

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)**

Third Sitting

Thursday 1 May 2014

(Morning)

CONTENTS

CLAUSE 10 agreed to.

SCHEDULE 2 agreed to.

CLAUSE 12 under consideration when the Committee adjourned till this
day at Two o'clock.

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The Committee consisted of the following Members:

Chairs: MARTIN CATON, † MR GARY STREETER

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

Public Bill Committee

Thursday 1 May 2014

(Morning)

[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 10

TEMPORARY INCREASE IN ANNUAL INVESTMENT ALLOWANCE

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

11.30 am

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

New clause 5—*Review of reform to the annual investment allowance*—

(1) The Chancellor of the Exchequer shall, within three months of the passing of this Act, undertake a review of the impact on business investment of changes to section 51A of the Capital Allowance Act 2001 made by the Finance Act 2011.

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

That schedule 2 be the Second schedule to the Bill.

Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): Good morning. It is good to see so many hon. Members have returned this morning after the tour de force on the Committee's first day. It is a pleasure to serve under your chairmanship, Mr Streeter. May I start by making reference to the Register of Members' Financial Interests, which is relevant to our proceedings? We made some thorough, if perhaps not speedy, progress on our first day. I am sure we will make significant progress today on the very important clauses.

Let me come to the meat of the debate, if I can say that as someone who, as hon. Members will be aware, does not eat meat—

Amber Rudd (Hastings and Rye) (Con): Yet.

Cathy Jamieson: The hon. Lady says "yet". I do not think there will be a U-turn in my position on that.

Let us get to the substance of the debate. The new clause relates to a temporary increase in the annual investment allowance. The Government hope that by increasing the relief on qualifying expenditure to £500,000, they will provide an incentive, particularly for small and medium-sized businesses, to increase or bring forward capital expenditure on plant and machinery.

The temporary increase to £500,000 until December 2015 follows the increase to £250,000 that was announced in the 2012 autumn statement. The clause is time limited until 31 December 2014, after which date it will revert to £25,000. Let me explain new clause 5. It is not dissimilar in many respects to other new clauses that we have proposed in relation to other parts of the Bill, and indeed previous Finance Bills. The Minister may recognise some of the wording. He might even recognise the

approach, as it was the one he took in opposition. Under the new clause, the Chancellor would, within three months of the passing of the Act,

"undertake a review of the impact on business investment of changes to section 51A of the Capital Allowance Act 2001 made by the Finance Act 2011"

and

"publish the report of the review and lay the report before the House."

The measure relates to the effect of the reduction of the AIA from £100,000 to £25,000, and we want to have a review to look at the impact on businesses.

Some hon. Members might be familiar with the issue from previous Finance Bills or from representations that they have had from their constituents and businesses in their constituencies. Others might be coming to it afresh, so I will say a little on the background of the annual investment allowance. It was originally introduced in the Finance Act 2008 by the then Labour Government and had been announced in the 2007 Budget. It was part of a package of reforms to enhance international competitiveness, to encourage investment and to promote innovation and growth. The allowance replaced the first-year capital allowance and was introduced at a level of £50,000. At that stage, it was made available to businesses regardless of their size or legal form, which essentially meant that 100% of expenditure on general plant and machinery other than cars, up to the £50,000 limit, could be offset against taxable profits. The measure took effect in April 2008 and aimed to support all businesses in investing for growth. From April 2008, businesses were able to offset 100% of expenditure on general plant and machinery up to the £50,000 limit against taxable profits in any given year. From April 2010, the limit was increased to £100,000. The papers produced at that time stated that the policy intention was

"to support start-ups and small and medium sized enterprises... to position the UK as a leading centre for research and innovation, and to ensure that the UK is equipped with the infrastructure it needs to be successful in a low-carbon economy".

We might be tempted to go off on a tangent by asking what is meant by success in a low-carbon economy, but I will resist that temptation.

The Chair: Very wise.

Cathy Jamieson: I am sure it is wise to resist any temptation to digress into such discussions this morning.

In June 2010, the AIA was reduced to £25,000 with effect from April 2012. The Chancellor said that the impact of the reduction from £100,000 to £25,000—I hope people are still with me—would be limited. He said:

"Over 95% of businesses will continue to have all their qualifying plant and machinery expenditure fully covered by this relief."—[*Official Report*, 22 June 2010; Vol. 512, c. 175.]

Her Majesty's Revenue and Customs tax information impact note at the time stated:

"Over 95 per cent of businesses are expected to be unaffected as any qualifying capital expenditure will be fully covered by the new level of AIA".

The note also stated that

"between 100,000 and 200,000 businesses will have annual capital expenditure of over £25,000".

Many businesses and supply chains were affected by the changes. The information note published on the reduction to the AIA stated:

“This measure is part of the package of corporate tax reforms announced at the June Budget, which includes the phased reduction in the main rate of corporation tax (CT), intended to create a competitive corporate tax system and to support enterprise and long-term economic growth... The AIA is reduced from £100,000 to £25,000 to refocus the simplification and cash-flow benefits it offers on smaller businesses.”

Our questions are on how the decisions made then and subsequently suggest that that was not the correct approach to take at the time. That is why we want to consider the impact in more detail.

When the reduction in the AIA was first mooted, there was a fair amount of criticism. The Institute for Fiscal Studies commented:

“The losers would be those firms with capital intensive operations—with long lasting equipment and machinery—that currently benefit most from the capital allowances. While this is likely to apply more to firms in the manufacturing and transport sectors it may also be true for some capital intensive service sector firms.”

A senior economist at EEF, the manufacturers’ organisation, voiced concerns. He said:

“Reducing the corporation tax rate over time was in principle the right course of action.”

We disagree on that, but he continued:

“But financing it, in part, by cuts to investment allowances will be a heavy price to pay, especially for smaller companies.”

Ian Mearns (Gateshead) (Lab): I have been working with small and medium-sized enterprises in my constituency and the surrounding area through the Industry and Parliament Trust programme. The concerns that my hon. Friend has outlined have been entirely reflected by companies, particularly those in the small and medium-sized bracket. The north-east of England is peculiar in relation to the UK economy, because so many businesses fall into that bracket. About 136,000 businesses are registered in the north-east of England, but only 1,000 have more than 1,000 employees. Therefore, we have a huge number of businesses in the small and medium-sized bracket, which reflect my hon. Friend’s concerns.

Cathy Jamieson: I note that my hon. Friend describes the north-east as “peculiar”. That is not a term I would ever use for our friends in the north-east. He very accurately reflects the position across Scotland and other parts of the UK, where SMEs are the lifeblood of local communities. They are the people who have a commitment and a connection to local areas and are rooted in the local communities and employ people locally. We want to ensure that they are part of the successful growth agenda that we want to promote.

I will not digress further than to say that that relationship and what is happening in my hon. Friend’s constituency in the north-east and in mine in Scotland, and the measures we need to get growth back on the agenda to support small businesses, are absolutely the same. That is why it is right for us to campaign for Scotland to remain part of the UK and to forge those closer links across the rest of the UK in the business context.

Ian Mearns: There is one particular peculiarity about the north-east economy. In manufacturing terms, it is the only region of the UK that has a balance of trade surplus—more than £5 billion annually. Of course, a lot

of that is tied up in Nissan and its supply chain. That is a very important part of the sector. Nissan employs 6,500 people and the supply chain employs more than 25,000.

Cathy Jamieson: My hon. Friend once again makes a valuable point. I know the importance of the supply chain in that area. We want to see that positive story repeated in other parts of the UK, and to continue in the north-east.

The Opposition’s concerns about the measure relate to the £25,000, the £250,000 and subsequent changes. From the June 2010 Budget to the Finance Bill 2011, the AIA was reduced from £100,000 to £25,000. It was increased in the autumn statement 2012 to £250,000 from January 2013. In the Budget speech of 2014, the Chancellor said that

“99.8% of businesses will get a 100% investment allowance. Almost every business across Britain will pay no up-front tax when they invest in the future. It costs £2 billion in the short term, so when we say that we are going to get Britain investing and to back growth around the country, we mean it.”—[*Official Report*, 19 March 2014; Vol. 577, c. 790.]

11.45 am

Let us go back to the Treasury position on the permanence of the increase to £250,000. That provision was described during the proceedings on the Finance Act 2013 by the then Economic Secretary, who has now moved on to greater things. Hon. Members who have been on previous Bill Committees with me will know that, on a number of occasions, I have sought assurances from Ministers on the basis that Ministers come and Ministers go. Sometimes they go even during the course of Bills. Of course, we are delighted to have one Minister who has seen the process through here today with all that experience. I am sure he will remember that the then Economic Secretary, during the course of proceedings on the Act, set out the Government’s reasons for the increase being time limited. It is important to quote the then Economic Secretary so that we can probe the Minister, who has seen consecutive Bills through, and hear his response. The then Economic Secretary said:

“We recognise that the change follows quite soon after the decrease in the annual investment allowance to £25,000 that was announced in the June 2010 Budget and implemented in the Finance Act 2011, which took effect from April 2012. The Government’s central position has not changed and remains that, in general, a lower corporation tax rate with fewer reliefs and fewer allowances will provide the best incentives for business investment, with the fewest possible distortions. That is why we have announced a further reduction in the main rate of corporation tax, as we discussed earlier, from April 2015 and is also why the current 10-fold increase in the maximum annual investment allowance is time limited rather than permanent. We feel strongly and recognise, however, that the particular challenges that businesses face in the current economic climate make positive action by the Government to support and encourage increased investment in the short term both appropriate and highly desirable, which is why we are introducing the temporary measure.”—[*Official Report*, Finance Public Bill Committee, 16 May 2013; c. 145-146.]

Again, I recall that there was a lot of debate at that time about whether the cut in corporation tax did very much at all, if anything, to assist small and medium-sized enterprises and small businesses, and that sector generally, or whether different measures could have been taken. The Chancellor then announced the expansion of the AIA in the 2014 Budget, stating that the allowance would return to £25,000 after 1 January 2016.

Nic Dakin (Scunthorpe) (Lab) *rose*—

Cathy Jamieson: I shall ask the Minister some questions to which I am sure he will be able to respond after I take an intervention from my hon. Friend.

Nic Dakin: I served on that first Finance Bill Committee and argued strongly against the cut in capital allowances that it carried through. I am pleased that the Government have now gone to plan B in this economic policy, as they have in many other economic policies. I agree with my hon. Friend that pushing hard to find out why the measure should be temporary and not more permanent is key—it is a key point in particular for the steel industry and for other foundation industries that I represent.

Cathy Jamieson: I thank my hon. Friend for that comment, which links to some of my questions to the Minister. It would help if the Minister said whether he and his Government agree with the Chartered Institute of Taxation that the constant changes to the amount of AIA, together with complicated calculations, creates uncertainty and a cost for businesses, which will, of course, have to take professional advice to navigate the statutory requirements. No doubt some will be happy to offer such advice at a cost. None the less, it can be difficult for businesses to negotiate their way around such requirements when they want to get on with the core business of manufacturing, job creation, and so on.

Ian Mearns: On that point, another peculiarity of the north-east economy is its remoteness from readily accessible venture capital to invest in business—that has been outlined to me by businesses in the area. Unfortunately, that marks out the north-east of England. In addition to those uncertainties and the changes in the allowances, the latest of which are welcome, there are continuing problems in terms of businesses borrowing from banks, even for businesses with sound business plans and a footing on which to borrow.

Cathy Jamieson: My hon. Friend again makes a powerful case. He is a strong advocate for support for the north-east. I know that he also recognises the wider implications for the rest of the country. I am sure the Minister will want to respond on the issues in my hon. Friend's local area.

Just to remind the Minister, I want to know whether the Government agree with the chartered institute that constant changes cause uncertainty and potential problems. I will say a little more about the context for that, but I also want to ask the Minister, in the interests of time and to get some degree of simplicity and stability, whether the Government will commit to examine ways in which the more generous levels of AIA entitlement can be made both permanent and less complex.

We have tabled new clause 5 because we think lessons can be learned from how things were done and the impact on businesses. If those lessons are there, they should be learned from, and we should try to make life as simple and straightforward as possible for the businesses that want to get on, invest, create jobs and support their local communities, as well as make a contribution to the UK economy.

David Rutley (Macclesfield) (Con): The hon. Lady makes a good point that it is important to have certainty in the business environment if at all possible, but does she agree that it is critical to bear in mind the principles of fiscal responsibility and affordability before we put forward a programme?

Cathy Jamieson: I absolutely understand the hon. Gentleman's point on fiscal responsibility. Of course that is important, and it is something that the Opposition take seriously. However, the nub of the matter that we are discussing is the best way to support businesses as part of a wider approach to fiscal responsibility.

Businesses need a degree of certainty to make investment decisions—I am sure all hon. Members have heard that from their local businesses of whatever size and scale. We know that, due to the difficulties in the economy, many businesses have put off or taken decisions not to invest. They are waiting to see what will happen with the economy and taking a cautious approach. We want to ensure that they are able to take things forward. The question, therefore, is whether the change, which was justified as being part and parcel of the corporation tax cut, is the right way to help businesses.

The Exchequer Secretary to the Treasury (Mr David Gauke) *rose*—

Cathy Jamieson: I am sure that the Minister will now enlighten us on that point and give the answer.

Mr Gauke: I will respond more fully to the hon. Lady's points in a moment, but I want to follow up on her statement on the importance of stability and certainty in the tax environment. How does she reconcile her comments with the Labour party's policy on a range of matters, particularly the energy price freeze?

Cathy Jamieson: The Minister does not appear to support the energy price freeze, but that is exactly the kind of stability and certainty that people in the world out there are looking for. They want to know exactly what they will spend over time. The proposal for an energy price freeze has proved popular. Also, the Opposition's intervention in pushing for it has already meant changes in the behaviour of some of the energy companies. That, surely, can only be a good thing.

I will try not to take any further bait from the Minister on that and will return to the business reaction when the changes to the AIA were announced. Although business groups welcomed much of what was announced at the time, the editor of *Taxation*, Mike Truman, was critical of the way in which businesses had to calculate the value of the allowance when their accounts spanned the date on which the AIA reverted to £25,000. Those concerns are on the detail and consequences of the policy as much as on the general principles, and it is important to look at what happens in practice. Mike Truman said:

“Turning to capital allowances—give me strength.”

Those are fairly strong words. He continued:

“For corporation tax rates, the government acknowledges the need for certainty, even though companies are subject to the vagaries of the economy in making profits. Their plant and machinery expenditure tends to be much more tightly planned, but this chancellor and his predecessor have delighted in making the annual investment allowance as unpredictable as possible.”

He is having a bit of a go at everybody about that. He described the situation:

“At various points between 2008 and 2014, the AIA will have been £50,000, £100,000, £25,000, £250,000 and £500,000. In January 2016 it drops back down to £25,000, unless the chancellor decides to meddle again next year. The transitional rules make it far worse. Look at the bottom of page A33 in the main Overview of Tax Legislation and Rates... With a March year end, a company can buy machinery on 31 December 2015 for £381,250 and still get full AIA if that is the only purchase in the period. Wait a further day until 1 January 2016 and you get...no, not £25,000” but “£6,250.68”.

There are concerns about the constant changes and their impact on businesses, which are trying to plan ahead. We must make the system as simple as possible to understand, to ensure that businesses do not face what various organisations have described as the year end question—it is difficult for them to establish which allowances and entitlements apply to them.

I do not want to pursue the broader issues further at this stage because it is important to give the Minister the opportunity to reply. I reiterate that, in new clause 2, we are calling for a review to trigger a process by which the impact of the change can be looked at and the experience of business can be taken on board. Those matters can be brought before Parliament and discussed further in advance of the Finance Bill next year—who knows what that will bring?—so that we can start to get to the nub of the problems that businesses face. That will enable us to do everything that we possibly can to enable those businesses to invest, to create the jobs that we want and to contribute to growth.

As my hon. Friends have mentioned, different issues exist in different parts of the UK and they must be addressed. The nub of the matter is how we make AIA simpler, how we provide a degree of certainty and how we ensure that we have a fair system that supports small businesses as well as larger corporations. People sometimes feel that large corporations get more than their fair share while small businesses are suffering.

Mr Gauke: It is a great pleasure to welcome you back to the chair this morning, Mr Streeter, and to welcome the hon. Member for Kilmarnock and Loudoun to the Opposition Front Bench for her first contribution to the Committee’s proceedings.

Clause 10 and schedule 2 double the amount of qualifying expenditure eligible for the annual investment allowance to £500,000 until 31 December 2015. The clause is designed to stimulate growth in the economy by providing an additional temporary incentive for businesses to invest in plant and machinery. It will increase the net present value of capital allowance to investors in plant and machinery and will provide a valuable cash-flow benefit likely to be of most help to small and medium-sized businesses.

12 noon

The doubling of the AIA has been warmly welcomed by industry, with the CBI describing the measure as a “shot in the arm for many medium-sized businesses”.

EEF, the manufacturers’ organisation, notes that it will offer

“a big boost to spending on modern plant and machinery. It will capture more of manufacturers’ investment on new equipment and technology which are key to a shift in our productivity performance.”

Let me set out some background to the clause and schedule, although the hon. Lady has already done much of that. Since 2010, all major business taxes, including corporation tax, fuel duty, employer’s national insurance contributions and business rates, have been cut. Investment incentives such as the patent box and the above-the-line R and D credit have been introduced. By 2016, those measures will total £11 billion of benefits to businesses in the United Kingdom. Our approach is working, as business confidence is rising. Business investment has grown for four consecutive quarters for the first time since 2007. The measures are expected to increase business investment by between 2.5% and 4.5% in the long term, which is equivalent to between £3.6 billion and £6.2 billion in today’s prices.

According to HMRC surveys, nine in 10 businesses say that these reforms have had a positive impact on UK competitiveness, but we recognise that there is still a long way to go before investment fully recovers. The changes made by clause 10 and schedule 2 enable companies and unincorporated businesses, regardless of their size, to reduce their taxable profits by 100% of their expenditure on qualifying plant and machinery up to £500,000 in each of the years 2014 and 2015. That effectively accelerates the tax relief on expenditure between the current threshold of £250,000 and the new maximum of £500,000. It is estimated that the new £500,000 annual investment allowance limit will cover the qualifying annual investment by 99.8% of businesses in the United Kingdom.

Nic Dakin: The Minister says that the measure is seen as a shot in the arm for business, so does he now, with hindsight, think that the Chancellor made a mistake by making the reductions he did in the early years of this Government to the AIA?

Mr Gauke: No, I do not. We have to remember the context of the 2010 position, when our corporation tax rate was 28%, which was no longer a competitive rate in an environment in which other countries had been cutting their rates. Our priority was to reduce the rate of corporation tax, and I believe that we were absolutely right to do that. Doing that has contributed significantly to the sense that the UK now has a very competitive business tax system. The plans that we set out in 2010 involved reducing the rate from 28% to 24%.

As a Government, we have, of course, gone on to do more than that. Next April we will have a rate of 20%, which will be the joint lowest in the G20. In that environment, and having achieved that significant milestone, we rightly looked for what else we could do to assist businesses. We have to remember that the 2010 changes to the AIA were made in the context of a wider package that heralded the most significant reduction in corporation tax rates we had seen for many years, which undoubtedly contributed towards people’s sense that the UK now has a much more competitive tax system than it did in 2010.

Raising the threshold will encourage businesses that currently invest less than £250,000 to increase their investment so that they benefit from the additional relief. Such support for businesses will encourage them to take advantage of new technologies and opportunities. The Office for Budget Responsibility has reported that

[Mr Gauke]

the measure will bring forward more than £1 billion of investment in plant and machinery in the short to medium term.

The measure particularly benefits small and medium-sized businesses. The Government recognise that small businesses are the lifeblood of our economy. Research from the Federation of Small Businesses shows that for every 10 unemployed people who find jobs in the private sector, nine do so through a start-up or small business. The allowance supports businesses throughout the UK. The north-west, south-west and midlands benefit significantly, alongside London and the south-east. The Scottish Chambers of Commerce—this will be of interest to the hon. Member for Kilmarnock and Loudoun—welcomes the policy and notes that it “targets a key need for businesses.”

The allowance also offers support to businesses in all sectors of the economy that invest in plant and machinery. Firms in the transport, communications, manufacturing and agricultural sectors will benefit especially. Such widely spread benefits have led to six in 10 businesses in the UK saying that the introduction of the £250,000 AIA measure in January 2013 supported the competitiveness of their firm.

We have listened to industry’s recommendation that an increased AIA should be extended to 2016, and have not only acted, but gone further by doubling its generosity to offer even more help to firms that want to grow.

Cathy Jamieson: I hear what the Minister is saying about listening to businesses, which is of course important, but has he had any discussions about the suggestion made by the Chartered Institute of Taxation of making software available online to help businesses with some of the complex and detailed calculations that they will have to do to make the best use of the proposals for investment?

Mr Gauke: The hon. Lady mentioned administrative burdens in her speech. There are various options for incentivising investment. We are trying to set up the simplest option to administer that will create the fewest burdens, and the annual investment allowance is relatively simple, although that is not to say that there are not calculations to be done. The Government are lobbied about various proposals for new allowances and measures to incentivise investment, and we believe that an increase in the AIA limit is simpler for businesses to understand. Among the various policy choices it is, in administrative terms, the one that gives businesses a clear signal. It is relatively easy for them to understand, and while I do not doubt that some calculations are needed to implement it, it is simpler than some of the other options.

Mr Iain McKenzie (Inverclyde) (Lab): Is not another message being given to business as well? As the increase is being made in increments, the message is to hold off from investing because a better deal is round the corner.

Mr Gauke: I disagree with the hon. Gentleman. The risk that it is better to hold off does not apply. The arrangement is temporary—it will not apply after 31 December 2015—and we believe that that temporary status will encourage businesses to invest. The OBR says that it will bring forward investment of about

£1 billion. The hon. Gentleman sets out a concern that could apply if we had gone about this in a different way, but our actions will bring forward investment, not put it back. Governments need to be mindful that their policy announcements do not damage investment, but this one will bring investment forward.

Cathy Jamieson: May I follow up on the point made by my hon. Friend the Member for Inverclyde? Perhaps it is not so much about whether there will be a better deal around the corner, but the professional bodies seem to suggest that if businesses decide to invest at, in essence, the wrong time—during a chargeable period—they may not benefit fully. I hope that the Government intend that companies will benefit fully, but negotiating their way through the process is more complex than it needs to be. Some organisations are asking the Government either to look at revising the rules on chargeable periods or to provide further assistance. Are the Government thinking of doing that?

Mr Gauke: We are keen to encourage investment to be brought forward. We can see increases in businesses investment, and the OBR forecasts that business investment will increase by about 8% in 2014 and up to 9.2% in 2015, with continued increases in business investment in subsequent years. At this time in the economic cycle in particular, when confidence is recovering, we want to bring forward investment to maintain the momentum in that recovery. It is absolutely right to make the intervention now.

In terms of the support that we provide for businesses to deal with the measure, guidance is set out in the capital allowances manual, which is available online for businesses and their advisers. We do not have plans for software at the moment, but HMRC is always interested in talking to businesses about how to make dealing with the tax system easier. We will keep that under review.

Ian Mearns: The Minister has not yet spoken about the difficulty faced by small and medium-sized enterprises in gaining capital to invest, especially from the banks. The Office of Fair Trading highlights the fact that banks with which small companies hold an account are using restrictive practices to fetter their ability to borrow from other lenders.

Mr Gauke: The hon. Gentleman makes an important point, albeit not necessarily one directly related to the clause—I suspect that you would say that, Mr Streeter—but the Government are doing everything that we can to assist businesses to gain access to finance: through funding for lending; by ensuring that there are more challenger banks in the sector so that there is more competition; by ensuring that we have a stable macroeconomic policy that does not result in interest rates prematurely rising, thus damaging businesses seeking finance; and, of course, by taking steps to improve equity finance and implementing measures to encourage sources of finance that are not banks. I could go on, but I suspect that you would not want me to, Mr Streeter.

Ian Mearns: The Minister is being untypically ungenerous. If the policy is to maximise the outcome for the economy, which is what I want, a cross-Government

response is needed involving not only the Treasury, but the Department for Business, Innovation and Skills. The Departments should work together to convince the banks that they should stop restrictive practices so that the Government's policy can bear the fruit that they intend.

Mr Gauke: I do not in any way doubt the significance of the hon. Gentleman's point. I was merely querying whether it was directly relevant to the clause; on reflection, he might share my view that it perhaps is not. However, I have listed some of the things that the Government have done and, of course, this measure will help the cash flow of businesses, which is clearly relevant to his concerns.

12.15 pm

Ian Swales (Redcar) (LD): I fully support the policy, which is already having a beneficial effect in my constituency at the £250,000 level. Will the Minister confirm that the effect of the allowance is about time shifting? It is not that the allowance for capital investment will be lost altogether, as people will still be able to write off in later years. Will he also deal with the issue of simplification, which always seems to be largely absent from Finance Bills? The explanatory notes on this clause alone come to 41 paragraphs.

Mr Gauke: My hon. Friend is right that capital expenditure that falls outside the annual investment allowance can be subsequently written off in later years. On complexity, I make a similar point to that which I made to the hon. Member for Kilmarnock and Loudoun. If a Government ever wish to incentivise a particular type of behaviour—in this case, it is one that is supported by Members on both sides of the Committee, which is investing in plant and machinery in the UK—there will be a degree of complexity.

Among the various choices available to a Government when working out policy in this area, the annual investment allowance is a relatively simple one. We received representations on bringing in new types of capital allowances, one of which was, to some extent, something that the previous Government abolished: industrial buildings allowance. However, that would undoubtedly have added more complexity to the tax system than the provisions in clause 10, which increase an existing allowance that is, at heart, quite simple, as 100% capital relief is given for expenditure on plant and machinery. My hon. Friend is right to ask about simplicity, but, on that test, the clause compares well to other policy options for incentivising investment, which I think we all want.

New clause 5 would require the Chancellor to review the impact on business investment of the changes to the Capital Allowances Act 2001 made by the Finance Act 2011. As I have set out, we made it clear in 2010 that our priority was to reduce the rate of corporation tax. Additionally, let us not forget that we cut the rate for small businesses—the small profits rate—from 22%, which was essentially what it was to increase to under the plans that we inherited, to 20%. We also set out how we would cut the main rate from 28% to 24%, which was what we were talking about at that point, and that has helped to increase business investment. Indeed, the dynamic analysis published by the Treasury shows that

a significant percentage of the cost of cutting those rates will be recovered because of improvements in the economy.

We believe that giving a temporary boost to support and encourage more investment is both appropriate and desirable, which was why we introduced a temporary general increase in the annual investment allowance at Budget 2013 and now, a year on, we have gone on to double its generosity. The OBR believes that that will bring forward £1 billion of business investment in the short and medium term.

The Government of course keep all tax policy under review. To conduct an evaluation in the way suggested in new clause 5 would have limited merit, and there are obstacles that mean it would not be possible. HMRC will not have much of the relevant data to conduct such an evaluation for another year. Additionally, it would be extremely difficult to isolate the impact of this change from other factors that influence business investment and subsequent changes in the ex-post data. The changes that we have introduced mean that businesses can invest and grow. That is being demonstrated by UK firms and it reflects the view of the OBR. Given the difficulty of carrying out such an evaluation and a lack of data, however, the review proposed under new clause 5 is not necessary.

The Government recognise the challenges faced by businesses wanting to invest in the current economic environment. We are supporting those that want to invest and grow. The temporary increase in the annual investment allowance will help them to meet those challenges by supporting investment and growth. I therefore hope that new clause 5 will not be pressed to a Division, and that the Committee will support clause 10 and schedule 2.

Cathy Jamieson: It is a pleasure to respond to the Minister. Notwithstanding his remarks, the new clause is important, so we shall press it to a Division at the appropriate time. However, we will not vote against clause 10 and schedule 2.

It was heartening to hear the Minister's support for the Opposition's policies on challenger banks. He also expressed support for alternative finance sectors and for ensuring that a range of opportunities is available to SMEs to allow them to grow, to employ more people on proper contracts and terms and conditions—I am sure that we will deal with that later in our proceedings—and to pay taxes appropriately. However, I shall not stray on to that at this point.

I was a bit perturbed that the Minister did not seem to take on board the point about complexity and the explanatory notes. There are some 41 paragraphs of explanatory notes about the clause. Although I have not counted the number that set out fairly complex calculations and examples, I am concerned about that, especially given the points I made about businesses' entitlements in what is described as the straddling period. The Minister suggested that it should be fairly straightforward for people to go online to get information and to get help from their advisors. That would be fine if the many businesses that may be affected had the capacity, resource and everything else to do that, but many of the businesses that we want to get the benefit of the policy will simply not be in a position to do that easily.

[Cathy Jamieson]

The explanatory notes highlight the problem, because they range from talking about the straddling period to providing examples such as

“four companies in a company group with different chargeable periods of 12 months ending in the financial year 2015-2016 would be required to share a single AIA.”

Another paragraph says:

“individual maximum amounts are as shown in the third column of the table”,

and continues, stating:

“if, say, £500,000 were allocated to Company A, nothing further could be allocated to other companies in the group in this particular year. Alternatively, if...£200,000 were allocated to Company C, and the balance of the greatest maximum was to be allocated to Company D, no more than (£500,000 - £200,000 =) £300,000”—

that part is fairly self-explanatory—

“could be allocated to D in this particular year.”

Committee members will begin to see that these difficulties might be okay for larger companies that employ people to take them through the process and give them advice, but that might not be the case for smaller firms.

When there have to be 41 paragraphs of explanatory notes and when concerns have been expressed by professional organisations in the hope that the Government will listen and consider changes, I would have hoped that the Minister would respond more warmly to our point, rather than simply suggesting that guidance will be in place and that there are no significant plans to change either the software or the rules. We also heard from him that much-used phrase of the Government that everything is kept “under review”. He has heard me say before that keeping everything under review is code for nothing being done in practice to review things proactively.

We tabled new clause 5 as an attempt to ensure that action is taken to look specifically at the impact of what has happened. I heard what the Minister said about HMRC not having the data. Perhaps I misunderstood—he might wish to correct me if I have got this wrong—but I was not sure whether he suggested that HMRC does not have the data yet, or that it will not have the data at all. If it is the former, perhaps he can tell us when such data might be available and when it would be appropriate to carry out such a review. He suggested that it would not be helpful to review the policy in isolation from some of the other initiatives that have been introduced to help small businesses and support the growth agenda, but businesses and professional bodies have expressed concern about how the allowance has operated, so it is perfectly reasonable to say that there must be some kind of learning taken forward to look at how the policy can be developed.

The new clause was tabled, in my usual inimitable and helpful style, so that we could look at the issue in more detail, hear directly from some of the businesses affected and have their concerns taken on board. I might come on to attack Government policy later—I am sure I will—but the new clause was designed to be helpful. It builds on some of the concerns that the Opposition expressed during consideration of last year’s Finance Bill. We anticipated that some of these problems would continue, and we want those concerns to be taken up.

Mr Gauke: Will the hon. Lady give way?

Cathy Jamieson: I hope that the Minister has been inspired to tell me whether the data will be available and, if so, when.

Mr Gauke: I am endeavouring to be helpful to the hon. Lady. New clause 5 would require the review to be published within three months of the passing of the Bill. HMRC will only just get tax return data for accounting periods ending in 2012-13 at the end of the summer. In truth, another year of data would be needed to ensure that the period of the £25,000 allowance was fully covered, so it would be difficult to carry out the review in the time frame she is asking for.

Regarding the explanatory notes, it is not so much that the allowance is complex, but that businesses’ arrangements can be complex. We would all want to address the concern of fragmentation and finding that businesses structure themselves in such a way that they can use the annual investment allowance multiple times. The explanatory notes are in place to prevent avoidance activity, which Members on both sides of the House would support, because that is not what the allowance is designed for.

Cathy Jamieson: I thank the Minister for that clarification. I agree that we would not want to see any avoidance activity, and I understand that explanatory notes, guidance and rules are there to ensure that people do not inappropriately take advantage of any arrangements, as it would not be correct for companies to set themselves up in such a way that they may do that. However, presumably the Minister wants all companies that can benefit appropriately and correctly to have the information that will allow them to do things in a straightforward manner and ensure that their arrangements do not prevent them from doing so.

12.30 pm

We should bear in mind that the policy intention is to encourage investment, growth and development. There is a balance to be struck, as with many things, to ensure not only that we deal with the potential for avoidance, but that companies are able to get the benefits. SMEs are perhaps the companies that are least likely to be able to take up, take forward or be aware of what is in place to assist them, and we want to deal with that.

I hear what the Minister says about when information will be available, and of course it will be important to get the hard data from HMRC but, at the same time, the review under the new clause could be an opportunity to do some work with the businesses that have gone through the process, to get their feedback and to look at what happens in the future. I am disappointed that the Minister does not feel it is worth pursuing that option at this time, but perhaps he is leaving some wriggle room—maybe I am being over-optimistic—to look at things in the future when the figures become available. Professional organisations and businesses feel strongly about this. They have asked questions and made specific suggestions, and no doubt they will be in further communication with him and will wish to pursue some matters further.

We have had a decent discussion and I have made it clear that the Opposition believe that the new clause would act as a trigger to get information and make progress. We have concerns about the complexity of the

measure and about whether people will be able to benefit in the way the Government have outlined. Although we will not vote against clause 10, we intend to press new clause 5 to a Division when the time comes.

Question put and agreed to.

Clause 10 accordingly ordered to stand part of the Bill.

Schedule 2 agreed to.

Clause 12

RECOMMENDED MEDICAL TREATMENT

Cathy Jamieson: I beg to move amendment 4, in clause 12, page 11, line 2, at end insert—

‘(6) The Chancellor of the Exchequer shall, within six months of Royal Assent, publish and lay before the House of Commons a report setting out the impact of changes made to the Income Tax (Earnings and Pensions) Act 2003 by this section. The report must in particular set out—

- (a) the expected beneficiaries; and
- (b) a distributional analysis of the beneficiaries.’.

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

Cathy Jamieson: It is a pleasure to move the amendment and speak to the clause. People probably feel strongly about recommended medical treatment issues and several organisations have commented on how the measure might affect them. In essence, the clause affects employers and employees where the employer pays for recommended medical treatment. It provides for a new exemption for employers from income tax where they meet the cost of recommended medical treatment provided to an employee to assist that employee to return to work after a period of absence due to ill health or injury. It is subject to an annual cap of £500.

The proposed measure means that the medical treatment must be recommended by either the new Health and Work Service or an occupational health service provided or arranged by an employer for the purposes of helping an employee return to work after the period of absence due to injury or ill health. At the moment, expenditure by employers on medical treatment for employees is generally chargeable to income tax, either as a payment of earnings or as a taxable benefit.

The background to the issue relates to the announcement of the £500 exemption for employers from income tax following the decision to abolish the statutory sick pay threshold scheme. I do not know whether hon. Members have been in the same position as I have. Businesses in my constituency have contacted me with concerns regarding the changes, fearing that the burden would fall on them. Perhaps we will discuss that in more detail as we go through the issues in the clause.

The percentage threshold scheme—PTS, as it was more frequently known—compensated employers for higher-than-average sickness absence. An employer was entitled to recover some of the statutory sick pay paid to their employees if the total SSP paid in a tax month was greater than a set percentage of gross class 1 national insurance contributions, and that was the employer’s and employee’s liability for that month. The Government’s rationale for abolishing the PTS was that

an independent review of sickness absence had shown that it had not encouraged employers to manage sickness absence in the workplace.

Businesses have brought a few concerns to my attention. There is concern about the nature of some of the businesses that will be affected, and the scale. Some businesses told me that the changes will not assist them to manage the process of long-term sickness. Many of those businesses employ, in general terms, a relatively small percentage of people, but they are going to be affected. They resented the suggestion that they were not trying to do their best to get people back into the workplace.

Businesses also raised concerns about what the impact would be if they were trying to be loyal to their employees, many of whom had served them over a number of years. They were concerned that the proposal was not only unlikely to help them, but would make it more difficult for them to work with employees to get a return to work. It has been said that the money saved will be reinvested in a new health and work service, the aim of which is to provide an alternative form of support for employers. We are trying to enable employees with sickness absence to return to work more quickly by better managing that sickness absence. The concern about what seems to be proposed here—I am sure that the Minister will wish to respond to this—is that it might encourage the use of private medical treatment by using a tax break. Also, it does not give due account to the opportunities or the support that is needed in many instances for employees and employers to use NHS services. It will be available to certain employees only when an employer chooses to arrange the benefit. Who will take the decision on which employees will benefit from that?

My understanding from the consultation that took place over the summer and the issues raised then is that, originally, the exemption was going to apply only if it was recommended by the new Health and Work Service. My understanding now—again, the Minister will no doubt correct me if I have misinterpreted—is that that has been changed to allow treatment recommended by existing occupational health services. There was concern—I come back to the points made earlier—that decisions or policies, notwithstanding whether they have the best of intentions, do not always take account of the impact on smaller employers. I understand guidance will be made available for such scenarios, but concern was also raised about the levels of exemption, particularly around what might happen in relation to severe or complex illnesses.

Mr McKenzie: My hon. Friend mentions the smaller employers who might find it difficult to implement a rounded approach to sickness absence management. They would find it difficult to put in place preventive measures, whereas larger employers would be able to give health and nutrition advice, and so on. Smaller employers cannot do that, and many private medical insurers would not be interested in taking on such small numbers.

Cathy Jamieson: My hon. Friend again makes a powerful point. We can talk about the whole question of health at work: the ability to intervene at an early stage, identify where there is a problem, assist people to deal with issues and support people with long-term

[Cathy Jamieson]

conditions but who want to be in employment and need reasonable adjustments to enable them to work. All those things are important under the auspices of health at work. One concern that has emerged is whether the exemption is the best way to support both the employer and the employee, because it is not clear whether it provides much incentive for employers, given the minor level of treatments it appears to address, such as physiotherapy.

Charlie Elphicke (Dover) (Con): It seems to me that, as Ministers have said, the matter is about sitting down, supporting people, and saying, "What help and support do you need to make sure this sickness absence is not any longer than it needs to be?" Surely the hon. Lady welcomes the Government's move in that regard?

Cathy Jamieson: I absolutely support the view that if there is a difficulty and someone has a medical condition that requires them to be off work, and it is deemed that they will be fit to return to work, of course employers should sit down with people and look at how best to facilitate that process, but there is concern about how that would work in practice. The policy objective states:

"The Government believes that more can be done to support employees to return to work. Together with the introduction of the Government's new service, to be known as the Health and Work Service, this measure will support the Government's aims to widen access to occupational health treatment and to encourage employers to engage with the well-being of their employees."

To what extent is that about widening access to occupational health treatment? In what context? Is it about being able to access services only in the private sector? Are there opportunities to look within the NHS and for people to access the services available there?

It is not entirely clear who the beneficiaries of this particular measure will be. Can the Minister give us some examples of how the measure will work in practice? We know that there was a consultation, but what assessment has been made of the difficulties faced by employers when monitoring where several payments have been made in respect of an individual employee? As we know, depending on the medical conditions and treatment required, people may be off for a period of time. They may then come back and be off for a further period while continuing treatment. It is not entirely clear how that it is going to work in practice. In fact, it is not entirely clear how the new health at work system is going to operate and encourage the outcome that the hon. Gentleman will no doubt refer to again, of supporting people back into work and dealing with the problems.

12.45 pm

Charlie Elphicke: My key concern is that employers should get people back into work. What used to happen is that people would end up on incapacity benefit where they were more likely to die than recover. That surely has to be condemned. Does the hon. Lady agree that that situation was wrong and that it is better to be proactive, which is what this policy aims to do?

Cathy Jamieson: I am going to choose my words carefully because I understand the spirit of the hon. Gentleman's comments. Of course, there were many instances when people were moved on to incapacity benefit simply because they were not fit to return to

work. There is a whole other area of discussion we could go down about those judgments on people who sometimes after many years of working life get to the point where, no matter the interventions, it will be difficult for them to return to their former jobs and professions full time. Of course we should find ways to support them.

I know from my constituents, as I am sure do other hon. Members, that there is sometimes frustration when people have been off work and are waiting for medical treatment such as access to physiotherapy, but waiting lists are such that they have to remain on lists for longer than they would like. They cannot always finance the opportunity to get treatment themselves and feel at a further disadvantage or they are not entirely sure that their employers are going to be supportive in getting them back to work, perhaps with adjustments to the workplace.

While I accept the hon. Gentleman's comments as a general principle, the important point concerns the detail of how it works in practice. Once again, we see not only individual businesses raising concerns about it, but some of the professional associations. The Association of Taxation Technicians has argued that the qualifying conditions potentially once again discriminate against smaller employers. That is a running theme this morning and I am sure it will come up again.

The Government talk about wanting to support smaller employers, SMEs, start-ups and micro-businesses as well as larger companies. However, the reality is not following the rhetoric. Will the Minister come back with specific details on the steps the Government are taking to ensure that this measure does not bring an additional administrative burden for smaller employers?

I would also like to press the Minister. I am genuinely trying to understand the rationale for setting up the scheme in the way that it has been set up in relation to private medical treatment. I hope he appreciates that I am not making an ideological point. Some of my colleagues might wish that I was. I am actually making a point about the practicalities and how to implement and deal with this. Should not some of the resources be diverted to the NHS, perhaps to offer ways of reducing waiting lists for some of the treatments or to ensure that people could access those treatments, rather than simply being a tax relief for the employers?

I should also like clarity on the point about the company occupational health services now being able to recommend treatment. Are they likely to recommend private treatment rather than the Health and Work Service and NHS treatment? There are a number of issues here which we need to tease out in more detail. On what basis was the level of exemption set at £500? Would that be sufficient for longer-term specialist treatment, such as for stress or mental health issues? Is the measure part of a longer-term plan to remove statutory sick pay for the longer-term sick? What safeguards will be in place to prevent workers from being forced back into work prematurely if they are referred to the Health and Work Service?

We need to explore all those issues in more detail. We need to look at the questions that have been raised by employers and by the professional bodies and to try to ensure that, once again, we do not have unintended consequences either for small businesses or for the people we wish to assist. When the Minister replies on

the level of exemption and the cap at £500, could he tell us what was done to look at the types of treatment that would be available within that cap? Did that include an analysis of the range of treatments that some individuals might require? It might not be only physiotherapy or only something else; a combination of things might be required. What have the Government done to assess that properly and to see whether that cap is the correct one in this context? Does he have any plans to review that?

Mr McKenzie: My hon. Friend mentions the cap of £500. Is she aware of the going rate for physiotherapy and what that sum would cover in treatment?

Cathy Jamieson: I hesitate to offer a complete answer to that because I suspect that in some instances it is a bit like market forces. I know a number of people who have

recently had to have physiotherapy and it was not particularly inexpensive. If people also have to go to chiropractors, for example, additional costs can be incurred. I am sure that the Minister will look at that in some detail when he responds. I also hope that he can tell us what he has done in relation to mental health issues and stress at work, which in many instances require different forms of treatment and different forms of support to ensure that people can return to work and make the contribution that they wish to make. I have probably given the Minister enough questions to consider.

Ordered, That the debate be now adjourned.—(*Amber Rudd.*)

12.54 pm

Adjourned till this day at Two o'clock.

