, what a tax on the wealthy would achieve, we are all ears.

I will quote back to the hon. Lady her note that—

**Catherine McKinnell:** Will the Minister clarify something? The points that I have raised today are scrutinising the measure that the Government are implementing and the Government's intentions with regard to it. I do not recall at any stage setting out any policy proposals with regard to this measure in any of my comments.

**Miss Smith:** Indeed, and that has been one of the difficulties with the hon. Lady's contributions in proceedings on the Bill. She talks about her concern that measures are falling on the shoulders of those who can least bear it. I just wonder whether she means those—*[Interruption.]*

**The Chair:** Order.

**Miss Smith:** I wonder whether the hon. Lady means that she is concerned that those who can least bear it are indeed those who would pay to move to £2 million houses. I suspect not.

**Julie Hilling:** I am sorry to take the Minister back a moment, but my understanding of this Committee—you may be able to correct me, Mr Bone—is that we are scrutinising Government legislation. We are not proposing the Opposition's legislation. I am sure that we would very happily, with your permission, set out in this Committee exactly what we would do if we were in government, but sadly we are not in government and therefore we are scrutinising the Government's Bill. I am very confused about why the Minister would make those comments—those accusations. Clearly, we have already set out five-point plans and, from these Benches, talked about some of the things that we would do in government.

**Miss Smith:** Let me continue and explain what this Government are doing through the policy under discussion, which is very simple. It is a further tax on wealthy individuals—the wealthiest individuals—who purchase properties worth more than £2 million. Members have asked why the figures of £2 million and 7% were picked. I think that I have already responded to those questions by saying that the previous upper cost limit was £1 million and the previous upper rate of tax was 5%. Clearly, a balance needs to be struck in relation to raising more revenue and against overly punitive rates or thresholds. The central point is that if someone can afford to pay £2 million for a house, they can afford to pay a little tax towards the mammoth deficit in which the previous Government left this country.

On whether the measure will fall more on London and the south-east, it is no great surprise that London and the south-east have a higher graded property market than other parts of the country, so the tax may have an effect in that regard. However, let me reassure the Committee that the business model takes into consideration

the considerable capital gains tax anticipated from London properties, and that the initial stakeholder reaction, including responses from high-value London estate agents, suggests that the measures have had a limited impact on investor activity. We expect it to be an effective tax that will, as intended, secure more revenue from the wealthiest, while not acting as a barrier to investment in residential property. It is important that the UK remains a safe haven for high-end property investors.

On avoidance, my hon. Friend the Member for North East Somerset said that a further higher rate would increase already high levels of SDLT. The Budget highlighted the Government's determination to tackle SDLT avoidance, and the Bill includes a package of measures to put a stop to sub-sale avoidance and to deter enveloping, which my hon. Friend the Exchequer Secretary has already explained, and provides for notification to Her Majesty's Revenue and Customs of much more serious schemes. The Chancellor has been absolutely clear that we will legislate with retrospective effect, if necessary, to stop any new schemes that emerge in future.

**Julie Hilling:** I thank the Economic Secretary for giving way on that particular point, because I am concerned that there is a risk that properties will now be sold for £1,999,999. I am also concerned, as my hon. Friend the Member for Edinburgh East has said, about whether people will be able to take other measures—for instance, sell their house separately from its outbuildings—in order to avoid selling for £2 million. Is that possible and will the Government do something to prevent it from happening?

**Miss Smith:** In brief, and without attempting to give tax advice to anyone wishing to seek out new schemes, the overall package of measures in the clause and a couple of others either side of it makes it clear that this Government will bear down on any avoidance schemes that enable the enveloping of property or creative ways of getting around paying a fair share of tax. I reassure the hon. Lady and the hon. Member for Newcastle upon Tyne North, who first posed the question, that the new 7% rate will raise an estimated £150 million in 2012-13, rising to £300 million by 2016-17. That will help support the Government's priority of reducing the deficit, and it is clearly more than the £100 million estimated to have been raised by the former 50p tax rate.

*Question put and agreed to.*

*Clause 211 accordingly ordered to stand part of the Bill.*

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

12.55 pm

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