

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE (NO. 2) BILL

**(Except clauses 1, 5 to 7, 11, 72 to 74, and 112, schedule 1
and certain new clauses and new schedules)**

First Sitting

Tuesday 29 April 2014

(Morning)

CONTENTS

Programme motion agreed to.

Written evidence (Reporting to the House) motion agreed to.

CLAUSE 2 under consideration when the Committee adjourned till this day
at Two o'clock.

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The Committee consisted of the following Members:

Chairs: † MARTIN CATON, MR GARY STREETER

- | | |
|--|---|
| † Burt, Lorely (<i>Solihull</i>) (LD) | † Mahmood, Shabana (<i>Birmingham, Ladywood</i>) (Lab) |
| † Dakin, Nic (<i>Scunthorpe</i>) (Lab) | † McKenzie, Mr Iain (<i>Inverclyde</i>) (Lab) |
| Dinenage, Caroline (<i>Gosport</i>) (Con) | † McKinnell, Catherine (<i>Newcastle upon Tyne North</i>) (Lab) |
| Duddridge, James (<i>Rochford and Southend East</i>) (Con) | † Mearns, Ian (<i>Gateshead</i>) (Lab) |
| † Elphicke, Charlie (<i>Dover</i>) (Con) | † Menzies, Mark (<i>Fylde</i>) (Con) |
| † Evans, Chris (<i>Islwyn</i>) (Lab/Co-op) | Morgan, Nicky (<i>Financial Secretary to the Treasury</i>) |
| † Fuller, Richard (<i>Bedford</i>) (Con) | † Pearce, Teresa (<i>Erith and Thamesmead</i>) (Lab) |
| Garnier, Mark (<i>Wyre Forest</i>) (Con) | † Pincher, Christopher (<i>Tamworth</i>) (Con) |
| † Gauke, Mr David (<i>Exchequer Secretary to the Treasury</i>) | † Rudd, Amber (<i>Hastings and Rye</i>) (Con) |
| † Gilmore, Sheila (<i>Edinburgh East</i>) (Lab) | † Rutley, David (<i>Macclesfield</i>) (Con) |
| † Glindon, Mrs Mary (<i>North Tyneside</i>) (Lab) | † Shelbrooke, Alec (<i>Elmet and Rothwell</i>) (Con) |
| Hames, Duncan (<i>Chippenham</i>) (LD) | † Smith, Henry (<i>Crawley</i>) (Con) |
| † Heaton-Harris, Chris (<i>Daventry</i>) (Con) | † Swales, Ian (<i>Redcar</i>) (LD) |
| † Jamieson, Cathy (<i>Kilmarnock and Loudoun</i>) (Lab/Co-op) | † Vaz, Valerie (<i>Walsall South</i>) (Lab) |
| † Kane, Mike (<i>Wythenshawe and Sale East</i>) (Lab) | † Wheeler, Heather (<i>South Derbyshire</i>) (Con) |
| † Kwarteng, Kwasi (<i>Spelthorne</i>) (Con) | † Williamson, Chris (<i>Derby North</i>) (Lab) |
| † Leadsom, Andrea (<i>Economic Secretary to the Treasury</i>) | Wilson, Sammy (<i>East Antrim</i>) (DUP) |
| † Leslie, Chris (<i>Nottingham East</i>) (Lab/Co-op) | Matthew Hamlyn, Kate Emms, <i>Committee Clerks</i> |
| | † attended the Committee |

Public Bill Committee

Tuesday 29 April 2014

(Morning)

[MARTIN CATON *in the Chair*]

Finance (No. 2) Bill

(Except clauses 1, 5 to 7, 11, 72 to 74 and 112, schedule 1, and certain new clauses and new schedules)

9.10 am

The Chair: Good morning. I have a few preliminary announcements. Members may remove their jackets during Committee sittings, and no refreshment, other than water, may be consumed. Will Members please ensure that mobile phones, pagers and so on are turned off or switched to silent mode? Document boxes are provided for Members to keep their Bill papers in between meetings. It will be much appreciated if Members could return the boxes to the cupboard at the end of the meeting.

As a general rule, my fellow Chair and I do not intend to call starred amendments that have not been tabled with adequate notice. The required notice period in Public Bill Committees is three working days, so amendments should be tabled by the rise of the House on Monday for consideration on Thursday, and by the rise of the House on Thursday for consideration on Tuesday.

Not everyone is familiar with the procedure in Public Bill Committees, so it might help if I briefly explain how we will proceed. The Committee will first be asked to consider the programme motion, on which debate is limited to half an hour. We will then proceed to consider a motion to report written evidence, after which we will begin our line-by-line consideration of the Bill. The selection list for today's sitting shows how the selected amendments have been grouped for debate. Amendments that are grouped together are generally on the same, a similar or a related issue. The Member who has put their name to the lead amendment in the group is called first. Other Members will then be free to catch my eye to speak to the group. A Member may speak more than once, depending on the subject under discussion.

At the end of the debate on a group of amendments, I will again call the Member who moved the lead amendment to speak. Before they conclude, they will need to indicate whether they wish to withdraw the amendment or to seek a decision. If any Member wishes to press any other amendment in the group to a Division, they will need to let me know. I will work on the assumption that the Government wish the Committee to reach a decision on all Government amendments. Please note that decisions on amendments take place not in the order that they are debated, but in the order in which they appear on the amendment paper. Decisions on new clauses will therefore be taken at the conclusion of our line-by-line consideration of the Bill.

When the group includes the words "clause stand part", it means that Members should make any remarks they wish to make about the content of the clause during the course of the debate on that group, as there will be no separate stand part debate. When there is no indication on the selection list, Mr Streeter and I will use our discretion to decide whether to allow a separate stand part debate on individual clauses or schedules. Clause stand part debates begin with the Chair proposing the Question, That the clause stand part of the Bill, so there is no need for the Minister or any other Member to move a motion. I now call the Minister to move the programme motion in the terms agreed by the Programming Sub-Committee.

The Exchequer Secretary to the Treasury (Mr David Gauke): I beg to move,

That—

(1) The Committee shall (in addition to its first meeting at 9.10 am on Tuesday 29 April) meet—

- (a) at 2.00 pm on Tuesday 29 April;
- (b) at 11.30 am and 2.00 pm on Thursday 1 May;
- (c) at 3.30 pm on Tuesday 6 May;
- (d) at 11.30 am and 2.00 pm on Thursday 8 May;
- (e) at 9.10 am and 2.00 pm on Tuesday 13 May;
- (f) at 9.10 am and 2.00 pm on Tuesday 10 June;
- (g) at 11.30 am and 2.00 pm on Thursday 12 June;
- (h) at 9.10 am and 2.00 pm on Tuesday 17 June.

(2) Proceedings on consideration of the Bill in Committee shall be taken in the following order: Clauses 2 to 4; Clauses 8 to 10; Schedule 2; Clauses 12 to 15; Schedule 3; Clauses 16 to 18; Clauses 20 and 21; Clause 19; Clauses 22 to 41; Schedule 4; Clauses 42 and 43; Schedule 5; Clauses 44 to 48; Schedule 6; Clause 49; Schedule 7; Clause 50; Schedule 8; Clauses 51 to 53; Schedules 9 and 10; Clause 54 to 56; Clause 284; Clauses 57 to 64; Schedule 11; Clause 65; Schedule 12; Clauses 66 to 68; Schedule 13; Clauses 69 to 71; Clauses 75 to 80; Schedule 14; Clauses 81 to 85; Schedule 15; Clauses 86 to 93; Schedule 16; Clauses 94 and 95; Schedule 17; Clauses 96 to 100; Schedule 18; Clauses 101 to 106; Schedule 19; Clauses 107 and 108; Schedule 20; Clauses 109 and 110; Schedule 21; Clause 111; Clause 113; Schedule 22; Clauses 114 to 170; Schedule 23; Clauses 171 to 189; Schedule 24; Clause 190; Schedule 25; Clauses 191 to 202; Schedule 26; Clauses 203 to 208; Schedule 27; Clauses 209 to 221; Schedule 28; Clauses 222 to 226; Schedule 29; Clauses 227 to 230; Schedule 30; Clauses 231 to 267; Schedule 31; Clauses 268 to 274; Schedule 32; Clauses 275 to 283; Schedule 33; Clauses 285 to 289; Schedule 34; Clauses 290 to 295; new Clauses other than those relating to tax relief in connection with the costs of childcare or income tax allowances for parties to a marriage or civil partnership or air passenger duty or the rate of the bank levy or the subject matter of Clause 1 or the subject matter of Clauses 5 to 7 and Schedule 1; new Schedules other than those relating to tax relief in connection with the costs of childcare or income tax allowances for parties to a marriage or civil partnership or air passenger duty or the rate of the bank levy or the subject matter of Clause 1 or the subject matter of Clauses 5 to 7 and Schedule 1; remaining proceedings on the Bill.

(3) The proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00 pm on Tuesday 17 June.

I welcome you, Mr Caton, to the Chair, as well as Mr Streeter, who will also chair the Committee. I am sure it will be a pleasure for all of us to serve under your chairmanship. The Finance Bill debates downstairs have shown once again the excitement that such Bills often generate, so I am sure that we will benefit from your wisdom and guidance in keeping our deliberations focused. I also extend my welcome to the Clerks and *Hansard*

Reporters who will assist us over the coming weeks. It is also a pleasure that we shall experience the enthusiastic participation of Opposition Members.

I am especially pleased that we will be joined by not just three but four shadow Ministers. I am sure that they will be served admirably by their fellow Opposition Members, some of whom have served on Finance Bill Committees before and have been persuaded to return. I congratulate the hon. Member for Scunthorpe on his success in achieving that. I am also delighted that our side we will have the benefit of contributions from our hon. Friends the Members for Spelthorne, for Fylde and for Rochford and Southend East. Clearly, their experience of last year's Committee only whetted their appetite for Finance Bill debates. I am delighted that, over the course of our proceedings, we will be joined by the Financial Secretary to the Treasury and the Economic Secretary. I am sure that they will also want to welcome our hon. Friends.

9.15 am

This substantial Bill has already received a great deal of scrutiny. Some 30 informal and formal consultations have been launched since Budget 2013 to shape the policies for which the Bill legislates. We published more than 300 pages of draft legislation in December for technical consultation and received more than 300 responses. I thank the individuals and organisations that worked with the Treasury and Her Majesty's Revenue and Customs in the preparation of the Bill, which is all the better for their comments.

We are about to undertake an important process. The 2014 Finance Bill is a significant measure that delivers reforms to help to lift 3 million people out of income tax, to boost savings, to make pensions more flexible, to promote growth and investment, and to crack down on tax avoidance. I am sure that hon. Members will approach our discussions with dedication and enthusiasm, and I look forward to engaging in the valuable and at times enthralling debates that we will have over the next few weeks.

Chris Leslie (Nottingham East) (Lab/Co-op): Good morning, Mr Caton. May I echo the Exchequer Secretary's welcome to you and Mr Streeter? We have many fun hours ahead of us—I can barely contain my excitement—and thank goodness that the tube strike did not prevent such a fantastic turnout this morning.

This is something like my 10th or 11th Finance Bill, and I know that the Exchequer Secretary waits all year for this particular moment. It is a pity that we have not been joined this morning by the new Financial and Economic Secretaries. I understand that the Economic Secretary had a very important meeting in Brussels at a key juncture yesterday evening, so I hope that she will manage to get back in time for Treasury questions.

The Bill is conspicuous for those things that are absent in it. We will try our best to persuade Government Members to make the changes that are necessary to alleviate the cost of living pressures that many of our constituents face. After all, this Bill is one of the only things going on in the House of Commons—or in Parliament generally—at this particular time under this zombie Government.

It is all very well my standing up here at the beginning of our proceedings and saying a few words of welcome, but it will fall mostly to my hon. Friends the Members

for Birmingham, Ladywood, for Kilmarnock and Loudoun and for Newcastle upon Tyne North to carry out most of the detailed line-by-line scrutiny and set out how the Government need to improve their Bill, so I put on record my thanks to them. However, it would not be proper for us to start these proceedings without thanking the unsung heroes: not just the Treasury officials—I also thank them for their diligence—the Clerks, *Hansard* and all the others who help to keep our proceedings flowing smoothly, but the Whips—[*Interruption.*] Yes indeed, Mr Caton; the Whips are much maligned, but are often important to keeping the show on the road. There was a moment before the sitting started when I wondered whether we would have more Members on our side of the room than the Government, but the hon. Member for Hastings and Rye has a firm grip of her responsibilities and ensured that everything was correct. Looking at the Government Benches, I see that she has quite a difficult job on her hands, especially given the presence of the hon. Member for Elmet and Rothwell, who has a tendency for mischief. On our side, my hon. Friend the Member for Scunthorpe has everything planned and raring to go.

I want to reassure hon. Members that while serving on a Finance Bill Committee is a duty, it is also a privilege. It is not in any way a punishment for things that they might have failed to do, and nor is it that the Whips have got them here as penance in any way, shape or form. That is not why we are here this morning. I hope that we will scrutinise the Bill properly and methodically.

Question put and agreed to.

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—(*Mr Gauke.*)

The Chair: Copies of memorandums that the Committee receives will be made available in the Committee Room.

Clause 2

BASIC RATE LIMIT FOR 2015-16 AND PERSONAL ALLOWANCES FROM 2015

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

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

New clause 1—*Lower rate of tax*—

'(1) The Chancellor of the Exchequer shall, within six months of Royal Assent, lay before Parliament a report containing proposals for an income tax rate of 10 per cent on a band of income above the personal allowance.

(2) The report mentioned in subsection (1) above shall provide for the full benefit of the 10 per cent. rate not being available to taxpayers paying the higher or additional rates of tax.'

New clause 2—*Higher rate of tax*—

'(1) The Chancellor of the Exchequer shall, within three months of the passing of this Act, undertake a review of the number of people paying the 40 per cent rate of income tax in the years—

- (a) 2010-2011;
- (b) 2011-2012;
- (c) 2012-2013; and
- (d) 2013-2014.

(2) The Chancellor of the Exchequer must publish the report of the review and lay the report before the House.'

[The Chair]

New clause 3—*Personal allowance for those born after 5 April 1948*—

‘The Chancellor of the Exchequer shall, within three months of the passing of this Act, undertake a review of the impact of the removal of the age-related personal allowance on anyone who reached the age of 65 on or after April 2013 and place a copy in the Library.’

Shabana Mahmood (Birmingham, Ladywood) (Lab): It is a pleasure to serve under your chairmanship, Mr Caton, and that of your co-Chair, Mr Streeter, when he joins us for later sittings. I associate myself with the remarks of the Exchequer Secretary and my hon. Friend the Member for Nottingham East in welcoming the Clerks, the *Hansard* Reporters and others who will assist us in the long weeks ahead. I also welcome all members of the Committee. Had they had been here, I should have liked to welcome the Economic Secretary to her new post and congratulate the new Financial Secretary on her promotion. The Secretary of State for Culture, Media and Sport might feel that he had a well-timed promotion, but it is he who he is missing out on the lengthy debates we will have about the Bill. As my hon. Friend said, serving on this Committee is an absolute privilege and in no way a punishment.

I also welcome to our proceedings a new Member of the House: my hon. Friend the Member for Wythenshawe and Sale East. This is his first ever Bill Committee. It is also my first ever Finance Bill Committee, so the two of us are newbies together. Many Members who are here this morning are Finance Bill veterans who have been delighting me with tales of previous Committees and their lengthy and enthralling debates. We will scrutinise the Bill thoroughly, as is our duty. As lengthy as the Bill is, it is not quite the longest ever—[*Interruption.*] My hon. Friend the Member for Newcastle upon Tyne North tells me that that might have been last year’s Bill. While this Finance Bill is lengthy, however, it includes no measures that will do much to help the millions of people throughout our country who are struggling with a real and deep-seated cost of living crisis.

Despite recent welcome changes on inflation and wages, the intersection of the right lines on the right graph do not wipe out the impact of the Government’s policies on ordinary people on lower and middle incomes, and the things that they are struggling with, whether they are energy bills, child care costs or other things that make it hard for them to make ends meet from day to day. Ordinary people are worse off. The recent figures are welcome, but a positive intersection of figures on wages and prices does not overnight make the gas bill easier to pay, and nor does it ensure that the recovery that is finally under way benefits people on lower and middle incomes.

Clause 2 increases the personal allowance for those born after 5 April 1948 from £10,000 to £10,500 with effect from 2015-16. It reduces the basic rate limit by £80 to £31,785 for the same year. The personal allowance has been much discussed in the House. It was a flagship policy in the coalition agreement, and it is such a powerful policy for both coalition parties that they often fight each other to take credit for it. I am sure that Liberal Democrat Members would love to say that the policy was their idea and always had been, while their

Conservative colleagues will say that it could never have been implemented without their support. We watch that internal coalition fight with interest. However, the Opposition have also supported the increase in the personal allowance, and we will support clause 2 and the rise in the personal allowance to £10,500 in 2015-16.

The Government would have us believe that, thanks to this policy—they often refer to it when they are in difficulty with other issues affecting people on lower and middle incomes—ordinary people are not suffering. They claim that the policy has effectively wiped out the consequences of other decisions that they have made or failed to make. The Government could have taken other practical measures in the Finance Bill, but they have not, thus rendering ordinary working people worse off under this Government.

Despite the changes to the personal allowance, people on lower and middle incomes are worse off. According to the Office for Budget Responsibility, they will be worse off at the end of this Parliament than they were at the beginning. Government Ministers have repeatedly ducked the opportunity to admit under questioning on the Floor of the House that the OBR says that wages will be 5.6% down in 2015 from where they were in 2010. I understand why the Government do not want to admit that central fact. They do not want to admit that people will be worse off in 2015 because they fear that, when people are asked at the general election in 2015, “Are you better off today than you were when this Government came to power?”, they will say, “No, we are not better off.” As the Government know that people will not be better off, why do they not want to admit what the OBR has clearly stated—[*Interruption.*] I note that Government Members do not like to hear that, but I refer them to the OBR document that makes it clear in black in white that people will be worse off in 2015 than they were in 2010.

Mr Iain McKenzie (Inverclyde) (Lab): It is a pleasure to serve under your chairmanship, Mr Caton. Does my hon. Friend agree that the demands on the incomes of lower-paid people cannot be avoided? Those demands are due to the increasing costs of food, energy and fuel, with the Government putting extra VAT on that.

Shabana Mahmood: I am grateful to my hon. Friend for his powerful point. It is the day-to-day cost of living—the bills that land on the doorstep—that makes my constituents, and I am sure those of others, desperately worried about how to make ends meet. The pressures include gas and electricity bills, child care costs and VAT, which has had a big impact by adding to fuel costs, although the Government do not like to admit that. The huge impact of the VAT changes is that families are thousands of pounds worse off over the life of this Parliament.

Chris Evans (Islwyn) (Lab/Co-op): It is a pleasure to serve under your chairmanship, Mr Caton. I visited your constituency over the bank holiday weekend and you represent one of the loveliest parts of Wales. Is that going to help me to get called in future?

The Chair: Certainly.

Chris Evans: Does my hon. Friend agree that surely the Government should shoulder some of the blame for the pressure that hard-working families are feeling? For example, if someone is earning above the £10,500 tax threshold, the Government's cuts to Sure Start and the maternity grant will affect them deeply. The Government should apologise for those cuts.

9.30 am

Shabana Mahmood: My hon. Friend makes a powerful point. I would not hold my breath for an apology from Government Members, but he is absolutely right.

The Opposition have supported increases to the personal allowance and we will do so again today. However, it often seems that the Government think that the increase in the personal allowance, which enables them to say that they have taken a relatively large number of people out of paying tax, alone automatically makes everything else they have done okay, whether increasing VAT, changing maternity grants in the early part of this Parliament or other measures. Many such changes have had a huge impact on the ability of people on low and middle incomes to make ends meet. To that extent, the Opposition's position regarding the personal allowance is that it is a classic case of the Government giving with one hand but taking away a hell of a lot more with the other.

Ian Mearns (Gateshead) (Lab): I am delighted to serve under your chairmanship, Mr Caton. Does my hon. Friend remember who, in 2009, said:

"We will not have to raise VAT to deliver our promises. The Conservatives will. Let me repeat that: Our plans do not require a rise in VAT. The Tory plans do?"

Could that have been the leader of the Liberal Democrats?

Shabana Mahmood: I believe that it was the leader of the Liberal Democrat party—the current Deputy Prime Minister. I suspect that he will once again have a little bit of amnesia when it comes to what he said before the general election and the changes he has gone on to support in government as Deputy Prime Minister. Of course, that sits alongside pledges on tuition fees and other things that the Liberal Democrats promised. Their promises were worth absolutely nothing and they quickly forgot them as soon as they got to share a bit of power in the coalition.

Ian Mearns: Does my hon. Friend also remember what the current Prime Minister said about VAT in a speech in Exeter in May 2009? Did he not say that it is a regressive tax?

Shabana Mahmood: My hon. Friend's memory of what the Prime Minister, the then Leader of the Opposition, and the Deputy Prime Minister, the then leader of the Liberal Democrats, said before the previous general election is better than mine. I salute his memory. He is absolutely right—that is exactly what the Prime Minister said. It is something that he conveniently and quickly forgot as soon as he came into government. That is an important point. It shows that, regardless of what those parties said in opposition, the promises and assessments of where we would stand if either of them was elected—in the end we ended up with both—were not worth anything.

It is not as if neither party knew that there was a large deficit that would require some difficult choices. That deficit was going to require some difficult choices, and at the previous general election the parties set out different approaches to how they would go about reducing the deficit. In that context, presenting a different picture of what would be needed to achieve the scale of deficit reduction that everyone felt was needed was simply wrong.

Chris Williamson (Derby North) (Lab): May I, too, say that it is a great pleasure to serve under your chairmanship, Mr Caton?

My hon. Friend makes a cogent argument. Does she agree that, in addition to the impact that the rise in VAT has had on low and middle-income families, members of both the Liberal Democrat and Conservative parties have effectively launched a wholesale assault on the working people of this country by the huge increase in the number of people paying the 40p tax rate? Does my hon. Friend agree that that is a shameful attack on the squeezed middle and low-income people in our country? Will she remind the Committee of the additional number of people who are having to pay the 40p tax rate because of the Government's assault on the working people of Britain?

Shabana Mahmood: My hon. Friend is absolutely right. Many hundreds of thousands more people have been drawn into the 40p tax band. I will come to that later in my remarks on new clause 2, which specifically calls for a review that would give us an idea of the changes to the number and proportion of taxpayers caught within the 40p band and enable us to have a much more open and honest debate.

Ian Swales (Redcar) (LD): Will the hon. Lady confirm that new clause 1(2) would lead to even more people paying the 40% tax rate?

Shabana Mahmood: I will come on to new clause 1 and our policy on the 10p band, which focuses specifically on lower and middle-income earners.

Alec Shelbrooke (Elmet and Rothwell) (Con): Will the hon. Lady please explain to the Committee why, when the Labour Government were running an £80 billion deficit in 2006, they did not feel the need to bring in a 50% tax rate?

Shabana Mahmood: We introduced a 50% tax rate and, more importantly, have said that an incoming Labour Government in 2015 would restore it. The bigger question for the hon. Gentleman, if he is such a fan of the 50% tax rate, is this: why is he supporting his Government, who have seen fit to give a £3 billion tax cut to some of the richest people in our country? Will he support our policy of restoring the 50p tax rate?

Alec Shelbrooke: I am delighted that the hon. Lady has let me come back on that point. I want to see the biggest amount of revenue coming into the Exchequer, and that is best done through a 45p rate rather than a 50p rate. Pragmatism over dogmatism wins every time.

Shabana Mahmood: If only the numbers were as certain as the hon. Gentleman thinks they are. They are not that certain. Everyone who has modelled numbers on a 45p rate and a 50p rate accepts that there is a high degree of uncertainty on the amount of revenue raised. He is forgetting that the figures we have do not give a full picture. Before the Labour Government introduced the 50p rate, there was a huge amount of income shifting so that people could avoid it. When the Government announced that they were cutting the rate to 45p, lots of people delayed taking bonuses so that they could benefit from that lower rate. We saw a lot of income shifting to avoid the 50p rate, which made the figures extremely uncertain.

Kwasi Kwarteng (Spelthorne) (Con): It is important in these debates that we put on record what has happened in the recent past. Labour was in government for 13 years and for 95% of that time, the top rate of tax was 40%. For all that time, the Labour Government did not see fit to raise the top rate of tax beyond 40%. It was only in the final three months of that Government, when they knew that they would lose power, that they increased the rate to set a political trap for the incoming Government. It was purely cynical and had nothing to do with fiscal responsibility or raising revenue. As a consequence, the Government cut the rate to 45p and have seen dramatically increased tax revenue as a result. It is very irresponsible for the Opposition to be playing politics in that way.

Shabana Mahmood: First, the setting of tax and the rate at which people pay tax will always be a political decision, so I am surprised that the hon. Gentleman says the Opposition are playing politics. The key point on what we do in politics—

Kwasi Kwarteng: But you did not change it for 13 years.

Shabana Mahmood: Let me finish my point. This will always be a highly politicised discussion. I am surprised at the hon. Gentleman's closing remark. I do not know why he is so exercised by that part of what I said.

Kwasi Kwarteng: Will the hon. Lady give way, since she made a direct point about my remark?

Shabana Mahmood: If the hon. Gentleman will let me finish my point, I will happily give way. This will always be a highly politicised debate. It is about the key function of government, and of course it will raise lots of questions, and passions, too. In answer to his points, the Labour Government introduced the 50p rate as part of an explicit strategy on deficit reduction. That accounts for the fact that we did not introduce it for most of the time we were in government. There was a deficit reduction strategy—

Several hon. Members rose—

Shabana Mahmood: Let me finish. Our commitment to increasing the rate from 45p to 50p was based around the need to get the deficit down in a fairer way. We do not believe that the current figures are an accurate picture of what could be raised from the 50p rate,

especially if we take into account, as the hon. Member for Spelthorne failed to do, the income shifting that took place, which is the basis for those figures.

Christopher Pincher (Tamworth) (Con): Will the hon. Lady give way?

Alec Shelbrooke: Will the hon. Lady give way?

Shabana Mahmood: I will give way to everybody in a moment, when I have finished my point. Please be patient. The income shifting has given us some very uncertain figures, but we have made an explicit pledge to get the deficit down in a fairer way. If we are the incoming Labour Government in 2015, we anticipate it will take us most of the next Parliament to get the deficit down, and the rate will be in place to help us do that.

Several hon. Members rose—

Shabana Mahmood: Four Government Members want me to give way. I will give way first to the hon. Member for Spelthorne, because he wanted to come back at me.

Kwasi Kwarteng: My point regarding the political nature of the move was not a general comment about taxation. Of course, all taxation issues are political. My point was on the timing of the measure—the previous Government were in government for 13 years before they did anything about the rate. In fact, they were running deficits for nine years, from 2001-02 through to 2010, before they saw fit to raise the rate. To say that it was a deficit-reducing measure is ridiculous, given that they had been running a deficit for eight years when they introduced it. It was purely an electoral trap and I am very pleased that the current Government have cut the rate.

Shabana Mahmood: I simply disagree with the hon. Gentleman. We had a global financial crisis in 2008, which had a huge impact on the nation's finances. We came up with a deficit reduction plan, based on halving the deficit over four years—a different pace to that followed by the current Government. As part of that strategy, we felt it appropriate to increase the rate to 50p for the highest earners in our country. We will return to that if we form the Government in 2015, and we will get the deficit down.

Alec Shelbrooke: The hon. Lady's argument simply does not add up. She says that the 50p rate was introduced to tackle the deficit after the banking crisis, but there was a deficit long before the banking crisis. The deficit was £80 billion in 2006, so why did the Labour Government not deem it fit to raise the rate to 50%? As my hon. Friend the Member for Spelthorne said, it was a political move. The Opposition have constantly said that we made too many cuts too far and too fast, and yet today we have the strongest growing economy in the G7, with predictions of almost 4% a year GDP growth. I shudder to think what will happen to that if we start taxing the golden goose again.

Shabana Mahmood: The hon. Gentleman knows that the real problem in relation to the size of the deficit occurred after the global financial crisis of 2008. Up to that point we were in a different place. Given the circumstances post the collapse of Lehman Brothers in the States, we were absolutely right to make different choices and take different measures. We did not make those choices lightly. Towards the end of the previous Labour Government, we felt it appropriate to raise the rate to 50p to ensure that we were able to get the deficit down in a fairer way. We have come back to that commitment.

9.45 am

Christopher Pincher: The hon. Lady is making a bold attempt to plug the hole in her bucket. She says that the previous Labour Government did not act lightly, but they certainly acted very slowly. As my hon. Friends have pointed out, and the hon. Lady has admitted, the economic crash, for which her Government must take part of the responsibility, took place in 2008, so why was it not until 2010—just a few weeks before the general election—that they chose to introduce a 50% tax rate?

Shabana Mahmood: We have already covered this point. The global financial crisis hit and a number of difficult decisions had to be made. In the normal run of things, one would not want to make such decisions. That was why we took a careful approach and came to the view that putting in place a 50p rate was an appropriate way to try to get the deficit down. That was the clear position that we had, as the Government, up to 2010, and it is what we will do when, hopefully, we return to office in 2015.

Mr Gauke: The hon. Lady is being generous in taking interventions. Some moments ago she said that the numbers we have in front of us regarding how much the 50p rate would raise are wrong. Why does she think that the HMRC analysis, which is supported by the independent Office for Budget Responsibility and broadly accepted by the Institute for Fiscal Studies, underestimates the amount that would be raised by a 50p rate? Several independent organisations have concluded that the Government's numbers are accurate.

Shabana Mahmood: I said that the numbers were uncertain—I hope that we can agree on that point. With regard to independent analysis, the IFS says of HMRC's analysis, in the report preceding the cutting of the rate from 50p to 45p, that, on a normal margin of error, the measure could either raise £600 million or cost £700 million, so we cannot get away from the uncertainty inherent in some of the numbers. The overall value of the tax cut has been £3 billion and that is the starting point we have.

I take on board the point about tax avoidance that has been made by the Government and the Exchequer Secretary—it was also made in the HMRC report ahead of the 2012 Budget—regarding people avoiding the 50p rate and behavioural changes. It is difficult to put a number on behavioural changes and they are all very uncertain. It is my contention that rather than the Government immediately jumping to cut the 50p rate to

45p, which was a highly political decision, it would have been better to look at the potential of targeted avoidance measures to stop some of the behavioural changes that might limit the amount raised by the 50p rate.

It will now be perfectly possible for HMRC to make a deeper analysis because it will be able to look at a further year's records to assess what has happened. The decision to cut the rate to 45p in 2012 was the wrong one, however, as the 50p rate had not been in place for long enough. The Exchequer Secretary is right that there is huge uncertainty in the figures about how much is raised, and the margin for error also adds a huge uncertainty. The Government say that they want to support people on lower and middle incomes, but we have a position in which such people—according to different measures—are £1,600 a year worse off, £974 a year worse off, or have wages that are 5.6% down in 2015 compared with 2010. When that is the situation for millions of people in our country, a tax cut for millionaires of more than £100,000 was not the right priority and not a fair way to get the deficit down.

Mr Gauke: I apologise if I thought that the hon. Lady had said that the numbers were inaccurate. If she is saying only that they are uncertain, I withdraw that remark. However, I am struck by what she is saying. She rightly makes the point that there is a degree of uncertainty. It is possible, as she says, that an increase would raise more, but it is also possible that an increase to the 50p rate would reduce revenue. Does she accept that an increase from 45p to 50p, given the uncertainty that she acknowledges, could end up costing the Exchequer money?

Shabana Mahmood: It is my view that revenue from the 50p rate would be protected if we dealt with capacity in HMRC and had targeted measures to tackle avoidance. This is simply a point on which the Exchequer Secretary and I will disagree. I accept that the numbers that we have to play with are in the public domain. Of course, HMRC has access to much more data than even independent analysts, and it certainly has more than the Opposition. I believe that the 50p rate has the capacity to raise more money than the Government have said that it would. On the behavioural change that limits, so the Government say, revenue from the 50p rate, I think that targeted measures would protect that revenue and contribute towards getting the deficit down more fairly.

Chris Williamson: I do not know if my hon. Friend agrees with me, but I am astonished that the Minister, supported by his Back Benchers, seemingly wants to pander to tax fiddlers, as that is why they say that they cannot possibly countenance a 50p tax rate. Does she agree that it is illustrative of the paucity of the Government's argument that their Back Benchers are falling over themselves to talk about the previous Government's record, rather than trying to defend the indefensible record of this Government, with their decision to cut the 50p tax rate?

Shabana Mahmood: My hon. Friend makes a characteristically powerful contribution, and he is absolutely right. It is interesting how exercised Government Members are when discussing the 50p rate, because that is less the case when it comes to trying to deny the fact that

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ordinary working people are worse off—perhaps because that is an undeniable truth of what has happened under this Government.

Richard Fuller (Bedford) (Con): I want to be absolutely clear—if that is possible—about the Labour party's position. I think that the hon. Lady said that the Labour party would go into the election promising to raise taxes with a focus on restoring the 50p rate. If I heard her correctly, Labour has made an explicit pledge to get the deficit down in a fairer way. She says that the figures are uncertain, so if they show that the tax take—that is how to get the deficit down—actually reduces if the tax rate goes up to 50p, does she foresee that Labour would reduce the tax rate back to 45p or 40p?

Shabana Mahmood: I am grateful to the hon. Gentleman for his intervention, but I disagree that the tax take will decrease. I believe that the measure would raise revenue. On the analysis that the Government have accepted, it would raise £100 million, and I think that it has the capacity to do more. A set of measures on HMRC's capacity and targeted anti-avoidance measures to protect revenue could have an impact on getting the deficit down. In terms of getting the deficit down more fairly, it is important, given that ordinary working people are £1,600 a year worse off since the general election, that we send a signal about our expectations when it comes to who bears the greatest burden as we get the deficit down. After all, the Government are not averse to sending signals through the tax system, as they recently did with the tax allowance for marriage. Millions of ordinary working people are struggling to pay their gas and electricity bills and are worried about paying for child care—they may even have to choose not to go to work because child care is so expensive—so it is completely the wrong priority to hand some of the richest people in our society a tax cut worth up to £100,000. That sends the wrong signal and the Government should not have done it, so we will reverse it.

Kwasi Kwarteng: I just want to clarify the hon. Lady's position. My hon. Friend the Member for Bedford asked what the Labour party's policy would be if raising the tax rate to 50p meant a reduction in tax revenue. We heard nothing from her about that, just a dogmatic assertion that the 50p rate was right. If increasing the rate to 50p raises more revenue, at what point should we stop raising the tax rate? Should we do what they did in France and raise it to 75p, on the basis that raising tax rates increases revenue? Is that her plan?

Shabana Mahmood: We have a clear policy on the 50p rate, and we have said that it is part of a policy for a fairer deficit reduction programme. We anticipate that that deficit reduction programme will take most of the next Parliament, so the 50p rate will be in place for that period. It could not be clearer.

Mr McKenzie: Is it not the case that while we hear continually from the Government that those with the broadest shoulders will bear the greatest burden, they are giving tax breaks to millionaires and are happy to

move people from the 50p rate while pushing more people into the 40p tax bracket? We have seen more taxes from this Government than I care to mention.

Shabana Mahmood: My hon. Friend makes a powerful point and I agree with him. The decision about the 50p rate was made very soon after the rate had been put in place at a time when we knew that income had been shifted to avoid the rate. After it was reduced, the Government congratulated themselves on the basis that revenues appeared to go up, but they ignore the fact that most of the increase is accounted for by the delaying of bonuses and income shifting in the other direction. The Government's whole approach has been wrong.

To go back to my earlier discussion with the hon. Member for Spelthorne, this was a highly political move. The Government were ideologically committed to the cut and they read the evidence in a way that allowed them to make the case to cut the rate on the basis of revenue. They claim that it has raised £100 million, which is not to be sniffed at, but they forget that while they focus on those at the very top, millions of people on lower and middle incomes are worse off because they are being drawn into the 40p band or because of the combined impact of all of the Government's other measures—even though they might benefit from the increase in the personal allowance—and the lack of action from the Government on issues such as energy and child care. The Government are also using hundreds of millions of pounds to send signals through the tax system about the importance of marriage, but we believe that that money could have been put towards establishing a 10p starting rate of tax for people on lower and middle incomes. The Government's whole focus has been wrong by prioritising the wealthiest ahead of people on lower and middle incomes, who are ultimately worse off as a result of all these changes.

10 am

Mr Gauke: It seems that one of the hon. Lady's arguments against reducing the 50p rate was that, notwithstanding the numbers that have been signed off by the OBR, there was a degree of uncertainty about the fiscal cost; yet the centrepiece of the hon. Lady's deficit reduction policy appears to be a specific policy that has no certainty of raising any revenue whatever. Does she think that there is certainty in this area or not? If she thinks there is uncertainty, does she not accept that this uncertainty applies to Labour's policy of increasing the 45p rate to 50p?

Shabana Mahmood: If we want to air these issues in greater detail at the next general election, the Government should sign up to our proposal to allow the OBR to audit manifesto commitments. That will elucidate for the public exactly where the different parties are going with the choices they make. We have nothing to be afraid of. We believe that our choice is a revenue-raising measure. We will set out more about protecting revenue from the 50p rate towards the general election. We believe it is a revenue-raising measure and that it could contribute to getting the deficit down in a fair way.

We have nothing to be afraid of. We are quite happy to allow the OBR to look at every commitment that the Labour party makes, whether it is our proposal on

corporation tax and business rates—switch spend, which uses all the money from a 1% increase in corporation tax for larger companies to help smaller and medium-sized companies with their business rates. We are happy for all those figures to be looked at. They are already in the public domain and their essence has not been challenged by the Government. We are happy for the OBR to look at all those things.

The Exchequer Secretary should join us in supporting our OBR proposal. It is a good proposal and would really help to illuminate public debate on all the issues, particularly taking into account our earlier discussion about what the parties of Government said when they were in opposition, whether in relation to VAT or other taxation measures. If parties have their manifesto commitments on spending independently audited, it puts greater pressure on them to make promises that they absolutely intend to keep, rather than soundbites designed to deflect debate or misrepresent what then quickly becomes the Government's intended action once those parties get into power.

Ian Swales: In the light of the hon. Lady's comment, I just point out that neither party on the Government Benches actually won the last election. In the absence of the OBR looking at these proposals, the IFS, which Labour Members often like to quote, says a move to 50p would raise "little revenue" and would make a "marginal contribution" to deficit reduction.

Shabana Mahmood: The hon. Gentleman is right that neither of the Government parties won the general election. Let us hope that neither wins next time as well, and we have a majority Labour Government instead. I recognise his point about the IFS's comments, but as I said, this is a decision that we have made. We believe it is a revenue-raising measure and could be used to get the deficit down in a fairer way. In fact, with some targeted measures we could protect revenue from the 50p rate. I take on board the point about behavioural impacts; they are real but they can be challenged.

This is one area where tax avoidance has led to a tax cut, rather than anti-avoidance measures. This flies in the face of what the Government themselves say about their record on tax avoidance. It seems unfair to members of the public, who will think, "Well, if you're are well off enough to pay for decent advisers who can tell you how to avoid this higher additional rate of 50p, and you're well organised and can lobby the Government of the day to get rid of it, you are up for a tax cut." Everybody else will be worse off, because either their wages will be £1,600 a year down, or the combined impact of tax and benefit changes will leave them nearly £1,000 worse off.

Mike Kane (Wythenshawe and Sale East) (Lab): I am grateful to my hon. Friend for welcoming me to the House and the Committee; I am not so grateful to the Whip for getting me on to this Committee. May I say, Mr Caton, that it is a pleasure to serve under your chairmanship?

It was in 2012, I think, that HMRC said that cutting the top rate from 50p to 45p would cost the Exchequer £100 million a year. The OBR said that was a reasonable estimate. What does my hon. Friend say to that?

Shabana Mahmood: I am grateful to my hon. Friend for his intervention. It highlights the point that I have just made. We believe that this is a revenue raising measure. That revenue can be raised to get the deficit down in a fairer way and other things can be done to decrease the impact of the behavioural changes that we have seen and we would expect to see again if the rate were to go up. The first bit of tax avoidance should not mean that somehow we automatically move towards cutting that rate. The Government have trumpeted their record on tackling tax avoidance, yet when it came to the 50p rate, they put their hands up very early on and said, "Oh no, we can't possibly deal with this. We are just going to cut the rate and get it down to 45p."

Indeed, many people, particularly in the Conservative party, are lobbying hard for the 45p rate to be eliminated as well. Reports at the time suggested that that was very much in the Chancellor's mind as well. In the end he did not go down to 40p again, but he will not rule out a move from 45p to 40p, despite being asked to do so a number of times. The Prime Minister has been asked about this a number of times at Prime Minister's Questions, but he has always ducked the opportunity to rule out the cut, perhaps because he knows that the politics of that message would be very difficult. Once again the wealthiest in our society would get a huge tax cut while everybody else was worse off—another fact that Government Members and Ministers have ducked the opportunity to admit on a number of occasions.

Chris Evans: Is there not a simple solution to this argument? Why do we not allow the manifestos to be costed by the independent OBR? Our proposal to do that has been met resistance from the Government.

Shabana Mahmood: My hon. Friend makes a good point. He is absolutely right. One way to bring alive some of these arguments to the public would be for all the parties to submit their manifestos to the OBR. There is broad support for such a move. The OBR has indicated that it would happily do this if given the mandate. Lots of people from across the political spectrum think that it would be a very good thing. As I said in response to an intervention from one of my hon. Friends, it would prevent parties from saying things in opposition to fudge an issue, or not to admit their plans and then changing their minds, or doing something completely different when in government. Our policy would be a way of holding parties to account for what they say in their manifestos. I hope that Government Members would see that. It prevents difficulties for all political parties.

Without all of the infrastructure and support that the Government get, the Opposition have to work doubly hard to ensure that our figures are correct and that they are independently checked before we make any commitments. The commitments that we have made already are what we describe as switch spends. We have said that we will stick to the coalition Government's overall spending envelope for 2015-16, but we will make some different choices within that to bring forward our priorities.

Whether in relation to corporation tax and business rates or scrapping the marriage tax allowance and using that money for a new 10p starting rate, we will make different choices. We have set out how we will pay for

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those within the overall spending envelope and we are happy for the OBR to look at that. To give the OBR that function would allow for much deeper public debate and put greater pressure on all political parties to do their sums and get their figures right. We could then challenge each other on figures from a position of independent authority, rather than, as at present, our political assumptions on parties' commitments. That would be a good thing and it is a shame that the Government have not taken the opportunity to allow that. We have attempted to put such a measure in previous Finance Bills and other legislation brought forward by the Government, but we have not been ruled in order. I hope that the Government might take that on.

Chris Williamson: I entirely agree with the point my hon. Friend makes about the importance of the OBR scrutinising the propositions of the Opposition as well as the Government of the day. Does she agree that if we had had a version of the OBR back in 1979, perhaps the course of history would have been changed? We know that at that time the Opposition Conservative party was making all sorts of grand promises, but Labour pointed out that VAT would double, which was portrayed as one of Labour's dirty dozen on the infamous front page of the *Daily Mail*. Six months after coming into power, what did the Conservative Government do? They doubled VAT. Had their proposals been subject to a version of the OBR, perhaps the course of history—[*Interruption.*]

The Chair: Order. That was a very long intervention.

Shabana Mahmood: My hon. Friend certainly knows how to get under the skin of Conservative Members. He makes a characteristically powerful intervention. I confess that I am not well versed in that history lesson as I was born in 1980, so that was a year before I was born. He is right to bring the events of 1979 to the Committee's attention. That is exactly that kind of about-face we sometimes see from Opposition parties when they come into government that would be, if not eliminated, decreased significantly by independent audit and the subsequent public debate. Parties would find it less possible to fudge their way around commitments they were making.

David Rutley (Macclesfield) (Con): Given today's GDP figures, why do Opposition Members seem to draw inspiration from the 1970s or President Hollande and not the Government side?

Shabana Mahmood: Perhaps that is because they feel that little inspiration is to be had from Government Members, who are in denial about ordinary people on lower and middle incomes being worse off as a result of the Government's decisions. I am not surprised that Opposition Members, or indeed those elsewhere, are not willing to take inspiration from the Government.

To get back to the personal allowance, I was making the point that the Government give with one hand but take a lot more away with the other. We hear much from Government Members about what they are giving—the personal allowance is the flagship policy that is always

referred to—but the Government do not admit to taking things away. Although we welcome the increase in the personal allowance—we have seen big increases—it is important to remember that those costly measures in and of themselves are not doing enough to counteract the things being taken away, which leave people worse off.

10.15 am

Nic Dakin (Scunthorpe) (Lab): I thank my hon. Friend for giving way, and I am pleased to serve under your chairmanship, Mr Caton. My hon. Friend brings us back to the position that she carefully outlined earlier. The OBR has described the situation in which living standards are being increasingly squeezed. That reflects exactly what we are finding on the doorsteps as we talk to people around the country, and that is why my hon. Friend is completely on the money in what she says.

Shabana Mahmood: I am grateful to my hon. Friend for that intervention. He is absolutely right about what we hear on the doorstep every day.

Alec Shelbrooke: His doorstep!

Shabana Mahmood: All doorsteps. Doorsteps in Ladywood, in Scunthorpe, and I am sure in the constituency of the hon. Member for Elmet and Rothwell as well. He must accept that ordinary people on lower and middle incomes in his constituency will be worse off in 2015 compared with 2010. That is an undeniable fact. Perhaps he will be the first Government Member to admit that people will be worse off in 2015 than they were in 2010.

Alec Shelbrooke: I am more than delighted to point out to the hon. Lady that people in my constituency are terrified of how much worse off they would be if the Opposition were in power. That is what they say on the doorsteps. They accept we are in a terrible financial situation, but they do not want the Labour lot back, because they caused it.

Shabana Mahmood: The hon. Gentleman accepts that people will be worse off in 2015. Saying that the situation would be worse under Labour does not get the hon. Gentleman off the hook when it comes to his own Government's record. It comes back to the point that I have been making. The Government use their flagship policy of the personal allowance to behave as though that has made everything A-okay, but it has not. It is a good measure and it has helped, but the Government have taken away a lot more with one hand than they have given with the other hand that has raised the personal allowance. That will be as true for members of the public in the hon. Gentleman's constituency as it is for everybody else.

Alec Shelbrooke: I am genuinely grateful to the hon. Lady. She is being extremely generous in having a proper debate. I will simply say that I am not reflecting my own view, but the view of the people in Elmet and Rothwell, as proved by the YouGov opinion poll that came out this morning. It shows that, on economic

competence, the Conservative party has increased by a further three points to give us a 14% lead over the Labour party.

Shabana Mahmood: The hon. Gentleman will not mind my quoting back at him that a recent ICM poll found that only 26% of people believe that the recovery, such as it is, is benefiting them or their household. A very low number of people in this country feel that they are benefiting. He will no doubt put across what he believes to be the views of his constituents. I am sure they will make their feelings felt at the general election. That will be the arena in which we will ultimately test public opinion on this point.

The question is whether the recovery is benefiting people on lower and middle incomes. Do they feel as though they are benefiting? Are they seeing the difference in their daily lives? Are they no longer putting their heads in their hands when the gas bill comes through the door because they are worried they cannot pay it? I do not believe they are in a position of comfort and not worrying about the measures. Although the changes to the personal allowance are welcome and have been supported by all parties, they do not, as I have said, get the Government off the hook on this central charge that they give with one hand, but take away much more with the other.

On clause 2 and the personal allowance and before I move on to new clause 1 more specifically, can the Minister help with the point raised by the Chartered Institute of Taxation on the position of low-income taxpayers who also claim benefits? It tells us that the position is somewhat more complicated. To anyone on most means-tested benefits, any tax saving from the raised tax threshold will be offset by a diminution in their entitlement to benefit, because means-tested benefits are based on net income after tax. Accordingly, any reduction in someone's tax bill results in an increase in net income and so reduces benefit entitlement. Will he speak to that point specifically when he eventually gets the opportunity to wrap up this clause stand part debate? It is important that we try to understand the impact on that nexus of low-income taxpayers who also receive benefits.

It would also be of benefit to the Committee if the Minister said something about the interplay with universal credit, once that is eventually, probably, hopefully and possibly fully online. We wait to see when that might be, but assuming that it will be fully up and running, it would be helpful if he set out some detail on that. Will lower income taxpayers receiving in-work benefits be worse off and, if so, by how much? What do the Government propose to do to assist with that picture?

New clause 1 would require the Chancellor of the Exchequer to

“lay before Parliament a report containing proposals for an income tax rate of 10 per cent on a band of income above the personal allowance.”

The report

“shall provide for the full benefit of the 10 per cent. rate not being available to taxpayers paying the higher or additional rates of tax.”

The report would look at the impact of a 10p rate, which is a specific bit of Labour party policy ahead of the next general election. We have supported the changes

thus far with the increased personal allowance, and we will do so again when we come to clause 2 stand part, but in addition to those changes, we believe it important, right and fair to reintroduce the 10p starting rate of income tax. We would use money raised from a mansion tax on the most expensive properties—those worth £2 million or more—to pay for that. More recently, after the Government managed to find between £500 million and £800 million for its marriage tax policy, we have said that we would scrap that and also use that money to pay for a 10p band.

Mr Gauke: Just on a point of clarity, will the hon. Lady tell the Committee how much a Labour Government would intend to raise from a mansion tax?

Shabana Mahmood: I am grateful to the Exchequer Secretary for that intervention. We have said that we want to bring in a 10p rate, but we have not said what the size of that band would be. We will set that out closer to the general election. There are a number of different ways in which a mansion tax on properties worth more than £2 million could be structured, and each would have an impact on the amount of money raised. Earlier in this Parliament, the Liberal Democrats proposed a mansion tax on properties worth £2 million or more, which they believed could raise up to £2 billion. There are other figures out there for what it could raise; some are higher, and others are lower. We have not yet said how much we would raise, as we are still working through the structure of the mansion tax that we would introduce, but we will set that out before the general election. That would, of course, have an impact on the size of the 10p band as well.

Mr Gauke: The hon. Lady is giving a straightforward answer to the question. I quite understand that the Opposition have not set out the parameters. My memory is that, this time last year, Opposition Front Benchers were talking specifically about raising £2 billion from a mansion tax. However, the hon. Lady has made it clear to the Committee that the Opposition are not at this point committed to a mansion tax that will raise £2 billion. I think that is a change from the previous position of the Labour party.

Shabana Mahmood: I do not think it is a change. We have never said that we anticipate that the measure would raise £2 billion. We have referred to others who have said that it would raise £2 billion, in particular the Liberal Democrats. We have never put a figure on exactly what we think a mansion tax would raise. The £2 billion figure has been used by commentators, and it has been the working assumption of many people when discussing the mansion tax. However, we have deliberately not said—because we were not in a position to say—that it would raise £2 billion. We anticipate that it would raise sufficient revenue to give a decent 10p band. We will set out our proposals regarding the size of that band and what revenue we think would be raised nearer the general election.

We have, since the Government introduced the married couple's tax break, which was debated in Committee of the whole House just a couple of weeks ago, said that we would scrap that and use the money towards the 10p rate. That would change some of the potential figures.

[*Shabana Mahmood*]

We will set out in greater detail exactly what the shape our mansion tax policy would be as we get closer to the next general election.

As I have said, a mansion tax could be implemented in several ways. The Government already have some infrastructure in place, due to their annual tax on enveloped dwellings, and even within that structure, a number of variations could be adopted. As I said, we will set out greater detail on our proposals in due course.

The Opposition believe that bringing back a 10p rate, in addition to the increases that we have seen in the personal allowance, is an important step. On the macro-economic side, we have said that we would have made different choices in 2010 regarding the pace of deficit reduction—choices that we believe would have meant a more balanced approach to deficit reduction. However, we also think that we need to make different choices, with new priorities to turn our economy around. We want to protect the incomes of working people with a new priority in taxation, which is why we want to introduce the starting 10p rate.

As I have said, in order to pay for that policy, we would introduce a mansion tax on houses worth more than £2 million, combining it with the scrapping of the marriage tax allowance recently introduced by the Government. We would use all that money to cut taxes for working people. As I have said, the size of the band would depend on the amount that would be raised from the tax on homes worth more than £2 million. However, the change would ultimately benefit 24 million basic rate taxpayers, which gives a clear signal of what we want to do to help people on lower and middle incomes.

I will focus for a moment on the marriage tax allowance, which was introduced recently by the Government.

Ian Swales: I am listening carefully to the hon. Lady's arguments. Before she moves on to the higher tax allowance, has her party calculated whether it is worth adding more complexity with another band, rather than simply increasing the zero-rate threshold by half as much and achieving pretty much the same effect?

10.30 am

Shabana Mahmood: I will come to the substance of the hon. Gentleman's point later in my remarks, but in essence we think that reintroducing the 10p rate would provide people with a stronger work incentive. The steadier incline is preferable; rather than going from 0% to 20%, the climb to 10% first and then from 10% to 20% does more for work incentives than a simple jump from zero to 20%.

The marriage transferable tax allowance introduced by the Government will ultimately help only one third of married couples, or 4.1 million couples; it will not help the other two thirds. Eighty-four per cent. of those who gain from the policy will be men and only one in six families with children will benefit. As we have previously pointed out to the Government, if they are trying to send a clear signal about the importance of marriage through the tax system, even according to their own analysis, the policy is not helping two thirds of married couples. The fact that it benefits so many more men

than women, given how much women have suffered from the cost of living crisis and the squeeze on living standards, and only one in six families with children, also seems somewhat perverse.

In the Committee of the whole House, many Members who spoke in favour of the policy talked a lot about how marriage gives a stable environment for children and how the children of people who are married and stay together do better on various measures, such as school attendance and behaviour. I was struck by that. We therefore expected the policy to help families with children the most, but it does not; it helps only one in six such families, which seems perverse, given the case made by the Government for introducing the policy. A measure that is supposed to be sending a strong signal about the importance of marriage helps only one third of married couples, which is not even half of those who are married, and that seems somewhat perverse.

The policy costs the Exchequer £500 million, rising to £800 million in later years, which is not an insignificant sum. Instead of using it to send that signal, which I suspect is more for Conservative Back Benchers than for people out there in the country—I do not see a huge clamour for the £3.80 per week for couples who qualify—the money would be better put towards a 10p rate, which would help 24 million basic rate taxpayers and send a much stronger signal than the marriage tax allowance. Such a signal would be welcomed by ordinary working people who are, in my experience, less obsessed about whether they are married or single than about making ends meet and the tax system working for them and being fair.

The wealthiest have been given a huge tax cut by this Government, while people on lower and middle incomes are worse off, feeling the squeeze and struggling to pay their bills and make ends meet. The policy is in effect purely symbolic—even the Government say it is there to “send a signal”. Why not do something more practical? Use the money to get genuine, practical help to 24 million people rather than one third of married couples and one in six families with children. Why not do something that would go much further? We would be happy to work with the Government, if they wish, to get the numbers right for a starting tax rate of 10p.

If they were to scrap the marriage tax allowance, that would immediately raise £500 million. If we wanted £2 billion to put a 10p band in place, that would leave a further £1.5 billion to find. I would happily work with the Exchequer Secretary to find that money. We could send a clear signal to people on lower and middle incomes, who are desperately struggling and would love a symbolic pledge from the Government that would mean something to the pound in their pockets and how much further it could go. That would be a better and fairer measure.

As I said to the hon. Member for Redcar, a starting rate would be a better work incentive. The policy would reduce taxes for those on lower incomes and strengthen work incentives. I take the broader point that some argue that 20p is an adequate starting rate, but as I also said to the hon. Gentleman, a steadier incline from 0% to 10% and then to 20% could act as a stronger bedrock, sending a more progressive, clear signal. Signals are deemed important in the taxation system, and this one

would be that tax cuts for all working people on lower and middle incomes are a priority. The policy would help us achieve that.

To make a comparison with the marriage tax allowance, that could be seen as a symbolic gesture designed to incentivise the social behaviour of staying married. That is difficult for Government to incentivise because it is not possible to get involved in personal relationships. People in bad relationships can, by splitting, often do better for their children and family life than they can by staying together for the sake of being married. Personal choices are difficult for Government to incentivise through symbolic gestures in the taxation system. When it comes to the decisions people make about work, there are more practical life changes that are easier to incentivise and encourage people to make. It is possible then to help them make the best of their choice.

At a time of economic difficulty, when although a recovery is under way, it follows three damaging years of flatlining that have had an impact on ordinary people, the Government's priority, if they have money to send signals through the taxation system, should be to incentivise a type of behaviour that is easier to affect and better for the lives of ordinary working people. That behaviour can be incentivised and introduced through a steady increase, so that work incentives are improved. That would be better than addressing people's personal and social relationships, which will always be difficult for Government to encourage or prevent. That is much trickier terrain for a Government, regardless of how strongly we support marriage.

I speak as a practising Muslim whose religion places marriage at the central focus of family, religious and spiritual life. I am therefore a strong supporter of marriage and I think that the trend in divorce rates and so on has had a big impact on our country, and particularly on outcomes for children. However, it is not for policy makers in this place to tell people what personal decisions to make in their lives, whether that be getting married in the first place, or staying married when a relationship gets difficult. Of course, many relationships have encountered great difficulty in the past few years, because economic circumstances have been challenging for families, which makes it harder for couples to stay together.

We should not try to send a signal about those things through the taxation system. That is the wrong priority, and I do not think that the policy would be successful in achieving the aims that the Government might want to set. According to their own figures, this tax allowance would not help the vast majority of married couples and it is not worth a huge amount of money to those couples. It would be far better to make it part of a broader and wider policy around a 10p starting rate, which would help millions more people.

Ian Swales: To return to the 10p tax rate, the hon. Lady has been careful not to set out bands, but let us say that we had a 10p tax rate for a band of £2,000, rather than a zero rate for a band of £1,000. The impact of her policy would be that people in that first £1,000 would pay tax, when they would pay none under a zero rate policy.

Shabana Mahmood: The hon. Gentleman is tempting me down a road that he will not be surprised if I choose not take. The reason for that is that we will set out, as I have said, what we anticipate the size of the band will

be, depending on the ultimate shape of our mansion tax policy. The structure that we adopt for levying a tax on properties that are worth £2 million or more, in addition to the money that we would raise from scrapping the marriage tax allowance, will dictate the size of the band that we can ultimately introduce.

If the hon. Gentleman will forgive me, I will not take him up on that question today. However, when we have set out the precise numbers of our policy and worked out how big that band can be, we will be happy, as I have said, for the OBR to look at and audit those figures, because they will part of our manifesto for the general election. Even if the hon. Gentleman and the Government do not take us up on the proposal concerning the OBR and manifesto auditing, we will be happy to discuss with him or anybody else the numbers in our policy once we have worked through the detail.

Christopher Pincher: The hon. Lady has just said that she is not able or prepared to give any firm details about Labour's mansion tax or 10p tax policy at the moment, but the hon. Member for Newcastle upon Tyne North appeared to do so during a debate on the mansion tax, when she said:

"We say that it could be used to fund a 10p tax band of up to £1,000, benefiting 25 million basic rate taxpayers to the tune of £100."—[*Official Report*, 12 March 2012; Vol. 560, c. 210.]

By my maths, that is a cost of £2.5 billion. Was the hon. Lady wrong to make that statement in the Chamber, or has Labour's policy since changed or disappeared?

Shabana Mahmood: The policy has not changed; it is exactly as it has always been. We have always been clear that we want to reintroduce a 10p starting rate, which we believe will help 24 million basic rate taxpayers. We think that that is a better work incentive. For that policy, we will use a mansion tax levied on properties worth £2 million or more. We have not said that our numbers will yield £2 billion, although we know that other people—particularly the Liberal Democrats, whose policy was underpinned by the figure—have said that a mansion tax would raise £2 billion. I think that was based on an assumption that there are 70,000 properties in the country worth £2 million or more. Those are not our numbers, however. We have been clear that we will further define the shape and structure of our mansion tax and the amount of money that it will raise as we approach the next general election. Since we put forward our policy, which has not changed—it has always been our clear position—we have also, now that the Government have introduced the married couple's tax allowance, said that we think that is the wrong priority. We would scrap that allowance and put the money towards our 10p policy.

That is the only change that has been made to our policy. That has always been the position. We have reflected on the married couple's tax allowance and reached the view that it does not even do what the Government want it to and that, even if it were to achieve some of that, it would be the wrong priority. It does not help enough people.

As for incentives, marriage is not the type of behaviour that is easy for Governments, policy makers and legislators to incentivise. Also, I do not think it is our place to try to tell couples what they should do. If £500 million,

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rising to £800 million in later years, is available, we should use it for something that will have practical benefit for working people. A 10p rate would do that.

10.45 am

Mike Kane: I concur with my hon. Friend's sentiment that marriage should be at the heart of civil society. As a practising Catholic I understand where she is coming from when she talks about her faith, but the married couples tax allowance is a completely unprogressive tax measure. It disincentivises people to get on in life. It is uninspirational. It affects only those who are basic rate taxpayers with a partner who does not work. Therefore, people who could go above the £42,000 threshold into the higher bracket may be disincentivised to do so. Does my hon. Friend agree?

Shabana Mahmood: My hon. Friend makes an important point, on which we agree. Many MPs support marriage, but it would be difficult for the Government to incentivise what we think of as the "right" behaviour, even if we all thought it was right to try. I am not sure that the case has been made for such Government interference in people's personal affairs.

Setting that aside, and assuming for a moment that the case for that approach has been won, it is difficult to incentivise marriage, because from what I have seen of the world, people base choices about it on love, or how irritated they are, and whether both want a divorce at the same time. Marriage is a difficult thing, and a long haul. My parents have been married for more than 30 years and have a strong marriage, and it takes a lot of hard work. I have a firm personal, spiritual and religious belief in marriage, and hope one day to be married myself, but do I think it is my place as a legislator to go into people's personal relationships and tell them, or suggest to them, the right way for them to live their lives? I am not so sure about that.

As a member of a religious minority, I am protective of the space that individuals have to make personal choices based on their conscience about how to live their lives. It is not the role of the Government to dictate how we make personal choices. It is not right in matters of personal faith, conviction or spirituality; equally, it is not right in matters of love or the heart, or practicalities to do with having children and setting up family life. I do not think the Government should be in that space, and even if they try to enter it they cannot succeed very well.

Ian Mearns: I have to admit to not being married, although I have lived with my current partner, Anne, for 26 years, but I think it is a little perverse that we are seeing a Government policy on a married couple's tax allowance that is not about reinforcing the great institution of marriage. I know that marriage is a great institution, because I was married to another lady in a previous existence. As Groucho Marx said, marriage is a wonderful institution if you want to live in an institution all your life. I think it is perverse, though, that the policy put forward by the Government is about affordability within the particular parameters, rather than about reinforcing

the institution of marriage per se. Only if people fit into a very narrow band of criteria will they benefit from the policy.

The Chair: Order. This subject—the married tax allowance—was debated at some length in the Floor of the House. I would hope that we could move on fairly swiftly now.

Shabana Mahmood: I am grateful for that indication, Mr Caton.

Alec Shelbrooke: Will the hon. Lady give way? The issue that I would like to raise is slightly different.

Shabana Mahmood: I will give way to the hon. Gentleman, but I promise you, Mr Caton, that I will very quickly move off this subject.

Alec Shelbrooke: I am most grateful to the hon. Lady and apologise to her for not intervening slightly earlier. I want to go back to the mansion tax. Is the hon. Lady's party proposing, as part of the mansion tax, that all properties will have to be reassessed as to their value? I ask that because I am slightly unclear on how we can determine, without doing a reassessment, that a property is worth more than £2 million. Would we have to reassess all properties in order to be able to classify which properties were liable for the mansion tax? I seek clarification on that from her.

Shabana Mahmood: My response to the hon. Gentleman will not get me in trouble with Mr Caton, so everyone is a winner. I simply say to the hon. Gentleman that, as I said earlier, there are a number of ways in which a mansion tax on properties worth more than £2 million could be structured. We are looking very carefully at the different permutations and the ways in which that could be done and we will bring forward our proposals in due course. We will happily submit them to scrutiny by the House, by the Government parties, and also by the OBR, because we believe very strongly that it is good policy to audit parties' manifesto commitments. I am sorry that I cannot as yet give the hon. Gentleman more detail on the precise shape of the mansion tax. We have said that it would apply to properties worth £2 million or more. As I said, with regard to the precise structure of the tax, there are a number of models out there and we have not yet come to a view about the precise structure that we will adopt and put in place if we win the next general election, but we will do so in due course. That is something we are looking at very carefully.

Chris Williamson: Is my hon. Friend as curious as I am about the interventions from Government Members? It seems, from the tenor of the interventions that we have heard from them, that they have given up on winning the next general election and are assuming that Labour will be in government, because they want to scrutinise Labour's proposition rather than speak to the amendment. The amendment is very clear and simple, yet they do not want to talk about it. All they want to talk about is what Labour will do when we win the next general election in just over 12 months' time. Is my hon. Friend as curious as I am about that?

Shabana Mahmood: I enjoy my hon. Friend's interventions. He has a knack for getting under the skin of Government Members and is absolutely right to do so. I am glad that once again he has excited the passions of those on the Government Benches. I was fearful that my speech was not having that effect on them, but my hon. Friend came through and once again woke them all up. I am grateful to him for that.

A reintroduction of the 10p rate is not being discussed exclusively by the Labour party in relation to our policy proposals. Government Members, including the hon. Member for Harlow (Robert Halfon), have also called for the reintroduction of the 10p rate. From what he has said in Westminster Hall—I hope I get this right—his primary concern is that more increases in the personal allowance will be paid for by dragging more people into the 40p tax band, which I will address when we discuss new clause 2. His worry is that we will soon have families who do not have high wages but who pay the 40p rate. Those families will potentially include senior police officers and senior NHS nurses. He is a Government Member who supports the reintroduction of the 10p starting rate. He perhaps enters the debate from a slightly different position to us, but the net effect is further support for the 10p rate. I do not think he is alone in wanting more thoroughly to ventilate the starting rate and its relationship with personal allowance increases and the 40p tax band.

Both the personal allowance increases that we have seen and the 10p starting rate have pros and cons, and the review called for by new clause 1 would allow us to illuminate public debate on the relationship between personal allowance increases, the 10p rate and the increasing number of people being brought into the 40p tax band. We tabled new clause 1 because we have a policy on the 10p rate, but the relationship between that rate, the personal allowance increases and the 40p rate has an impact across the country, and hon. Members are alive to that issue. New clause 1 simply asks for a review of the impact of a 10p rate, which would go some way towards assisting public and policy debate.

We are asking for a review, which is one of the few things for which we can ask in a Finance Bill Committee. I am told by veterans of Finance Bill Committees that people feel “reviewed out” by the end of Finance Bill Committee sittings, but reviews are important and are one of the few changes that the Opposition can propose to a Finance Bill. Leaving that aside, reviewing taxation policy and calling on the Government to publish such reviews has a positive impact on public debate, particularly as we get towards manifesto commitments—as I have said, Labour will have a manifesto commitment on the 10p rate. Even if the Government do not bite on the policy of the OBR auditing parties' manifestos, a review would be of assistance.

Before I conclude my speech, I welcome the new Economic Secretary to the Treasury to her position. The shadow Chief Secretary to the Treasury and I welcomed her in her absence during our opening remarks. It is good to see another woman on the Treasury Bench. We still have one more woman, but the Government are doing better than before, which is welcome.

Ian Mearns: I am grateful to my hon. Friend for proposing a review under new clause 1. This is my fourth Finance Bill Committee of the Parliament, so I

know that Ministers have always been generous in acceding to our requests for such reviews, and I expect such generosity on this occasion.

11 am

Shabana Mahmood: I am grateful to my hon. Friend for his intervention. Having briefly looked at *Hansard* reports of debates when the Exchequer Secretary was in opposition, when he made frequent requests for reviews, I take on board the fact that making such a request is one of the few tools that Oppositions have. While we may engage in a little political knockabout in Committee around endless requests for reviews, reviewing the impact of taxation measures, as we envisage under new clauses 1 to 3, is important. If we are not going to get a formal OBR audit of parties' manifesto commitments, that would be the next best thing. It would not be quite as independent, because it would come from the Government, but it would at least put figures into the public domain that could be tested and scrutinised and, as I said before, that could illuminate public debate. I hope that Government Members will support us when we vote on new clause 1.

New clause 2 would require the Chancellor of the Exchequer to undertake a review of the number of people paying the 40% rate of income tax in each of the years of this Parliament to date. We tabled the new clause because the question of how many people are within the 40p tax band has become ever more cogent and important as more people have been dragged into that band as a direct result of choices made around increases in the personal allowance and the basic rate. The new clause asks for a report because we know that those numbers have gone up. As is the case for new clause 1, such a report would allow for more public discussion around the relationship between the personal allowance, the basic rate limit and the Government's choice on the 40p limit.

When I discussed the campaign of the hon. Member for Harlow on the 10p rate, I said that he wanted not further increases in the personal allowance, but instead to look towards introducing a 10p rate of tax, precisely because of his concern that the increases in personal allowance had been paid for by bringing more people into the 40p band. He worries that the 40p band covers many more people than ever before.

Ian Swales: Will the shadow Minister confirm that the proposal set out in new clause 1(2) would drag more people into the 40% band?

Shabana Mahmood: I am grateful to the hon. Gentleman for his intervention. The report for which new clause 2 requests would illuminate the debate around how many people are in the 40p band, and give space for a public discussion about the size of that band and how many people should be caught by it. The IFS analysis of the Budget noted:

“Putting up the higher-rate threshold by 1% in 2015-16 means that there will be around 5.3 million higher-rate taxpayers in 2015-16.”

That figure is up from 4.7 million this year and 3.3 million in 2010-11. Whichever way we look at it, that is a significant change. Whether we think it is right or wrong, it is a big change, and it has occurred without a

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huge amount of public debate about the 40p rate—about what people think and feel, intuitively, that it represents, and about the number of people now caught by it.

Nic Dakin: According to the figures that my hon. Friend cites, about 2 million more people have started paying the 40p rate since the previous election. I agree that a review would be a sensible way of examining the policy's impact to determine whether it is the right way forward. It would also go a long way towards meeting the concerns of the hon. Member for Redcar.

Shabana Mahmood: I agree with my hon. Friend. We have had a big shift, given that 2 million more people are caught by the 40p tax band. People with what we would instinctively feel are relatively modest incomes are now paying the 40p rate, but we have not had any public discussion or debate—in this place or elsewhere—about whether that is the right direction to go in, or where the policy might ultimately lead. A review would create space for such a debate.

I am sure that many people feel perfectly relaxed about more individuals being caught by the 40p band, but I would like a more thorough understanding of the impact on those people who are now caught by it. If people on more modest incomes—for example, middle-ranking or senior NHS nurses—are now suddenly paying the 40p rate, that is an issue for public discussion, as those groups are not who people envisage when they think of 40p rate payers.

Our taxation policies have to take account of people's behaviours and expectations, and how they respond to changes in the system, but this significant change has happened with little debate. We have had lots of discussion about the increase in the personal allowance, and I spent so much time on that earlier because the trumpeting of that increase has meant that the Government have tried to get off the hook about what they have taken away from people, yet people have been left worse off. We have had almost no debate about what is happening with the 40p rate—the Government are certainly not shouting about it from the rooftops—so it would be worth having a review to examine what is really going on.

Mr McKenzie: My hon. Friend makes a good point about the additional people pulled into the 40p bracket, but this is a question of not only the numbers, but the professions that find themselves in that category. As she indicated, nurses now find themselves in that tax bracket, and bus drivers in my constituency do as well, which is alarming.

Shabana Mahmood: My hon. Friend makes an important point about the change that has led to 2 million people being brought into the band—people who would never have expected to be in it. People's emotional instincts about and reactions to the taxation system are important, as are their expectations of how the system should work and of the points at which they will be caught by certain tax bands. Levying taxes is a key part of the Government's role, but taxes concern people's money and their expectations of what will happen when they earn certain

amounts. What has happened with the 40p band has changed the expectations of nearly 2 million people who might not have expected to be in that band.

The fact that so many more people are now covered by the 40p band raises genuine questions for policy makers about our view of the proportion of people we would expect to be caught by it. If I am right, about 15% of the tax-paying population is now caught by the 40p rate. In the '80s, I think that the figure was 5%. Whichever way one looks at it, that is a significant change. Without getting into whether it is right or wrong, there is clearly a lot of revenue attached to the 40p rate, so any Government wanting to do anything about increasing its threshold would have to raise a significant sum. That would be a big spending commitment for whichever party wanted to go down that road.

A review would allow us to ventilate these issues better in public. There has been a vigorous campaign by *The Daily Telegraph*, which has led with a lot of stories about the 40p rate, but this issue has not really filtered into the consciousness of the public. It is important that it does, however, because it raises a legitimate question for the tax-paying public. What do the Government think is the right proportion of people paying the higher rate, and do they want that proportion to go up or down? How do they see this panning out in the future? Whichever way one looks at it, the fact that 2 million more people are covered by the rate is a big deal. Regardless of politics, it is right that we try to have this debate with the public or, ultimately, more people will be caught. New clause 2 would be a sensible step towards achieving that.

Chris Williamson: Does my hon. Friend agree that those 2 million people feel a sense of resentment about being hit by this Conservative-Liberal Democrat double whammy of being forced to pay the 40p tax rate while seeing their public services decimated? It seems that people in the 40p tax rate see their money being used to provide tax cuts to the super-rich in our country. Is not this Robin Hood in reverse?

Shabana Mahmood: My hon. Friend again makes an important point. He is right that people who have now been brought into the 40p rate, who would never have imagined themselves as 40p rate payers, will look at the cumulative impact of all the Government's other changes and feel that they are pretty badly off. That is why a review into the impact of the 40p rate would be an important first step towards a broader political debate about the rate's future and where people see it going. The right hon. Member for Wokingham (Mr Redwood) has a strong view, which is well known to all in the House, about taxation. He comes to the debate from a clear position that is different from that of many Members on both sides of the Committee. He believes that income tax, in and of itself, is dangerous, and he is worried about the 40p rate. He is on record as wanting to cut the 45p rate to 40p, and he would probably ultimately want to get rid of the 40p rate and do something entirely different.

Clearly a debate about the 40p threshold is taking place within the Conservative party, if media reports are to be believed and the policy positions of some of

its members, including the right hon. Member for Wokingham, are to be taken at face value. *The Daily Telegraph* reports:

“Senior Conservative backbenchers will over the coming months publicly push Mr Osborne to include a pledge to increase the 40p threshold dramatically in the next Conservative manifesto”.

In the lead-up to the last Budget, there were many media reports, and a lot of debate and discussion, about what the Chancellor intended to do about the 40p rate. The process started with a debate about whether the 45p rate might be cut to 40p, which the Government have not ruled out, but there is a separate debate about the fact that many more people have been dragged into the 40p bracket. We heard reports of the Chancellor saying that people who pay the 40p rate feel that they are a success because they have joined the aspirational classes—they have arrived—and everything is great. Many of those caught by the 40p rate will probably take a different view.

11.15 am

Aside from the political knockabout that we might have about whether the Chancellor said that and what his exact words were, the bigger point made by that remark, if it is accurate, is what I said earlier about people's emotional and instinctive expectations of and reactions to the taxation system. I do not think that many nurses or bus drivers expect to be higher rate payers. That does not reflect how they view their income, which is in relative terms quite modest, and certainly does not stretch as far as making them feel comfortable and secure, which is an emotional thing. Those people who feel they are a success if they are paying the 40p rate will probably think that because of the greater security that they would expect to have after they hit that rate, and because of their expectations of what their earnings would be and how they would be able to use their disposable income to meet their day-to-day living costs and enable them to save. Those things go hand in hand, but that is probably not the position of all the 2 million additional people who, since 2010, are now paying the 40p rate. We need to create a public space for a debate on whether the idea that paying 40p makes people a success, full members of the aspirational classes and secure in life still holds true in 2014-15, and whether it has held true for the last few years—or, indeed, the last decade.

There have been big changes for ordinary working people. We have discussed many of them in as much as they impact on those who do not pay any tax, such as because they are out of work, or those on lower and middle incomes. However, in this bracket, there are people who probably feel as though they are on middle incomes, yet are paying the higher rate. The fact that we have not had this public discussion about such an important aspect of the tax system is damaging for the strength of public debate. As parliamentarians, we have had a lot of discussion about the additional rate—50p, 40p and the wealthiest—but we must not forget the many millions more who are in this middle section of society and felt a real squeeze on their living standards, but are now in a bracket that they never expected to be in and, I imagine, feel very sore as a result.

New clause 2 would at least kick-start a more open, honest and public discussion. If it is true that there is an impassioned debate happening behind the scenes in the

Conservative party about the 40p rate, let us bring it into the open. I hope that Government Members feel that they can support new clause 2 and thus enable all hon. Members to test the public's feeling about this issue. We should know precisely the size and shape of the burden, and how it affects those people who are now caught by it. If possible, we should try to understand whether it has an impact on aspiration, as the right hon. Member for Wokingham might suggest. Changing the proportion of people who are covered would represent a big spending commitment that has not been discussed at all by any of the political parties. At least talking about the numbers of people affected would create decent public space around the issue and, again, allow us to ventilate more thoroughly how it sits with what has happened with the additional rate—the cut from 50p to 45p—and, at the other end of the spectrum, with personal allowances, including our proposal for a 10p rate. When the Committee takes a view on new clause 2, I hope that Government Members will feel able to support our suggestion.

New clause 3 relates to the personal allowance for those who were born after 5 April 1948 and would require a review of the impact of the removal of the old so-called age-related allowances for those who turned 65 last April and thereafter. The new clause refers to the so-called granny tax, a phrase that was coined immediately after the Chancellor's 2012 Budget. This granny tax has been debated in detail in previous Finance Bill Committees, but given that the change for those who turned 65 last April and thereafter is having an impact one year in, it is important that we press the Government again. They were rightly and heavily criticised for dressing up the change to the age-related allowances as a simplification, but it is more accurate to describe it as a stealth tax. Poorer pensioners have paid a price, so it is right for us to press the Government again, because although they weathered the storm about the granny tax, they have refused to budge on the impact on poorer pensioners, and the issue has not gone away.

Mr Gauke: On a point of clarity, does the Labour party intend to reintroduce a different personal allowance for people over the age of 65?

Shabana Mahmood: The Exchequer Secretary knows that we have not made such a commitment, and it is not one that we are able to make. If Labour forms the incoming Government in 2015, we will have to deal with a deficit that is still large and borrowing that is much higher than this Government said that it would be. We will have to make difficult public spending choices. We have committed to stick to the coalition Government's overall spending envelope for 2015-16, although we will make different choices within that envelope, some of which we have already set out in detail. We will continue to bring forward proposals, but we will not be in a position to reverse all the decisions made by the coalition Government. We simply cannot do that, because this Government's so-called long-term economic plan—[HON. MEMBERS: “Hear, hear!”]

I am so glad: it is 11.24 am and Government Members have woken up. They have, however, woken up to a delusion on their part, because although they trumpet their plan, it is one that has failed on its own terms. The Chancellor said to the electorate in 2010 that his choices

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on the pace of deficit reduction, spending cuts and so on would result in the elimination of the deficit in 2015, but that pledge is in absolute tatters. Such a thing will not happen until well into the next Parliament. However we look at it, the Chancellor's central premise—take all the pain now and quickly, and all will be okay in five years—has fallen apart. We welcome the Chancellor's

growth figures, which are starting to move in the right direction, but it is worrying that the Office for Budget Responsibility expects growth to slow next year.

11.25 am

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

Adjourned till this day at Two o'clock.