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)

Second Sitting

Tuesday 29 April 2014

(Afternoon)

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Saturday 3 May 2014

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

The Committee consisted of the following Members:

Chairs: MARTIN CATON, † MR GARY STREETER

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

Matthew Hamlyn, Kate Emms, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 29 April 2014

(Afternoon)

[Mr Gary Streeter *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)

Clause 2

Basic rate limit for 2015-16 and personal allowances from 2015

2 pm

Question (this day) again proposed, That the clause stand part of the Bill.

The Chair: I remind the Committee that with this we discussing 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.'.

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) *rose*—

Hon. Members: Hear, hear.

Shabana Mahmood: It is a great pleasure to serve under your chairmanship, Mr Streeter. We all welcomed you in your absence this morning and look forward to serving under you and Mr Caton for the duration of this Committee. I am delighted that Government Members were so warm in welcoming me back, so that I can continue my remarks on clause 2 and the three new clauses we have tabled.

I will not go into detail on the matters we discussed this morning, but our discussion ranged around clause 2, in particular the increase in the personal allowance, which we have said we will support. The mere fact of the increase in the personal allowance does not, I am afraid to say, get the Government off the hook when it comes to the wider impact of their economic policies.

We saw a clear indication of that at Treasury questions, which directly followed our morning sitting. Once again Government Members repeatedly ducked the opportunity to admit what we all know and what the Office for Budget Responsibility has told us, which is that people will be worse off at the end of this Parliament than they were in 2010.

David Rutley (Macclesfield) (Con): You will come to find, Mr Streeter, that that is a common theme. It is worrying that we are hearing it again after lunch. I thought that, after lunch and Treasury questions, the shadow Minister might be a bit more reflective. The truth of the OBR report is clear. The OBR says fundamentally that, following 2010, it was surprised at how deep the impact was of the mountain of debt created by the Opposition when they were in power. That is the reason for the challenges we face. Anything else that the hon. Lady puts to the Committee underplays the negative contribution made by the Labour party in government.

Shabana Mahmood: I am grateful to the hon. Gentleman for his intervention but, as I have said, it does not get Government Members off the hook of their own record and what they said would happen if we followed the plan they implemented in 2010. The deficit was supposed to be eliminated at the end of this Parliament—that is what the Chancellor of the Exchequer said would happen if we followed his plan for deficit reduction—but it has not happened. The deficit will not be cleared until well into the next Parliament.

Ian Mearns (Gateshead) (Lab): I am surprised that the hon. Member for Macclesfield talked about a mountain of debt. Would my hon. Friend remind Members how much has been added to the national debt under this Government?

Shabana Mahmood: The Government have borrowed about £190 billion more than they said they would at the start of this Parliament. Many of the predictions that were made about what would happen under their plan for deficit reduction have proved incorrect, whether growth, borrowing or the central question of eliminating the deficit, which has not happened.

The Chair: Order. It is important that interventions do not lead the hon. Lady astray from addressing either clause 2 or the three new clauses. This is not Second Reading. I am sure we can now confine ourselves to the clause and new clauses.

Shabana Mahmood: Thank you, Mr Streeter. I would never want to be led astray or get on your wrong side. I shall be more careful in my response to interventions henceforth. The fundamentals of the points I was making on clause 2, on the personal allowance, remain. We saw greater evidence of that in Treasury questions earlier today.

Before we adjourned, I introduced new clause 3, which relates to the personal allowance for those born after 5 April 1948 and asks for a review of the impact of the removal of the old age-related allowances for those who turned 65 last April and thereafter. I reminded the Committee that the Opposition proposal relates to the infamous 2012 Budget and the so-called granny tax—a tax change dressed up as a mere simplification but which has had a very real and deep impact on many pensioners. It was wrong of the Government to try to dress that up as a simplification. Although the issue was debated in previous Finance Bill Committees after the 2012 Budget, it remains significant. It is a significant change for those who reached the age of 65 in April last year. It is important that we continue to interrogate the Government on the impact of the measure. That is the thinking behind new clause 3.

The age-related personal allowance was a long-standing aspect of the tax system. The idea was that the age-related allowance would be given to elderly people on modest incomes to help with the additional expenses faced by older people who have greater day-to-day living costs, such as heating. It was introduced in 1975, but was modelled on an exemption for elderly people on small incomes dating back to 1957, and previously on an old age relief that went back to the 1920s. It was therefore a long-standing, well established feature of the taxation system, taking into account the different ways in which elderly people are able to react to changes in the cost of living. It was designed to help them because they are less able than working-age people to go out and change their circumstances. They are dependant on their retirement income and have very little room for manoeuvre when costs fluctuate. That feature of the taxation system assisted with those problems.

It was always based purely on age. It was an age-related allowance, claimed at the age of 65. There was an additional higher age-related allowance for those aged 75 and over, taking into account their even more difficult circumstances, when costs fluctuate but incomes remain broadly the same. Eligibility was never assessed on whether somebody had retired or not. The rationale for not going for a retirement basis but for an age basis was the idea that those on fixed incomes could not compensate for the additional pressures when the cost of living increases.

The Exchequer Secretary to the Treasury (Mr David Gauke): The hon. Lady continues to be very generous in giving way. As a matter of principle, does the Labour party think that those under the age of 65 should have a lower personal allowance than those over the age of 65?

Shabana Mahmood: This has been well discussed in previous Finance Bill Committees. That very long-standing feature of the tax system had a genuine rationale behind it. That rationale probably still applies with as much force today as it has in the past. The way in which the change was made—it was dressed up as a simplification and hidden under the carpet—was wrong. If we are going to make such changes to the taxation system, we should do so in a much more open and transparent way. There is no doubt that the change has had an impact. It is right that we continue to press the Government on the scale of that impact, as we would under the new clause.

I take the point that the taxation system treats those aged under 65 differently from those aged over 65. However, my view is that the age-related personal allowance had merit and was based on a genuine rationale, so it should not have been done away with without greater public debate about what the change meant. It was never a simple simplification; it was a significant taxation change that should not have happened without an open and honest debate on who would lose out, why the change was being made and whether there was merit in the original rationale of helping older people whose fixed incomes make it hard for them to deal with the increased cost of living. We should have had greater opportunity to think about the impact that the change would have on people in that position.

Ian Mearns: The Government have trumpeted their tax changes with the strapline that those with the broadest shoulders should bear the greatest burden. Do we honestly believe that Ministers intended pensioners with a modest occupational pension of £300 or £400 a month to be hit by the change, bearing in mind that strapline and the fact that the change was to hit better-off pensioners?

Shabana Mahmood: The way in which the change was made certainly showed up the hollowness of the Government's claim that those with the broadest shoulders would bear the greatest burden of deficit reduction, as did the reduction in the 50p tax rate, about which we have had a lengthy debate. We did not hear that claim for a long time after Budget 2012, although I think it has crept back in since then, and measures such as the so-called granny tax prove how hollow it is. If the Government are going to have an about-face on who bears the burdens of deficit reduction, they should at least own up openly and transparently to what that means. It was quite insulting to say that the change was a matter of mere simplification.

Ian Mearns: When Ministers introduced the measure, I wonder whether they speculated that it would be a lot easier to gather tax from those aged over 65 on modest incomes with occupational pensions than from those with good means who would escape from the reduction from 50p to 45p. We have heard from the Government that they anticipated that the latter would be difficult to collect. I assume that the former is easy to collect by comparison.

Shabana Mahmood: My hon. Friend makes an important point, which goes to the heart of our discussions on the clause. Those who are well off and adept at taking the right kind of advice to avoid, for example, the additional 50p rate are rewarded with a tax cut worth more than £100,000 on average. Those at the other end of the income scale have no such luck. That is an important point, especially in relation to what has happened with age-related personal allowances.

Duncan Hames (Chippenham) (LD): The hon. Lady is omitting to mention the clawback mechanism that applied to the age-related allowance. As a result of the age-related allowance being clawed back, many pensioners —albeit not those on the lowest incomes, but none the

[Duncan Hames]

less those with lower-than-average incomes—were paying an effective marginal income tax rate of 30%. Does she believe that that level of income is an appropriate one at which to experience income tax rates as high as 30%?

2.15 pm

Shabana Mahmood: The hon. Gentleman was not present this morning, so I welcome him to the Committee. I take on board the point he makes. There was a long-standing debate on the tapering of the age-related allowance. In fact, as I was just about to say, the Government, having established the Office of Tax Simplification, asked it to review pensioner taxation. The way in which the change was made meant that there were no proposals to deal with some of the more negative sides of the old age-related allowance. We did not get to have that debate because the Government commissioned an OTS review and made a decision when it had effectively produced only its interim report. The OTS had not made its final recommendations—it never got the opportunity—and the Government jumped the gun.

The Government clearly had in mind an idea of what they wanted to do with the age-related personal allowance—all of the other measures were going into the mix for the famous 2012 Budget. They simply did not allow public debate—the debate could have been had if the OTS had been allowed fully to report on its review of pension taxation. As it was, when it made its final report, it did not come back to those issues in quite the same way, saying that a decision had already been made, which is a shame. That has prevented thorough and full debate and scrutiny of the measure and is one reason why there was such an outcry. Calling it a simplification was an insult, but in addition, there was a review process in place looking at how things might be done differently and more fairly. Perhaps there were other ways of structuring the age-related allowance.

Even before we got to have that debate and to see what the OTS thought, the Government went ahead and made their decision to phase out both age-related allowances. From April 2013, the age-related allowances have been frozen at their 2012-13 levels. Only existing recipients of both allowances have been able to claim them. Given the relationship with the personal allowance, which in 2015-16 will rise to £10,500, the first of the age-related allowances will now be subsumed within the increased personal allowance. The higher age-related allowance for those aged 75 or above is not far behind—the difference remaining is only about £100 or so.

The Treasury analysis showed that 4.41 million people would lose out in real terms as a result of the measure, with an average loss of £83. In addition, the individuals who turn 65 in 2013-14 will lose out the most as they will no longer be eligible for the higher allowance, but will receive the same personal allowance as those aged under 65. On average they are £285 a year worse off. That is a significant change, particularly for that cohort of 65-year-olds as of April last year. It impacts on their ability to meet their day-to-day costs. If the OTS had been able to do its final report, and if we had had greater consultation and discussion on the measure, there would at least have been an opportunity for that cohort to change their plans, or at least to account for the fact that the change was on its way. The way in which the change was made prevented them from having that opportunity. It put a great number of people at significant disadvantage. It was a significant change and it was strongly criticised at the time.

Age UK has argued:

> "Someone with an income as low as £10,500 who reaches 65 from April 2013 could be £259 a year worse than under the current system with very little time to adjust their financial retirement plans."

The director-general of the Saga group, Dr Ros Altmann, has said a lot of things about the current Budget in relation to pensioners and savers. She powerfully made the point about the change that it has left middle class pensioners suffering a significant "stealth tax".

That point about a stealth tax is important. Again, the change was introduced without the opportunity for the Office of Tax Simplification to produce its final report, and without the opportunity for greater public debate. Pensioners were not put on notice that something like the measure was on its way, and so could not start taking advice about how it impacts on their arrangements. It was brought in as a simplification, designed to hide the fact that it was a stealth tax. It was rightly criticised and rightly it continues to be criticised.

Ian Swales (Redcar) (LD): I was not a Member in the previous Parliament and I do not think that the hon. Lady was either, but is she aware of how much notice pensioners were given about the freezing of the age allowance for 2010-11?

Shabana Mahmood: I was not in the previous Parliament, like the hon. Gentleman, so I cannot answer his point off the top of my head. I am sure that he is making a point about a Labour party policy with which he disagrees.

In relation to this change, a process was in place to look at pensioners and the Office of Tax Simplification's report. However, there was a political decision to override the thorough review of these issues that the Government themselves put in place, which was absolutely the wrong move. They created an office to look at these matters and asked that office to commission a review, so not to bother with the results of that review just defies common sense—what a big fat waste of time. Would it not have been far better for the Government just to come forward and say that they wanted to get rid of the age-related allowances, and so they would phase them out, link them to the increases in the personal allowance and hey presto? I am sure that the Office of Tax Simplification could then have gone on to look at the simplification of other aspects of the taxation system. The Government's approach defies common sense. There was no point in having the process but not following it up. To add insult to injury, not only was a whole bunch of time and money wasted on a review that the Government ultimately did not really care too much about, but it was deeply insulting to hide the political decision at the heart of the policy by attempting to say it was mere simplification and a little standard change that would have no real impact on anyone at all.

The Government's approach sent out completely the wrong message and lots of those people affected were, rightly, very angry about it. The Minister knows that the policy continues to have an impact on pensioners and it is regularly debated in the House. I believe it is one of the few issues to lead to a debate in the House on an e-petition, when my hon. Friend the Member for Newcastle upon Tyne North took part in a lengthy discussion about the change. The matter still really offends and angers those who have been affected, so it is right that, through new clause 3, we further attempt to get the Government at least to review the policy so that we can have the public debate that was wrongly denied to begin with.

I hope that Government Members at least take into account the way in which this change was made, and the fact that many people have been affected and there is still much public discontent and anger. I hope that they will support new clause 3 when we come to vote on it, because it is right that we continue to press the Government on a significant change that has had a lasting, deep impact, but has not received the effective, thorough scrutiny that should have taken place. Through a review, we might at least be able to give it such scrutiny, and therefore to speak up for a group of pensioners who have suffered as a result of this stealth tax but have no other means, at this point, of holding the Government to account.

Following those remarks, it is with regret that I shall bring my comments on clause 2 and our three new clauses to an end. When we vote on the new clauses, I hope that Government Members will feel able to support them and the reviews that we have asked for. As I said earlier, we support clause 2.

Sheila Gilmore (Edinburgh East) (Lab): Through my hon. Friend's presentation of the new clauses and the interventions that she has taken, we have had quite a wide-ranging debate. One Government Member—I cannot recall who—said how important it was to get matters on the record so that issues to do with the deficit and the financial position under the previous Government are understood. I was slightly surprised to hear that Member's absolute confirmation that he was, without a doubt, putting on record what was right—that the deficit had been rising throughout the period of the previous Labour Government—because that does not appear to be the case. For example, in the years 2003, 2004, 2005, 2006 and 2007, the deficit—the difference between the Government's income and expenditure—was falling. It fell right up to—*[Interruption.]* That is correct. The problem was that we then ran into the beginnings of the economic crash. Government Members say that that was entirely the fault of the Labour party, but saying that we created an economic crash in not just the UK, but various countries throughout the world, suggests that we possessed an amazing power that I did not think we had. Many Governments would have sought such influence and power.

Richard Fuller (Bedford) (Con): As the hon. Lady wishes to clarify the issue of deficits, has she included in her analysis the massive increase in off-balance-sheet financing under the previous Government? Has she also included the vast increase in the pension liability which, when they left office, was in excess of £1 trillion?

Sheila Gilmore: It is unhelpful to start throwing in additional things that are not necessarily—

Richard Fuller: To start throwing in facts.

Sheila Gilmore: No, things that are not necessarily part of the normal definition of whether a Government were or were not running a deficit. We have to consider some of the off-balance-sheet measures as investments.

We know that, despite all the talk, debt rather than the deficit is rising and continuing to rise. That is an important issue for all of us, and I want to put on record that it is not just the deficit. There is constant reiteration that the entire problem was caused by the Labour Government spending too much, but they spent much of their time in office making substantial reductions to the deficit that were inherited in 1997.

Kwasi Kwarteng (Spelthorne) (Con): The hon. Lady kindly referred to my remarks, as I was the Committee member who suggested that we put these things on record, because it is important that we get the facts right. I was not alluding to the fact that the deficit was increasing in the period I mentioned; I was saying just that there was a continuous deficit from 2002 right through to 2010—from even before the financial crisis. That was why, when the financial crisis hit, our deficit was worse than any other western European and OECD country.

2.30 pm

The Chair: Order. Before Sheila Gilmore resumes her speech, I remind the Committee that we are, of course, on clause 2 and the three new clauses that relate thereto.

Sheila Gilmore: We are indeed, Mr Streeter. I will just say briefly that a falling deficit—the deficit was, of course, inherited in 1997—is something to be proud of.

It is important that Members on both sides of the Committee consider the level at which people begin to pay tax at the 40% rate. In their heart of hearts, many Government Members will be concerned about fiscal drag, which is one effect, albeit perhaps slightly hidden, of some of the measures that the Government have implemented. Clearly that can become an important issue for individual households.

I would be surprised if Government Members did not want that issue to be properly looked at so that decisions could be taken about the appropriate way to deal with it. I would not be at all surprised to hear that they have been discussing it among themselves and, no doubt, with the Chancellor and members of the Treasury team, given its importance to many people who are trying to sustain their employment and progress in it.

We all say that we want people to be incentivised to work and earn. After all, we are told that it is important that people at the lowest level of income are incentivised and that universal credit will do that, although I have my doubts. The issue of tax rates is also important. The review is really a simple ask. We are constantly criticised in Finance Bill Committees and at other times for not putting our policies on the table, although I am not sure that the parties in government acted any differently when they were in opposition. We have an opportunity to consider whether this aspect of taxation could be done differently, whether people are suffering due to fiscal drag, and whether we should do something about it.

Mr Iain McKenzie (Inverclyde) (Lab): It is a pleasure to serve under your chairmanship, Mr Streeter.

[Mr Iain McKenzie]

I shall restrict my remarks to the 10p starting rate of tax and how that would benefit my constituents, many of whom work in industries that confine their salary range to that from which there would be most benefit in avoiding stepping off the cliff from not paying tax to paying the 20p rate. As one of their employers is always saying, every little helps, and a 10p tax rate would certainly help my constituents. They would see it as much fairer that they could take a more measured step into taxation, rather than going straight to paying the 20p rate.

Although I welcome the raising of the tax threshold, which also helps my constituents, given the salary range in which they find themselves, it would be beneficial if they could step into a 10p tax bracket first. It would encourage most if not all of them to take on further opportunities and to develop their career with their present employer, without having to worry, "If I step up that bit in salary, I am going to pay a lot more tax. Is it worth taking on responsibility?"

Ian Mearns: I apologise, Mr Streeter, that I did not say what a pleasure it was to serve under your chairmanship —indeed it is.

Will my hon. Friend reflect on the fact that although, at the time of the Budget, Government Members were celebrating the fact that 3.5 million people had been taken out of taxation altogether due to the raising of the threshold, that meant that 3.5 million people were earning only £200 a week? I am not convinced that that is something we should be celebrating in this day and age.

Mr McKenzie: I thank my hon. Friend for that intervention. He has set out the added impact on people earning that salary of the cost of living crisis that is faced throughout the country. As we have said, a 10p starting rate of tax would benefit 24 million people in the United Kingdom. We could raise the money required to implement it through the mansion tax and by scrapping the marriage tax allowance.

I am sure that Members from other parties would like the lowest-paid to be given the greatest opportunity to improve their living standards. Labour Members are especially on the side of working people, so we would like such a measure to be put in place and we ask the Government to consider it. I do not know whether Conservative Members have discussed this with their coalition colleagues, but perhaps the Liberal Democrats in the coalition need to discuss the mansion tax and the Conservatives need to discuss the 10p tax rate. We have heard that even the Prime Minister has raised the prospect that the Conservatives might reintroduce a 10p band, but that did not get very far. Perhaps it was lost somewhere in the coalition agreement, but we would like it to be discussed further. We hope that the Government will adopt our proposal for tackling the crisis in this country by allowing the lowest-paid a further opportunity to step up on the ladder and improve their living standards, and that is why we are asking Government Members to adopt our position on the 10p starting rate of income tax.

Chris Williamson (Derby North) (Lab): It is a great pleasure to serve under your chairmanship, Mr Streeter. I believe it is for the first time, although I might be wrong about that—I might have served under your chairmanship in a Westminster Hall debate—but whether or not that is the case, it is a great pleasure.

I hope that Government Members will find it within themselves to support those eminently reasonable, moderate and sensible new clauses tabled by my hon. Friend the Member for Birmingham, Ladywood, the reasons for which she coherently and persuasively set out in her three and a half hour contribution. The 10p tax rate to which new clause 1 refers is clearly a sensible proposition, especially because it would benefit some 24 million workers, as my hon. Friend the Member for Inverclyde said. Compare that with the millionaires' tax cut imposed by the Government that was extremely beneficial to 14,000 millionaires. That measure clearly illustrates that the Government are for the few, whereas we represent a party for the many. The 10p tax rate would go a long way towards addressing the cost of living crisis for which this Government are absolutely and entirely responsible.

The hon. Member for Macclesfield made a point about the mountain of debt allegedly inherited by the Government. The truth of the matter is that it was merely a foothill of debt compared with the mountain that this Government have been ratcheting up since they came to power. I do not know whether his view has been obscured by the clouds in cloud cuckoo land, which is where he seems to be living if he thinks that this Government have been carrying out good economic stewardship.

David Rutley: I am pleased to be serving on this Committee with the hon. Gentleman. We had the honour and privilege of serving together on the Deregulation Public Bill Committee, when I remember that he was very good at providing genuine entertainment value for not just that Committee, but his family members, although we will not go into that now.

It is clear that although we are working very hard to get debt under control, the hon. Gentleman's party let the mountain of debt rip—it became even higher and bigger. If Labour were still in power, that mountain of debt would be even bigger, as is absolutely clear from all the forecasts that have been put forward by respected bodies.

The Chair: Order. That long intervention takes us well away from clause 2 and the three new clauses, so I am sure that Mr Williamson will not repeat the error of going down that route when he responds.

Chris Williamson: Certainly not, Mr Streeter, suffice it to say that the hon. Gentleman has confirmed that he continues to live in cloud cuckoo land.

It is important that we remember that the Government inherited a growing economy. The economy has been flatlining and we have had the longest recession in history, so we desperately need measures that will get our economy growing again and address the cost of living crisis. We need the economy to grow in a way that benefits the vast majority of the public, but that is certainly not how most people experience the growth that we see at the moment.

A 10p tax rate would be a sensible way forward. New clause 1 is very reasonable as it simply calls on the Chancellor, within six months of Royal Assent, to

"lay before Parliament a report containing proposals for an income tax rate of 10 per cent" and sets out additional requirements in relation to people on the higher tax band not benefitting from that. I cannot understand why Government Members—they claim that they want to address our current economic difficulties, although they are the architects of them—will not support that proposition, the reasons for which my hon. Friend the Member for Birmingham, Ladywood coherently set out.

Richard Fuller: I am following the hon. Gentleman's speech closely. I think that the policy is intended to improve the living standards of people on low incomes but, as he recognises, the Government have limited amounts of money. Does he not think that a better approach would be to encourage employers to pay higher wages by offering reductions in the jobs tax to businesses so that they can pay the living wage as a minimum for their employers?

Chris Williamson: Obviously we favour a living wage; indeed, we have talked about proposals that would incentivise employers to pay the living wage. I look forward to the hon. Gentleman supporting those proposals when the Labour party puts them forward.

Let me turn to the fact that the Government have brought 2 million people into the 40p tax rate. New clause 2 is also a moderate and reasonable proposition, so why would Government Members object to it? It would simply require the Chancellor, within three months of the passing of the Bill, to

"undertake a review of the number of people paying the 40 per cent rate"

from 2010 through to 2013-14. Surely that would facilitate a proper discussion about the tax burden in our country. A lot of people would be surprised to discover that people carrying out really important roles in our community to deliver those public services that make our society a decent place in which to live, such as bus drivers and nurses, find themselves in the higher tax bracket.

Duncan Hames: I am slightly puzzled by the hon. Gentleman's concern about the number of people paying the 40p rate of tax, as he will know that the measure proposed in new clause 1 would specifically guarantee an increase in the number of people paying tax at that rate. Some people in the professions that he outlined would be brought into the 40p rate under the policy set out in new clause 1. Does he think that that would be a good thing or bad thing?

2.45 pm

Chris Williamson: Given what the hon. Gentleman says, I look forward to him supporting new clause 2, which simply calls for a review of the figures. It would not be unreasonable to establish the position.

My hon. Friend the Member for Birmingham, Ladywood set out effectively the rationale for new clause 3. Given that the Government have pressed ahead with their policy without considering its full implications, the review proposed in the new clause would be a way to hold them to account. We have seen with other pieces of legislation that the Government seem to introduce policy in a vacuum. They like to indulge in an evidence-free policy process. New clause 3 would drag the Government back and make them justify their policy. The review would inform future policy discussions and decisions when, hopefully, there is a change of Government at the next general election.

I do not wish to detain the Committee further, but I certainly look forward to the hon. Member for Chippenham supporting new clause 2. Given that the new clauses are such sensible, reasonable and moderate proposals, I hope that all Members will agree with them so that we can ensure that we get the information that the public deserve.

Mr Gauke: It is a great pleasure to serve under your chairmanship, Mr Streeter, and to respond to the debate as well as to follow the hon. Member for Derby North, who is clearly here in the role of enlivening of proceedings, one previously taken by the hon. Member for Bassetlaw (John Mann). He is stepping into those considerable shoes to enliven events, while it is my role to calm things down subsequently.

Clause 2 sets the income tax personal allowance and the basic rate limit for 2015-16. Let me first turn to the personal allowance. Clause 2 increases the personal allowance to £10,500 in 2015-16, in line with the Chancellor's announcement at the recent Budget. That increase will take around 290,000 low-income individuals out of income tax altogether, and make more than 25 million taxpayers better off overall. Those 25 million taxpayers will on average see real terms gains of £61 in 2015-16 alone. Typical basic rate taxpayers will see their annual income tax bills cut by another £100.

That further increase to the personal allowance enables hard-working people to keep more of the money they earn to buy the things they and their families need. It supports the Government's aims of making the tax system fairer and supporting those on low and middle incomes.

Chris Williamson: The Minister says that the measure will reduce the tax burden on many taxpayers. Does he accept that on average people are £1,600 a year worse off as a consequence of his policies?

Mr Gauke: I do not accept those numbers, but there is a point that we should all acknowledge, which is that the economy shrank by 7.2% and that has had a significant impact on our nation and the people of this country. The Institute for Fiscal Studies has been clear that the effect of that reduction, which does not occur over night in people's household budgets but over time, is significant. The Government recognise that and that is why we have in place a long-term economic plan that is bringing growth and employment. It is why, when we can afford to do so, we have taken measures such as in clause 2 to reduce the burden of taxation on the British public. We would all like to be able to do more, but the fact is that we inherited the largest deficit in our peacetime history. In the boom years, when the economy had an unsustainable bubble, we still had a deficit. That meant our public finances were essentially wrecked, and it has been the role of this Government to try to put the pieces back together again.

Chris Williamson: I am grateful to the Minister for giving way a second time. If I may push him a little further, he claims again that they are reducing the tax

[Chris Williamson]

burden. He talked about the economy shrinking, but we will not go into his party's responsibility for that. Does he accept that his Government's decision to increase VAT had a disproportionate impact on people on lower incomes than it did on the better off in society?

Mr Gauke: No, I do not, because of the way in which VAT is structured in this country, where there are significant zero rates. Food takes up a larger proportion of the budgets of those on low incomes, so the VAT increase was the right response. It is the least damaging tax in terms of damage to growth in the economy, and the Opposition did not oppose the VAT increase, which was in the 2010 Finance Bill.

Sheila Gilmore: The Minister's explanation of everything is to do with necessity, but within necessity there are choices to be made. Does he accept that the decision to raise the tax threshold is of significant benefit to people on above average incomes and very expensive in tax forgone to the Treasury? That is a choice that was made. Other choices could have been made that concentrated help on the lowest earners.

Mr Gauke: To be fair to the hon. Lady, I think she is consistent. She has always opposed the increases in the personal allowance. *[Interruption.]* Her argument is one of priorities. She would not have increased the personal allowance in the way in which the Government have done. My point is that increasing the personal allowance provides a significant tax cut for 25 million people. It sends a clear signal that we want to encourage work and employment, and also work incentives. It cannot entirely be a coincidence that we have seen significant performance in the labour market in recent years, at a time when we have also been able to increase the personal allowance and encourage those work incentives.

I do not think I will be able to persuade the hon. Lady, but her arguments against the personal allowance apply, as she knows, just as strongly against the policy of a 10p rate of income tax as put forward by her Front Bench. The same argument applies. We have debated this before and she has successfully managed to avoid dealing specifically with that question, but her arguments could be applied to her own Front Bench in a slightly different policy. I will turn to that in a moment.

I will explain the Government's rationale behind the personal allowance increase in 2015-16. We have already debated clause 1 in the Committee of the whole House. Clause 1 confirms that the Government are meeting their commitment to raising the personal allowance to £10,000 a year ahead of schedule. Clause 2 means that we go even further with our plan to cut income tax for the hard-working people of Britain. We can go further than our original target of £10,000, because our economic plan is working, and we are tackling the deficit that the previous Government left behind. As the Chancellor said in his Budget speech,

> "We will fix the roof when the sun is shining".—[*Official Report*, 19 March 2014; Vol. 577, c. 784.]

Allow me to stress again that, when this Government came into office, the personal allowance was only £6,475. Everyone, including those on low incomes, had to pay at least 20% income tax on whatever they earned above that threshold. What our increases to the tax-free personal allowance have meant to ordinary people becomes clear if we turn our attention to minimum wage earners. In 2009-10, income tax reduced take-home pay for someone working full time on the October 2009 national minimum wage by over £800. This was an income reduction of around 8%. In contrast, the same person working full time on the October 2014 national minimum wage will pay only £266 income tax next year. That is nearly 70% off the income tax bills of national minimum wage workers thanks to our increases to the personal allowance. And that is in the context of a higher national minimum wage than in 2009-10.

Ian Swales: Does the Minister agree that the figures he has presented show that people on the minimum wage have had a large, real-terms increase in their take-home pay since 2010?

Mr Gauke: My hon. Friend is absolutely right. That is why we are proud that the Government have delivered the progress we have in increasing the personal allowance. It compares favourably with a Government who increased the rate of tax paid by low earners.

Chris Williamson: The Minister paints a very rosy picture as if somehow the people living on low incomes, people earning the minimum wage, are enjoying a huge upsurge in their standard of living. How does he explain the fact that the biggest growth in poverty is among those who are in employment? How does he explain the massive increase in the number of people in employment using food banks if life is so rosy under this Government?

Mr Gauke: My argument is not that life is rosy. The reality is that we face significant difficulties as a country. The economy shrank by more than 7% and that is what we are recovering from. As a Government, we have been able to take some action to help those households. That is an action that I hope the Committee would support.

I have discussed the example of someone on the national minimum wage but the personal allowance increases do not just help minimum wage workers. In 2015-16, the Government will have cut typical taxpayers' income tax bills by up to over £800. In other words, more than 26 million taxpayers will be up to £570 better off in real terms as a result of this Government's changes. Altogether, this Government will have taken more than 3.2 million people out of income tax by April 2015. This Government have cut the number of income taxpayers more in five years than any other Government since records began. Finally, a personal allowance of £10,500 also allows the Government to simplify the tax system by merging the personal allowance with the allowance for those born between 5 April 1948 and 6 April 1938.

New clause 3 requests 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. As we heard, Opposition Members wanted to highlight our decision to withdraw age-related allowances for new recipients made in the 2012 Budget. It is true that those turning 65 last year would previously have qualified to receive an age-related allowance. However, given our commitment to increase the personal allowance to £10,000, there is no need to have separate allowances for people over the age of 65. These reforms will simplify the system, bringing thousands of people out of self-assessment once all the allowances are aligned. More than 5 million of the poorest pensioners will not be affected by the changes in any way because they do not pay income tax.

Furthermore, the Government remain committed to supporting pensioners in other ways. Our triple lock means the state pension will be uprated each year by the highest of earnings, consumer price index inflation or 2.5%. As a result of the triple lock, the full basic state pension in 2014-15 will be around £8.50 a week higher than it would have been had it been uprated only in line with average earnings growth since 2011-12. We have protected key pensioner benefits, including winter fuel payments, free prescriptions and eye tests, free bus travel and free TV licences for older pensioners.

3 pm

Let me briefly explain the change to the income tax basic rate for 2015-16 set out by this clause. This is the income on which 20% tax is due. The autumn statement 2012 announced that the income tax higher rate threshold, which is the sum of the personal allowance and the basic rate limit, would grow at a rate of 1% in 2014-15 and 2015-16. Above this level, 40% tax is due. For 2015-16, this means that the higher rate threshold will rise by £420, to £42,285. Together with the personal allowance increase to £10,500, this requires a reduction in the basic rate limit by £80, to £31,785. Clause 2 sets the basic rate limit at precisely this level and, as in previous years, the national insurance upper earnings and upper profits limits will remain aligned with the higher rate threshold in 2015-16. These changes mean that everyone earning up to £120,000, whether they are basic or higher rate taxpayers, will fully benefit from the personal allowance increase in 2015-16.

I turn to new clause 1, on a report on the proposal for an income tax rate of 10% on a band of income above the personal allowance. Opposition Members have proposed reintroducing a 10% rate of income tax and have tabled new clause 1 calling for the Government to produce a report on the impacts of this proposal. Let us not forget that the 10% rate is a policy they have already introduced and then scrapped once before—to the cost of many of the individuals further down the income scale whom they claim to want to represent and help. Fortunately, this Government have a much more coherent income tax policy.

Our increases to the personal allowance have replaced the 10% rate that they doubled, with successive increases to the tax-free personal allowance—effectively creating a 0% band. This is considerably more than the width of the former 10p starting rate band and means that this Government's policy has been considerably more supportive than a reintroduction of the 10p band. As a result, these increases mean that all those who lost out when the 10% rate was abolished have already been more than compensated by this Government. Therefore, a report on this proposal is simply not necessary. I also have to say that in a lengthy and thorough speech from the hon. Member for Birmingham, Ladywood, I am not sure that I heard a convincing case why a 10p rate was better than a further increase in the personal allowance.

Moving on to higher rate taxpayers, clause 2 means that after a first increase this year, the higher rate threshold will grow in 2015-16 for the second time in this Parliament. However, the increase is lower than inflation, and as such, this raises money. The 1% growth cap for the higher rate threshold in 2014-15 and 2015-16 raises £785 million in 2015-16. However, typical higher rate taxpayers will still pay less income tax. Combined with the personal allowance increase, the changes to the higher rate threshold in 2015-16 mean that typical higher rate taxpayers will pay over £140 less income tax than in the current year, and in the current year they already pay over £150 less than in 2013-14.

This brings me to new clause 2, tabled by Opposition Members. This is designed to highlight the number of higher rate taxpayers and the fact that this number has increased over this Parliament. However, it seems pretty clear to me that the most important question is not the number of higher rate taxpayers, but changes in the amount of tax that a person pays. That is the relevant test whether they are basic rate or higher rate taxpayers. Typically, those who have become higher rate taxpayers in this Parliament will be better off compared with the previous Government's plans. Furthermore, the personal allowance will reach £10,000 this April, a key coalition commitment that has benefited higher rate taxpayers, and will continue to do so. For example, the recent Budget included a further increase in the personal allowance to £10,500 next year. Higher rate taxpayers will benefit by £100 from those changes.

The Government have set out the impact of their tax changes as part of the Budget documentation. The report suggested by Opposition Members is therefore again not necessary. I also reiterate the point made by my hon. Friends the Members for Redcar and for Chippenham that, at the same time that the Opposition are raising this concern, they have tabled a new clause that suggests that the benefits of a 10p rate should not be passed on to higher rate taxpayers.

I can only assume that that reflects the Opposition's policy regarding the 10p rate. The automatic consequence of that would be to drag more people into the higher rate band. While we are on the Opposition's policy regarding the 10p rate, which is related to new clause 1, we had a fairly lengthy debate this morning on the Opposition's plans to fund a new 10p rate. We heard from the hon. Member for Birmingham, Ladywood that their position was to introduce a mansion tax but they had not set out how much they were going to raise from it. I have had an opportunity to look at that further since our debate, and it seems pretty clear from comments made by the shadow Chancellor in interviews on 14 February 2013, with ITV and "The World at One" on BBC Radio 4, that their intention is to raise between £1.7 billion and £2 billion from the measure.

We have heard in parliamentary debates from the hon. Members for Nottingham East and for Newcastle upon Tyne North of a desire to raise £2 billion. This flagship policy of a 10p band for £1,000 funded by a mansion tax was launched with much fanfare in the constituency of my hon. Friend the Member for Bedford just over a year ago. I am struck today that the Opposition no longer hold to that commitment and are backing away from raising £2 billion.

Shabana Mahmood: As I made clear in our discussions this morning, the £2 billion figure was not based on numbers prepared by us. It was already in the public domain as a result of number work done by Liberal Democrats and others who suggested that a mansion tax could raise around £2 billion. What I made clear

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was that we would set out the shape and structure of the mansion tax that we propose to bring in for properties worth £2 million or more. That will dictate the amount of revenue that can be raised. We have not yet set out the structure of that mansion tax, which could take a number of different forms with potential for mitigation for people who are asset-rich but cash-poor. That will dictate the amount of money that will be raised. For clarification, that is the point I made this morning and it has not changed, having always been our position.

Mr Gauke: I am grateful for that, although I am reminded of comments made by the hon. Member for Nottingham East on Report of last year's Finance Bill, when he said,

"We have looked carefully at the well-crafted and evidently well-thought-through proposal from the Liberal Democrats."—[*Official Report*, 1 July 2013; Vol. 565, c. 648.]

He went on to say that that could net about £2 billion. I have had some dealings with the hon. Member for Nottingham East so I know it is possible that he was being sarcastic. I think that was a pretty clear position that the Opposition were going to raise £2 billion from a mansion tax but I do not think that is the case anymore.

Alec Shelbrooke (Elmet and Rothwell) (Con): Perhaps I can help my hon. Friend. The reason we cannot find any flesh on the bones is that there is unlikely to be any, because there would have to be a re-banding and many people would end up paying a lot more council tax. That is the hidden nature of the proposal. Does he find it incredible that, as was revealed this morning, the hon. Member for Birmingham, Ladywood does not think that an £80 billion deficit is anything to worry about?

Mr Gauke: My hon. Friend makes a good point. He also makes a good point about the absence of flesh on bones; he knows a lot about flesh on bones.

Christopher Pincher (Tamworth) (Con): It does seem that Labour Members are rather shaky on their figures. Not only are they unsure about how much they would raise through the proposal, they are unsure about how many people they would help. We heard today that 24 million people would be helped, but the shadow Chancellor has said that 25 million people would be helped, in that organ of record, *The Guardian*. A million people here, half a billion spent there; soon we will be talking real money and real people.

Mr Gauke: I am grateful to my hon. Friend. Let me make one last rub: it seems that this flagship policy is not as worked out in detail as when it first appeared over a year ago.

Richard Fuller *rose—*

Mr Gauke: As the policy was announced in my hon. Friend's constituency, I will give way to him.

Richard Fuller: Just to update the Minister, another sign of the deft approach of the shadow Treasury team is that the business at which that policy was announced has gone bust. If I may say so, he is falling into a trap by calling the Opposition's policy a mansion tax. It is not; it is a property tax. Mansions are things that people like him and I do not have, but properties are things that everyone has. The Opposition are trying to play the politics of division, setting large businesses against small businesses, and rich people against poor people. The terminology ought to be correct. Call something what it is.

The Chair: Order. Before the Minister responds, I do not see that phrase mentioned in any of the new clauses. Perhaps we can now wind up the debate on clause 2 and the new clauses, and then we can move on.

Mr Gauke: Thank you, Mr Streeter.

If, as the Labour party indicates in new clause 1, it wishes to implement a 10% rate, it seems fairly clear that there are no well-developed plans at the moment to fund it. Until such well-developed plans are in place—indeed, the plans seem less well developed today than they did over a year ago—we shall look at them with some suspicion. As I said earlier, the Government consider that the best way of addressing the issue that a 10% rate would try to address is to increase the personal allowance.

Chris Williamson: If the Minister thinks that the Opposition's figures are so shaky, will he support the Office for Budget Responsibility running the rule over our position, so that we can all be clear whether they stack up?

Mr Gauke: One point that becomes clear is that the poor OBR would have an enormous amount of work, because every week there seems to be a different policy. Until such things settle down, and given that it is not clear what Labour Members think, I am not sure that the OBR is in any position to make a judgment.

Let me conclude. Clause 2 helps the Government achieve their aim of a tax system that is fair while rewarding those who want to work hard and progress. We will achieve those goals by cutting income tax for the vast majority of income tax payers, including those in greatest need of support. I therefore hope that clause 2 can stand part of the Bill, and request that new clauses 1, 2 and 3 not be pressed to a Division.

Shabana Mahmood: We have had a thorough and lengthy debate. I will not rehearse all the arguments, save to say to the Minister, and to place on the record, that nothing we have said about the 10p rate and mansion tax has changed since we made the announcement. We are happy to put out the details of our proposals in due course and for them to be audited by the independent OBR, because we have nothing to hide. When our numbers and the shape of our mansion tax are ready, we will happily share them with everybody.

3.15 pm

We have heard a number of contributions on the three new clauses. I understand that new clauses will be voted on at the end of our proceedings. At this stage, I am probably minded to press them to a Division and will do so in due course.

The Chair: I clarify for the Committee that we will vote on new clauses at the end of our proceedings in a few weeks', or months', time.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Clause 3

THE STARTING RATE FOR SAVINGS AND THE SAVINGS RATE LIMIT

Shabana Mahmood: I beg to move amendment 2, in clause 3, page 3, line 8, at end insert—

'(6) The Chancellor of the Exchequer shall undertake a review, within six months of the passing of this Act, of the impact of the reduction in the starting rate for savings and the increase in the starting rate limit for savings, with particular reference to—

(a) the impact on the household savings ratio, as measured by the annual assessments of the Office for Budget Responsibility;

(b) the impact on the annual saving rate, including changes in housing equity, by—

(i) age; and

(ii) income decile.'.

The Chair: With this it will be convenient to discuss clause stand part.

Shabana Mahmood: The clause is about the starting rate for savings, which broadly applies where an individual's income from employment, self-employment or pension income is less than the starting rate limit for the tax year, after taking the personal allowance into account. It increases the starting rate limit to £5,000 in 2015-16 and reduces the starting rate for savings to 0%. It also allows individuals to request that no withholding taxes are applied to savings by banks or building societies, where it is anticipated that no tax will ultimately be due on those amounts.

Our aim in asking for the review in our amendment is to get some additional analysis of how significant the measure in the clause will be for many people on lower incomes, given that the cost of living crisis has led to savings being eroded or not made at all. In Treasury questions this morning, I put it to the Chancellor that, although he billed the Budget as a Budget for savers, the OBR has said, and we have seen in the Red Book, that the savings ratio has been revised down for every year until 2018.

The truth is that the recession has caused a long-term squeeze on real incomes. People are struggling to pay their bills, and in those circumstances the capacity of individuals to save greater amounts of money is severely limited. When the Chancellor made his Budget statement, I was struck by the way in which he billed his Budget. He spoke of it as a budget for the makers, the doers and the savers, but my feeling about the Bill as a whole is that it does not have much in it for those who are making do—those who are merely surviving day to day, week to week, as their incomes have taken a huge hit and they have ended up worse off as a result of the choices made by the Government since they have been in power.

For people who are making do, just getting by and surviving day to day, trying not to be too terrified each time a bill arrives, how do they save? That is the thrust of the amendment. How do they get into a position where they can afford to put aside even a few pounds a week in order to build up their savings and take advantage of the measures in the clause? The truth is that, at the moment, saving is a luxury for many people in our country. It is a luxury that is far out of reach for people who struggle with a real and deep-seated cost of living crisis which, despite recent changes in wages and prices, shows no sign of abating and will still be felt for some time to come.

Let us look at the facts. The savings ratio itself has fallen in recent months. The ratio—the amount that is put away as a percentage of after-tax income—is lower than in many other wealthy countries, raising concerns about the sustainability of our economic recovery from the financial crisis. Official figures show that the UK's household savings ratio—the percentage of disposable income put aside for a rainy day—fell to a near four-year low during the final three months of 2013. At just 5%, it was the lowest rate since the 3.1% rate in the first quarter of 2010. A survey by the charity Shelter of working adults who pay rent or a mortgage found that, with little or no savings to fall back on, 3.8 million families could be just one pay cheque away from losing their home. That throws into sharp relief the way in which people are struggling at the moment, how near to the edge many people live every day, and how just one change—one pay cheque not coming in—can push people over the edge.

Savers withdrew money from their accounts last year at the fastest rate for nearly four decades, according to Bank of England figures. Britons took around £23 billion out of long-term savings in 2013, so for all those people who have been able to save and put aside money for a rainy day, many more have been dipping into their savings just to make ends meet, again highlighting the very real impact of the cost of living crisis. The Money Advice Service has said that 16 million Britons are "living on the edge" with zero savings. Its surveys from the beginning of this year show that 27% of people say they can save money each month, and 37% say they have less savings than last year. It also found—some of these figures are very striking and bring home the issues that we are dealing with—that 71% of UK homes are caught out by unexpected bills.

The average unforeseen cost, according to the Money Advice Service, is about £1,000 per household. It also found that loans to loved ones are the largest unexpected cost for households, with the average loan to family members nearly £2,500. Again, one sees the interplay between families and individuals struggling to make ends meet and pay the bills, and either dipping into the small amount of savings that they have been able to make or having to go to loved ones—the famous bank of mum and dad in many cases, or other relatives and friends —to ask for help to meet some of these unexpected costs.

Mike Kane (Wythenshawe and Sale East) (Lab): It is a pleasure to serve under your chairmanship, Mr Streeter. Would the savings ratio also indicate to my hon. Friend why, with people unable to save, the cost of living crisis and wages on average £1,600 down, there has been a proliferation in the last few years of payday lenders charging usurious rates and changing the nature of our high street?

Shabana Mahmood: My hon. Friend is right to draw the Committee's attention to payday lending, which has been a big issue on which a number of powerful campaigns

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have been run, particularly in this Parliament. It has been a growing issue. It is another symptom of what is happening out there in the real economy. What happens to those who find themselves with wages that are £1,600 a year down and, even with tax and benefit changes, nearly £1,000 worse off? Many do not have the luxury of savings, and those who can save very little. What happens after that?

As I said in the earlier debate, many people live in perpetual terror of the size of their gas or electricity bill. When there is not enough money to pay it, they have to get the money from somewhere. If they are lucky enough to have any savings, they will dip into them; if not, they turn to loved ones who may be able to help—knowing people who can lend significant sums is in itself a luxury. The Money Advice Service said that the average loan to loved ones is £2,500. That is a huge sum, not a trifling amount by any measure. It just goes to show how significant the issues are when it comes to people being able to make ends meet. For those who do not have a loved one who can loan anything like that amount—I do not know many people in my constituency who could find a spare two and a half grand to give to a family member to help them cope—where else do they go? That is why we have seen this huge increase in payday lending, which has led to many people simply being abused by the system.

It is also why we have seen so many people turning to food banks. Again, we had the recent media reports of almost 1 million food parcels being handed out in our country—a shocking figure. There has been a huge growth in food banks in my constituency. That is what happens when people cannot make ends meet. They deal with the necessities. They deal with the payday lender who may be on their back and try to stop the interest getting ever more out of control. They have managed to borrow as much as they could from loved ones. They do not have any savings, so they have nothing to dip into, but if they had had savings, they would have exhausted them. They then have to start making choices about going hungry or keeping the lights on at their house, feeding their children three meals a day and perhaps going hungry themselves and eating just once in the evening. I know families in Ladywood who make that choice.

The recent welcome upward trajectory of the relationship between wages and prices—one intersection on the graph that went in the right direction in the last set of figures—does not wipe out the huge impact there has been on families and their incomes. That directly relates to their ability to save, which is what the clause deals with. The Money Advice Service ran a campaign urging households to save £3 a day to help cover unexpected bills during the year. I was interested by that £3 a day: it seems like quite a small sum, but it is a significant amount for my constituents. It is the difference between being able to have lunch, for example, and going hungry. For people in such dire circumstances, even that suggested £3 a day saving to cover unexpected bills is far out of reach.

That brings me to the reasons why people are in a position where they cannot save that much money. There was a lot of debate about some of these issues in the Committee of the whole House, but I will touch on some of them briefly. One is energy bills: gas and electricity bills have risen by about £300 since 2010, such that the average energy bill for heating is about £1,300 a year—a huge increase since the general election. Even with the change in how fuel poverty is measured, that has resulted in significant fuel poverty. It is a real problem: most families who come to my advice surgeries find the gas and electricity bill to be the biggest obstacle to their being able to make ends meet. If people find themselves in that position, saving any money at all is a luxury that is far out of reach.

3.30 pm

Other factors prevent people from being able to save. A significant one is the cost of rent. We have seen many more people who are unable to get a foot on the housing ladder and have to rent for longer than they anticipated. Rents, which have increased more than twice as much as wages, form a significant part of any household's expenditure. If rent is increasing and people find themselves in rented accommodation for ever longer periods, saving any money to meet the much higher expectations for getting a mortgage to buy a house is out of reach for many ordinary people.

The cost of child care is another reason why people either cannot save at all or can save only small amounts. Child care costs have soared: we have seen the cost of nursery places increase by 30%, which is five times faster than pay. The cost of a nursery place is now the highest in history. The average bill for a part-time nursery place of 25 hours a week has increased to £107.

Why does child care feature so highly in the list of things that people worry about and that prevent them from doing other things with their money that the Government would like them to do, such as putting some money aside for a rainy day? Child care has a direct impact on the ability to go to work, particularly for mums, but both parents are affected. If child care is unaffordable, people will have to make other choices about whether they can afford to work. No Government wants people to choose not to work because they cannot afford child care, as that is not good for those individuals or the economy. However, child care is having that significant impact on individuals throughout the country and forcing people into making what the Government and all policy makers would consider a bad choice that we would not want them to have to make: not to go to work. Those people will not be in a position to put anything aside to save. The central point I come back to is that, for the people who are in a position where they are making do, surviving on a day-to-day basis, saving is, I am afraid to say, a luxury that is far out of reach.

My final point about why people are in such difficulty and not able to save is on the huge increase in insecure employment. Among those lucky enough to be in work, many more are in part-time work, desperate for more hours but unable to get them. We have also seen a huge increase in zero-hours contracts. That increase in insecure employment has a powerful impact on that individual's ability to make their income cover their day-to-day costs and puts saving far out of reach. How can people put money aside if they do not know how many hours they will be working from one week to the next?

I know of cases of constituents who have been on jobseeker's allowance who have managed to get jobs on zero-hours contracts but are not offered any hours. Every week, they are told that they still have that contract but will not be offered any hours. When one constituent decided to resign because he was offered no hours, he was penalised and sanctioned by the jobcentre. It is a completely ridiculous position for someone to find themselves in, but that is the impact of some of these arrangements on a practical level. If someone simply does not know if they can make ends meet from one week to the next, because they have no idea whether they are going to get five, 10, 12, 16 or more hours a week, how are they able to save any money?

Saving is a luxury for millions of people at the moment, even if they are able to eke out a small amount to save. This is a very real problem and the Government should have taken the opportunity to include measures in the Bill to help to tackle some of those practical issues, particularly energy and child care costs. If they had, people would be more able to meet day-to-day living costs so that they could then take advantage of the changes in clause 3 that seek to improve the position of those with small savings.

Amendment 2 would enable us to keep an eye on the savings ratio in particular. As I noted, according to the Budget Red Book, that ratio is forecast to go down every year until 2018. If it was indeed a Budget for savers, it should encourage people to save more and help more people to afford to save in the first place. If someone is simply keeping their head above water, there is no way that even £3 a day is within their reach. That is the thinking behind our amendment, which I hope Members will support.

As in the previous proposed new clauses we debated, we have asked for a review, because we fear the direction of travel of the savings ratio and the position that people find themselves in with the deep-seated cost of living crisis. At least it would force the Government to review the impact of what is happening to the savings ratio in relation to the changes in clause 3, and that would be a positive step.

I have a couple of more general points about clause 3. The proposed changes under the clause are expected to help pensioners in particular. A number of taxation experts have made an argument about making pensioners aware of how to benefit from the changes. When, later and elsewhere in the House, the pension changes are debated, it will be important to emphasise independent advice and how to get the message to pensioners about their entitlement and how they can take advantage of the changes, including those in clause 3. I would be grateful if the Minister shed more light on how the Government intend to get the message out about the clause and the benefits of the changes for pensioners in particular. Will he also say whether HMRC has thought about how a similar result to that achieved by the changes in the clause could be achieved through individual savings accounts? Should the Government do more to ensure that all sections of society have access to and knowledge of tax-favoured products?

Lots of people know about ISAs, but they also need to know the details of how they work and the fact that this is deliberate Government policy, designed to give a tax-favoured product to ordinary people. It should not just be the preserve of the wealthy or the financially aware. Will the Minister say something about the Government's thinking on not only the measures in the clause, but how they will interplay with existing measures such as ISAs?

The Chartered Institute of Taxation raised a couple of technical points in relation to the clause. I think the point about the R85 form was made to the Minister in its commentary on the clause. Although the institute welcomes the changes in the clause, it points out that people will complete form R85 only if they know about it and if they understand that they are eligible, so it goes back to the point I made about getting the message out and making sure that people understand how the systems work, and then making sure that they are able to take advantage of them. The Chartered Institute of Taxation stated that the onus is on banks and building societies and HMRC to ensure that the R85 system is better publicised. Clearly, if we want people to be in a position where they can take advantage of the measures, they will need to know about them and understand them. Will the Minister set out the Government's thinking in relation to the role that HMRC can play in getting the message out?

The institute also raised a technical point on gift aid liability, which is something for us all to be aware of every year when the personal allowance is increased. It states that the issue will be particularly acute with the change in April 2015, when the first £5,000 of savings becomes income-tax-free, taking many more people, particularly pensioners, out of income tax overall. There is an interplay with gift aid, which could catch out some pensioners who made an enduring gift aid declaration. Will the Minister highlight the Government's thinking about gift aid? How do they intend to make sure that pensioners do not get caught out when they have made an enduring declaration to a charity? Should individuals be made more aware, or should charities do more to help people who might accidentally get caught out by the measure?

Nic Dakin (Scunthorpe) (Lab): I welcome the opportunity to serve under your chairmanship, Mr Streeter. I wish to speak briefly to support my hon. Friend and the case she has made for a review. She has underlined the importance of savings to individuals, families, communities and the overall economy. The Chancellor's 2014 Budget revealed that the economic recovery, though welcome, is still reliant on consumer spending. Although it was billed as a Budget for savers, it is actually forecast that the savings ratio will fall each year for the next five years, as hard-pressed households draw down their savings and increase borrowing, with the implications that my hon. Friend has so admirably spelt out.

Britain needs balanced investment and an export-led recovery—I think we all agree with that—but consumers can dip into their savings only so far. The independent Office for Budget Responsibility has stated that growth may slow when savings peter out, so the issue is serious. That is why a review is a sensible way to ensure that we get the best possible outcome for individuals, families, communities and the economy as a whole.

Mr Gauke: Clause 3 reduces the starting rate of tax on savings income, such as bank or building society interest, from 10% to zero, and increases the starting rate band significantly, from £2,880 this year to £5,000 next year. It is part of a broader package of measures announced by my right hon. Friend the Chancellor in the Budget earlier this year to support hard-working people who are saving or have saved for their future.

3.45 pm

The clause will benefit savers with low overall incomes. We estimate that around 1.5 million savers could benefit, over 1 million of whom will no longer be required to pay tax on bank or building society interest. As well as enabling many more savers to keep more of the interest they earn on their savings, the provisions represent a major simplification of the starting rate for savings, which has been identified as one of the most complex provisions within the tax rules.

The current rules involve a series of complicated eligibility calculations, taking into account a person's total non-savings income and their total overall income. They also require all eligible savers to reclaim tax from HMRC if they are to benefit. The Office of Tax Simplification suggested that the starting rate was too complex to be understood by many savers; that explains the low levels of awareness and take up.

The clause sweeps away that complexity for most of those eligible for the starting rate. Instead of the current complex calculation, the message is that if someone's taxable income next year is less than £15,500 they will be able to register their account to have interest paid without any tax deducted. There will be no need for a reclaim process. Different figures will apply for those savers who have dividend income or additional personal allowances, or those who choose to transfer some of their allowance to a spouse or civil partner. We will make sure that detailed guidance is available in good time for the implementation of the change in April 2015. I am grateful to the hon. Lady for raising the issue of gift aid. We will ensure that the guidance, which we will produce later this year, will address the point she raised.

The Government want to ensure that as many eligible people as possible register their accounts to receive interest without tax deducted. That can be done by the completion of a simple certificate, the R85, or by giving a declaration to the account provider online, by telephone or face to face. There is no need to contact HMRC. The regulations governing the R85 form will be changed under powers within the clause to enable every eligible person to use the process. The Low Income Tax Reform Group has paid tribute to recent progress made by HMRC, the British Bankers Association and the Building Societies Association in improving the operation of the R85 procedure and communications with customers about it. In addition, following a recommendation from the Office of Tax Simplification, the R85 help sheet has been improved. I welcome that progress. However, it is important that work continues so that as many eligible savers as possible are aware that they can register their accounts and can do so easily and simply—the hon. Lady was right to raise the issue of awareness—and HMRC and the Treasury will therefore work closely with account providers and their representatives in the run-up to the implementation of the change to make sure that that happens.

I acknowledge the point the hon. Lady made about general awareness of the provisions. It is important that there is that awareness. Clearly, it is in the interests of banks and building societies to ensure that their customers are aware of these opportunities and of the way that the system works. She also mentioned ISAs. The Government are making changes to the ISA rules. ISAs are a long-standing success when it comes to awareness. Over 5 million adults currently subscribe fully to the cash ISA limit. They will benefit from the equalisation of and increase in cash in the overall ISA subscription limits as a consequence of our measures.

It is also worth pointing out, as the hon. Lady touched on in her remarks, that we should not think that savers are simply the very wealthy. Three-quarters of those who subscribe to the maximum for their ISAs are basic rate taxpayers. It is also worth noting that one third are pensioners. Returning to the steps that we are taking for the savings rate, this measure will predominantly help those with relatively low incomes.

Amendment 2 commits the Government to a review of these changes to the starting rate within six months of the passing of the Bill. The changes in question are not scheduled to come into effect until 6 April 2015. Therefore, the amendment envisages a review of the changes being undertaken before they have come into effect. For that reason alone, I am not inclined to accept amendment 2. However, even leaving that drafting flaw aside, the amendment is unnecessary. The OBR, the Office of National Statistics and HMRC will continue to publish details about the savings ratio, savings levels, the amount of savings by particular groups and the amount of savings income. All those data contribute to a greater understanding of developments within the savings market, savings income among particular groups and the amount of savings income received by individuals. The hon. Lady said that we need to keep an eye on the savings ratio. Well, the savings information will be available regardless of the amendment.

We want to make this change simple and, as far as possible, light touch for savers and account providers. For most, it will operate through the simple and long-established R85 registration process, with gross payment of interest, which is already used by thousands of savers. The amendment would require additional information gathering and greater administrative burdens for eligible savers and account providers, which the Government believe would be inappropriate and disproportionate for this simplifying measure.

The hon. Lady digressed in her speech on to wider issues about help for low incomes, which is an important point. Although I do not intend to engage with every point that she raised, it is very clear that if we want to help those on lower incomes, we need to have a strong and growing economy. I am pleased that we have made the progress that we have over the past year with the economy growing by more than 3%, but we recognise that there is further to go. However, we cannot get away from the fact that the only sustainable way to raise living standards is to tackle the country's economic problems head on—something that this Government have been prepared to do.

Clause 3 provides targeted support for low-income savers and ensures that they can get much more from their savings. It also removes a major complexity in the tax system by extending and simplifying the starting rate for savings. I believe that the amendment is unnecessary and could make this change more burdensome for savers and account providers. I therefore hope that the clause will stand part of the Bill and that the hon. Lady can be persuaded to withdraw her amendment.

Shabana Mahmood: Clause 3 has the Opposition's support. I am grateful to the Minister for what he said on gift aid. I note that guidance is forthcoming and

I look forward to reviewing that when it is available. I also welcome his comment in relation to the R85 help sheet and the ongoing work in simplifying that process. I am minded to press amendment 2. A review of the type that we have called for, particularly in terms of what we know is happening to the savings ratio this year and every year until 2018, is important. It will help us to understand better what is happening to savers and the ability of people to save.

Question put, That the amendment be made.

The Committee divided: Ayes 12, Noes 16.

Division No. 1]

AYES

Dakin, Nic
Evans, Chris
Gilmore, Sheila
Glindon, Mrs Mary
Jamieson, Cathy
Kane, Mike
McKenzie, Mr Iain
McKinnell, Catherine
Mahmood, Shabana
Mearns, Ian
Pearce, Teresa
Williamson, Chris

NOES

Burt, Lorely
Elphicke, Charlie
Fuller, Richard
Gauke, Mr David
Hames, Duncan
Heaton-Harris, Chris
Kwarteng, Kwasi
Menzies, Mark
Morgan, Nicky
Pincher, Christopher
Rudd, Amber
Rutley, David
Shelbrooke, Alec
Smith, Henry
Swales, Ian
Wheeler, Heather

Question accordingly negatived.

Clause 3 ordered to stand part of the Bill.

Clause 4

Indexation of limits and allowances under ITA 2007

Shabana Mahmood: I beg to move amendment 3, in clause 4, page 3, line 25, at end insert—

'( ) The Chancellor of the Exchequer shall, within three months of the passing of this Act, undertake a review of the expected impact until 2020, of changes to indexation limits and allowances on—

(a) the numbers of those not paying income tax in 2014 who begin to be eligible for basic rate income tax over that period;

(b) the numbers of basic rate income tax payers in 2014 who begin to be eligible for the higher rate over that period;

(c) the overall receipts from those paying income tax over the period broken down—

(i) for the average UK household;

(ii) for the average single-earner UK household with two children;

(iii) for the average UK household with two earners and two children;

(iv) for the average single person.'.

The Chair: With this it will be convenient to discuss clause stand part.

Shabana Mahmood: Clause 4 changes the basis for automatic indexation of tax allowances and limits, such as the personal allowance and the basic rate limit. It means that from 2015-16, any automatic increase in those allowances and limits will be made by reference to changes in the consumer prices index rather than the retail prices index. The change is measured over 12 months to the September before the relevant tax year. The automatic indexation can be overridden, as it has been, for example, in 2014-15, when the personal allowance was set at £10,000 and the basic rate limit was decreased.

Amendment 3, again, seeks a review into the impact of the changes to the indexation limits and sets out some of the things that should be assessed for the impact that the change will have, including the number of people not paying income tax in 2014 but who will be eligible for basic rate income tax over that period; the number of basic rate payers who begin to be eligible for the higher rate over the same period; and the overall impact that the change in indexation has and the overall receipts from those paying income tax—again broken to down to help to illuminate debate in this area—for the average UK household, single earners with children, the average UK household with two adults and two children, and for the average single person as well.

4 pm

This change from the RPI to the CPI measure of inflation is not new for a Finance Bill Committee. It has been discussed in previous Finance Bill Committees and by Work and Pensions Ministers and shadow Ministers in relation to Bills connected to welfare and pensions uprating. This issue has been debated at length by hon. Members ever since the first set of changes to indexation were made by the Government with this move from the retail prices index to the CPI measure of inflation. The change is significant. The thrust of our amendment 3 is to get some additional analysis of the impact of that change on indexation. Some have labelled it a stealth tax and there has been a lot of debate about it previously in this Parliament. It is important that we understand exactly what the impact of the change from RPI to CPI has been.

Both RPI and CPI measure inflation by taking a basket of goods—food, clothes and petrol—looking at what they cost last year, what they cost now and finding the proportional difference. The CPI differs from the RPI because it leaves housing costs out of the basket of goods that it measures, so rises in mortgage payments, rents and council tax are not reflected within the CPI measure of inflation. The retail prices index, however, takes those housing costs into account. So there is a difference between the two in terms of what they measure and what is in the basket of goods that gives the overall calculation for the value of both those indexes.

There is also a mathematical difference in the way the retail prices index and the consumer prices index are calculated. The RPI calculates what is called the proportional difference, using the arithmetical mean between the old price and the new. The CPI does not use the arithmetical mean but the geometric mean, which gives a different set of figures. That mathematical difference between calculating the RPI and CPI means that the RPI almost always gives a bigger figure for inflation. Each year, the RPI rises on average by 1.2 percentage points more than the CPI.

There is a whole set of issues around the differences between the two measures and around which best and most accurately reflects inflationary pressures when we look at uprating benefits and, as envisaged in clause 4, the indexation of limits and allowances under the Income Tax Act 2007. Using the consumer prices index means that allowances and tax rate limits would increase at a lower rate than under the retail prices index, therefore raising greater revenues. The effect of that change over a much longer period could be very significant, given the compounded nature of the change. The reason why that has been an issue of debate throughout this Parliament is because of the significance of that change, the fact that it is compounded over time and the big difference between the numbers that result from indexing according to RPI and those that result from indexing according to CPI. That has a large impact on Government revenues, which in turn has an impact on individuals either through limits in allowances and taxation, or through benefits that they miss out on. The amendment is designed to try to get better analysis about the impact of the changes and what they will mean for different rate payers in our current taxation system.

In this place, there is a lot of debate around RPI and CPI, and we bandy those measures about in the Westminster village, in the conversations we have with journalists and in the interviews that we give. However, I do not think that they are well understood by ordinary members of the public. I sometimes think that the terms that we use in this place as part of our normal discourse, when we talk about indexation, uprating and so on, must seem impenetrable to ordinary people. Those people are significantly affected by the changes, but they do not necessarily understand from our discourse here in Westminster what is going on or why certain choices have been made. For that reason, despite the fact that the move from RPI to CPI has been discussed several times in previous debates, we must continue to press the Government on that point.

Clause 4 changes things in relation to taxation. Previous debates have been about pensions and benefits uprating, but broadly the same sorts of issues apply. In the public debate that we have with ordinary people who are drawn into different tax brackets because of the difference between indexation under RPI and indexation under CPI, we must be better able to explain exactly why the changes are being made and what their real impact will be. That could illuminate debate well into the next Parliament.

When the Government made the change from using RPI to using CPI in the uprating of benefits at the beginning of the Parliament, there was a suggestion that they would look at the change again if a significant case was made and the arguments were strong enough. We will not know whether a significant case has been made or whether the arguments are strong enough to consider indexing differently without better analysis of the impact of the change. It would be helpful, through a review such as we propose in the amendment, to see the impact of the change on basic rate taxpayers, to see who gets drawn in, and on higher rate taxpayers.

We do not intend to vote against clause 4, but we will press the amendment to a vote because we think that the matter requires greater analysis and greater public debate. It is important to shine a stronger light on what the change means. Many people have described it as a stealth tax. As we discussed earlier, there will be significant changes in the implementation of taxation, and it is important that they do not seem impenetrable or out of reach for ordinary members of the public. They have the right to understand exactly what the changes mean and what impact they will have on them. The change will have a significant impact on the Government's revenue, and that of course is the reason for the change. It should be spelled out clearly to the public who will end up paying more. We will support clause 4, but we will probably press amendment 3.

Mr Gauke: Clause 4 makes changes to the indexation basis for income tax allowances and limits, and it may be helpful if I set out a little of the background. It was announced in the 2011 Budget that, in response to an independent review by the Office for National Statistics, CPI inflation will be the standard indexation assumption for direct taxes from 2012. However, it was also announced in that Budget that all RPI-indexed income tax thresholds would move to CPI indexation in later years, and that the personal allowance would move to CPI indexation after reaching £10,000.

For simplicity, we decided to deal with all income tax indexation changes in a single piece of legislation. Income tax thresholds closely connected to the personal allowance are the basic rate limit and the higher rate threshold. The basic rate limit sets the width of the 20% basic rate tax band above the personal allowance. The higher rate threshold determines the starting point of the 40% higher rate tax band, and is the sum of the personal allowance and the basic rate limit.

The announcement in the 2013 Budget on the personal allowance meant that it would move to CPI indexation in 2015-16. To ensure that the income tax system remains consistent, we decided that the indexation of the basic rate limit should move to CPI indexation at the same time as the personal allowance. That ensures that the higher rate threshold will also grow in line with CPI inflation in the absence of policy changes. Clause 4 implements that switch.

Clause 2, which we debated earlier, sets the personal allowance and basic rate limit for 2015-16, and means that the Government will override CPI indexation for the personal allowance and the basic rate limit in 2015-16 in line with the Chancellor's announcements at last month's Budget.

The remaining RPI-indexed income tax allowances and limits, including the adjusted net income limit, married couples allowance and blind persons allowance, will be increased in line with RPI inflation in 2015-16 by overriding the annual indexation order for that year. That will ensure that no one will be worse off as a result of changes to indexation in this Finance Bill compared with our previous plans.

Amendment 3, tabled by Opposition Members, would require the Government to carry out a review, projected to 2020, of the impact of moving to CPI on the number of basic rate taxpayers, higher rate taxpayers and certain types of households. The purpose of the amendment is, as we have heard, to compare the changes to income tax personal allowances and rate limits under RPI and CPI indexation. The amendment essentially misses the point. We are moving to CPI for three reasons. First, it is calculated using a formula that better reflects the way people shop around in response to a change in price. Secondly, it forms the basis of the Bank of England's inflation target. Thirdly, it is more consistent with the European Central Bank's harmonised index of consumer prices than RPI. In March 2013, the UK Statistics Authority, following a review, judged that

"the methods used to produce the RPI are not consistent with internationally recognised best practice".

On that basis, I do not believe that the amendment could achieve anything useful, and I ask the hon. Member for Birmingham, Ladywood to withdraw it.

I am grateful for the hon. Lady's support for clause 4, which helps the Government to achieve their aim of a tax system that is fair and easy to understand. I hope that amendment 3 will be withdrawn and that clause 4 stands part of the Bill.

4.15 pm

Shabana Mahmood: I am grateful for the Minister's comments on clause 4 and the amendment. I am minded to press the amendment to a Division. It is very important. I take on board what the Minister has said, but the change from the RPI measure of inflation to CPI for indexation of taxation limits and allowances is significant. Regardless of where one sits in relation to whether that is a good or bad thing, it is worth having the review so that we can assess the impact of the change and more thoroughly ventilate those issues in public debate.

Question put, That the amendment be made.

The Committee divided: Ayes 13, Noes 14.

Division No. 2]

AYES

Dakin, Nic
Evans, Chris
Gilmore, Sheila
Glindon, Mrs Mary
Jamieson, Cathy
Kane, Mike
Leslie, Chris
McKenzie, Mr Iain
McKinnell, Catherine
Mahmood, Shabana
Mearns, Ian
Pearce, Teresa
Williamson, Chris

NOES

Burt, Lorely
Elphicke, Charlie
Fuller, Richard
Gauke, Mr David
Hames, Duncan
Heaton-Harris, Chris
Kwarteng, Kwasi
Menzies, Mark
Morgan, Nicky
Pincher, Christopher
Rudd, Amber
Shelbrooke, Alec
Smith, Henry
Wheeler, Heather

Question accordingly negatived.

Clause 4 ordered to stand part of the Bill.

Clause 8

ANNUAL EXEMPT AMOUNT FOR 2014-15

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

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

New clause 4—*Capital gains tax and employee shareholders*—

'(1) The Chancellor of the Exchequer shall, within three months of the passing of this Act, undertake a review of the impact on tax revenues of employee shareholder status as defined by section 205A of the Employment Rights Act 1996, and set out the conclusion of the review in a report.

(2) The report referred to in subsection (1) above must in particular set out—

(a) the impact on total capital gains tax receipts paid to the Exchequer arising from the capital gains exemptions under section 236B of the Taxation of Chargeable Gains Act 1992;

(b) the estimated value of shares owned by employees working in employee shareholder jobs and the number of such employees.

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

(4) Subsequent reviews must be completed before the end of each period of 12 months beginning with the date on which the previous review was completed.'

Clause 9 stand part.

Shabana Mahmood: Clauses 8 and 9 set the annual exempt amount for capital gains tax at £11,000 for 2014-15 and £11,100 for 2015-16, so there is an increase of £100 a year. The clauses therefore override the automatic increases in the annual exempt amount provided in law, which are based on the change in CPI over the 12 months to the September prior to the tax year in question.

The annual exempt amount sets the limit to the chargeable gains that an individual can make in a tax year before becoming liable for capital gains tax. Unlike the personal allowance, that amount is not phased for higher earners, but is not available at all for non-domiciled individuals who claim the remittance basis of taxation. The effect of the clause is that the annual exempt amount will increase at a rate less than CPI inflation for 2014-15. CPI in the 12 months to September 2013 was 2.7%, which would have led to an increase in the annual exempt amount of £300. That is also likely to be the case for 2015-16, when the relevant measure of CPI inflation would have to fall to 0.9%.

New clause 4 focuses on the relationship between the Government's scheme known as shares for rights and capital gains tax. That Government policy has created a status of employee shareholder—someone who works under an employee shareholder employment contract. The employee shareholder must receive shares in the employer's company or parent company, and the shares must have a minimum value of £2,000 on receipt. There is no upper value for the shares. The taxation benefit from the policy is that there is no capital gains tax charged on the profit made when disposing of shares.

There have been a number of debates on the policy in other Committees, for example when Department for Business, Innovation and Skills matters have been discussed—it has been the lead Department for the policy change. The Opposition have always felt that that was a very peculiar form of contract. At the end of the day, rights at work are rights. We have always raised deep concerns about the impact that the policy could have. Many have described workers' giving up significant employment rights for shares in the company that may not be of value to them as the legitimised exploitation of workers. The rights given up under the policy, such as those relating to unfair dismissal, are significant. Apart from the automatically unfair reasons—when dismissal is based on discriminatory grounds or in

[Shabana Mahmood]

relation to health and safety—all other reasons are caught by the scheme. Those rights are given up.

Other rights to be given up include the rights to statutory redundancy pay, to request flexible working except in the two weeks following return from parental leave, and to request time off to train. Those are expected to be given up for an employee to be able to take advantage of the policy. When it was announced, the Chancellor said that it was a new voluntary three-way deal, where the company gives the employee shares in the business, and the employee replaces their old rights regarding unfair dismissal and redundancy with new rights of ownership. I would challenge that phraseology because rights at work are not the same as the rights of ownership. The Government say that they will not charge any capital gains tax on the profit made on the shares.

When the policy was announced, the then Minister for employment relations and consumer affairs, the hon. Member for East Dunbartonshire (Jo Swinson), who was responsible for piloting the so-called shares for rights scheme said:

"I have every expectation that when we look back at 2013 we will recognise it as having laid the foundations for a thriving and growing employee ownership sector in the UK."

The HMRC document that accompanied the shares for rights scheme noted:

"As it is entirely new, predicting the take up of the new employee status is highly uncertain. It is broadly expected that 20,000 to 40,000 individuals a year may eventually benefit from the CGT exemption on disposal of the shares."

It is fair to say that not only Members on this side of the House raised serious concerns about this policy. John Cridland, director general of the CBI, said:

"this is a niche idea and not relevant to all businesses."

A number of other business organisations felt that this was not the right kind of policy to pursue or that its impact on the number of businesses that would adopt the scheme would be very small. The criticism from business was significant, but the Government pressed ahead with their scheme and I think it fair to say that it has been a flop. We learned that BIS received just 19 inquiries for the scheme in the six months to the end of December, according to figures obtained by the *Financial Times* in response to a freedom of information request.

Many Members from across the House have been trying to get some of the facts and figures underlying the shares for rights scheme from the Minister through parliamentary questions, but have not been able to make a huge amount of progress. However, at least the freedom of information request told us that only 19 inquiries were made. That is very low and shows that, even given the pitch that was made to businesses, they have not been interested in it and have not taken it up.

The other problem with the scheme—something that a number of commentators have focused on—is its capacity to foster tax avoidance. The OBR's policy costings document said that the cost of the policy was expected to rise towards £1 billion by the end of the forecast period. It was very illuminating that it also said:

"It is hard to predict how quickly the increased scope for tax planning will be exploited; again this could be quantitatively significant as a quarter of the costing already arises from tax planning."

Even from the outset, the ability of the scheme to be manipulated for tax avoidance purposes has always been very real and stark and potentially very large in terms of revenue. It is interesting that the scheme was launched at a time of concern about tax avoidance and that still remains the case. Last summer, we had the whole raft of stories about Google, Starbucks and others. Concern about tax avoidance is extremely high. Ministers are continually falling over themselves to condemn such behaviour and to say that they have the right policies to tackle tax avoidance. At the same time, the Government bring forward a new tax policy that

"looks like it will foster a whole new avoidance industry".

That is what Paul Johnson of the Institute for Fiscal Studies wrote when it considered the OBR's costings document and the £1 billion cost that was expected at the end of the forecast was hidden away in an annexe .

It is interesting that we have this policy in place which has not been popular, has only raised a small number of inquiries, but has potentially opened a huge avenue for tax avoidance. The thrust of our amendment is to continue to press the Government for greater detail and more analysis of the impact of this policy and what it has done in relation to the exemption from capital gains tax. The Opposition have committed to scrapping the scheme, not only because we feel that it is a flop, but because we are concerned about its tax avoidance implications. I will therefore press new clause 4 to a Division.

4.30 pm

Mr Gauke: Clauses 8 and 9 set the capital gains tax annual exempt amount for 2014-15 and 2015-16 respectively. The annual exempt amount is the amount of capital gains an individual can make each year tax-free and is automatically indexed every year by reference to inflation, as measured by the consumer prices index, unless Parliament sets a different figure.

In the autumn statement of 2012, the Government announced that the annual exempt amount would rise by only 1% in both 2014-15 and 2015-16 to £11,000 and £11,100 respectively. We understand that the change will affect some people near the threshold, but the reality is that tough decisions need to be taken on both tax and spending in order to tackle the budget deficit and ensure that everyone pays their fair share of tax.

New clause 4 asks that the Chancellor review the impact of the new employee shareholder status on tax revenues and lay a report that sets out the impact on capital gains tax receipts, the estimated value of shares owned by employees with employee shareholder status and the number of such employees. As the hon. Lady pointed out, we have debated the subject on a number of occasions.

The Government believe that such a review is neither necessary nor appropriate at this stage. The employee shareholder employment status has been available only since 1 September 2013. The Government have published the impact on tax revenues in the tax information and impact note, and there are currently no data available to allow that to be updated. Companies are not required to submit details until later, as part of normal share scheme reporting from employers. That is consistent with the fact that the status has been carefully designed to be light touch and accessible. Employers will be required to submit details on employee shareholder shares as part of the normal share scheme reporting cycle. However, the proposed review would require enhanced information gathering and increase the administrative burden for businesses offering employee shareholder agreements.

The hon. Lady highlighted tax avoidance. There are safeguards in legislation to prevent the CGT exemption from being abused. Only gains on the first £50,000 of shares received will be exempt from CGT. There are rules that prevent the repeated consecutive use or multiple simultaneous use of the employee shareholder status to get around the limit. In addition, an individual's shares will not be CGT-exempt if they, or anyone connected with them, have a material interest in the employer company or its parent, or acquire such an interest. That is because a person with a material interest may also be able to influence the actions of the company and so affect the value of the shares.

New clause 4 is unnecessary. HMRC publishes a significant amount of data annually about the tax-advantaged employee share schemes. At the appropriate time, the Government will consider what to publish on the employee shareholder status. I therefore ask the hon. Lady to withdraw new clause 4, and hope that clauses 8 and 9 stand part of the Bill.

Shabana Mahmood: I am grateful for the Minister's comments regarding clauses 8 and 9, and the new clause, to which we will return towards the end of our sittings. We will not oppose clauses 8 and 9.

Question put and agreed to.

Clause 8 accordingly ordered to stand part of the Bill.

Clause 9 ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned.—*(Amber Rudd.)*

4.35 pm

Adjourned till Thursday 1 May at half-past Eleven o'clock.