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)

Sixth Sitting

Thursday 8 May 2014

(Morning)

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Monday 12 May 2014

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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)
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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)
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† Rutley, David *(Macclesfield)* (Con)
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† 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

Thursday 8 May 2014

(Morning)

[Martin Caton *in the Chair*]

Finance (No. 2) Bill

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

Clause 35

Community amateur sports clubs

Amendment proposed (6 May): 12, in clause 35, page 36, line 18, at end insert—

(16) The Chancellor of the Exchequer shall, within three months of Royal Assent, undertake a review into the impact of the changes made by this section to the number of community amateur sports clubs in the UK.

(17) The report referred to in subsection (1) above must in particular examine—

(a) the value of company profit donations to community amateur sports clubs over the last four years;

(b) the amount of Class 1 national insurance contributions paid by community amateur sports clubs, and

(c) the average cost to community amateur sports clubs in order to retain their CASC status.

(18) The Chancellor of the Exchequer must publish the report of the review and lay the report before the House.'.—*(Catherine McKinnell.)*

11.30 am

Question again proposed, That the amendment be made.

The Chair: I remind the Committee that with this we are discussing clause stand part.

The Financial Secretary to the Treasury (Nicky Morgan): It is a pleasure to serve under your chairmanship this morning, Mr Caton.

We were discussing corporate gift aid and community amateur sports clubs. The changes made by the clause will extend charitable donations relief to companies that give money to community amateur sports clubs. The new relief will encourage and reward more donations to help CASCs to provide the benefit of sport to their local communities. The Government are committed to maintaining and building on our sporting legacy following the success of the London 2012 Olympic and Paralympic games. CASCs are a vital building block in securing the legacy.

CASCs are community-based member sports clubs that are registered by Her Majesty's Revenue and Customs. Their role is to increase and sustain sports participation while promoting volunteering, community building and social inclusion. I welcome the comments made by the hon. Member for Gateshead on the importance of community amateur sports clubs and the role they play. The role of a CASC is to encourage wide participation, in particular by people who cannot afford to participate in sport without special help. CASCs can receive certain tax reliefs, including limited exemptions from corporation tax and 80% relief from business rates. More than 6,400 grass-roots amateur sports clubs have been registered as CASCs since the scheme's introduction in 2002.

HMRC carried out a review of the qualifying conditions for the CASC scheme in 2011. It found that the original legislation was unclear and caused confusion for clubs. As a result, the Government decided last year to introduce new rules that clubs must comply with to be eligible for CASC status. The rules will be clearer and easier for volunteer-run clubs to understand and apply. The Finance Act 2013 included some of the new rules and provisions to make more detailed regulations to deliver the remaining new rules. A consultation on the detailed rules was held last summer. One of the proposals in the consultation was to introduce tax relief for companies that give money to CASCs. That would align the treatment of gifts of money to CASCs with the rules for donations to charities. Companies have been able to claim tax relief on gifts of money to charities under what is sometimes known as corporate gift aid for many years.

The hon. Member for Newcastle upon Tyne North asked why the measure relates only to gifts of money and does not extend the relief to gifts of land and shares to a CASC, as is the case for charities. There are clear differences between CASCs and charities, so it is right for the rules on tax relief to take account of the differences. For example, CASCs are subject to less regulation and scrutiny than charities are, and the lighter regulation is balanced by CASCs' more limited access to tax reliefs.

Mr Iain McKenzie (Inverclyde) (Lab): As the Opposition have highlighted, gifts can be in forms other than straight cash—for example, land may be offered to an amateur sports club. Also, some businesses may wish to support more than one amateur sports club and therefore to sponsor a facility such as an all-weather pitch and access to it. Would those businesses still be allowed to pick up the tax relief, bearing in mind that we are not talking about a straight cash transfer, but cash to facilitate access to such facilities for their sport?

Nicky Morgan: I thank the hon. Gentleman for his intervention. My understanding—I will be happy to return to this later if I am wrong—is that the relief is only on gifts of money. As I am explaining, there is a difference between charities and community amateur sports clubs. In return for lighter regulation of CASCs—I will come to the administrative burden that we do not want to impose on sports clubs—donors can get tax relief only on money, not on gifts of land or shares. I expect that a donor would be happy to give money towards building new pitches, for example, rather than donating the land on which the pitches were situated. If I have got that wrong, I will happily come back to the hon. Gentleman.

Community amateur sports clubs can, if they choose to do so, arrange their affairs so as to qualify as charities, but they would need to register as charities. Those that do so will get all the tax reliefs to which a charity is entitled. As the hon. Member for Newcastle upon Tyne North mentioned, the proposal to extend corporate gift

aid to CASCs has been widely welcomed, including by the Association of Taxation Technicians. The Government announced in November that they would implement the proposal in this Finance Bill. Draft clauses were published for consultation in December and there were no substantive suggestions for change. Indeed, the Association of Taxation Technicians described the proposals as

"a proportionate response to the competing needs of sustaining sports participation whilst preventing those reliefs from being used in a way that the Government had never intended."

Let me turn to the proposed changes. Subject to meeting certain conditions, companies will be able to claim tax relief on donations of their profits made to a CASC on or after 1 April 2014. The CASC will be exempt from corporation tax on such donations, provided that they are used by the CASC for wholly qualifying purposes, such as providing facilities for eligible sports and encouraging people to take part in them. To prevent abuse of the new relief, any donation that is not used for wholly qualifying purposes will result in the CASC being liable for corporation tax. This measure will enable trading company subsidiaries of CASCs—for example, a company that provides catering services for the club—to donate its profits to its parent CASC free of tax.

Subsidiary trading companies of a CASC could be vulnerable to abuse. That might happen where the company was under the control of the CASC's officials without full scrutiny by the wider CASC's members. To counteract that risk, the new rules include targeted and proportionate anti-abuse provisions to discourage manipulation of the subsidiary company.

The hon. Member for Newcastle upon Tyne North asked me to reassure volunteers, organisers and members of CASCs about the approach that the Treasury and HMRC are likely to take in enforcing the rules. I am happy to do so. HMRC will write to every CASC when the new rules are introduced to explain what they need to do. It will also publish clear guidance to explain the new rules. Anyone who needs additional help will be able to get it from HMRC. The national governing sports bodies will also provide support to their member clubs to help them to decide what to do. In addition, clubs will have 12 months to make any necessary changes.

Amendment 12 would require a review of the clause's impact to be carried out within three months of Royal Assent. I will ask the hon. Lady to withdraw her amendment because, most importantly, the terms of the review would create a huge and unnecessary administrative burden on the clubs themselves. The information on corporate donations received in the past four years would have to be provided by those clubs, as no one else has that information: clubs and companies have not been required to provide such information to HMRC. Therefore, every club—most clubs are run completely by volunteers—would have go through their records for the past four years to extract information about donations. I am sure that Opposition Members would not want to put clubs through that exercise. We want to make it easier, not harder, for the hard-working and dedicated volunteers of CASCs to get on with their real work in their communities: providing facilities for, and promoting participation in, sport.

I appreciate the hon. Lady's concern about the potential administrative burdens on clubs that need to make changes to remain within the CASC scheme once the new regulations are introduced. However, the alternative to this change in the rules was to enforce the old rules, which, as I have said, were unclear and would have meant some clubs leaving the scheme altogether. All CASCs will be able to remain as CASCs under the new rules, although some may have to make some changes to stay within the rules.

We do not know how many clubs will be affected by the new rules. HMRC does not collect detailed information about CASCs because that would create another unnecessary administrative burden on the clubs. Most clubs do not need to make a tax return every year and HMRC estimates that most CASCs will not need to do anything. They are CASCs under the old rules and they will continue to be so under the new rules.

It is not possible to say what the administrative cost of the change will be. Clubs that need to change will need to do different things depending on their individual circumstances. The costs will mainly be limited to reading the new guidance and confirming that the club meets the scheme's rules in practice. For example, some clubs will need to ensure that they offer low-price memberships for those on low incomes.

I appreciate the concerns that the hon. Lady raised about rugby clubs and others that use extra income from trading activities to help to support their sporting activities. Such income helps to ensure that the clubs are accessible to the whole community, and I believe that should continue. We have therefore increased the trading exemption from £30,000 to £50,000 to allow a CASC to carry out the same amount of trading with non-members as charities. The purpose of the CASC scheme, however, is to promote and facilitate sport. If a club carries out extensive trading with non-members, it needs to assess whether its main purpose is to play sports or to generate income through trading. In the latter case, the club cannot be a CASC. The new rules, which I will come to shortly, strike a fair balance on that.

Clubs with high levels of trading—above £100,000 a year—will need to decide whether they wish to remain in the CASC scheme. Some may decide to follow the example of those CASCs that have already set up subsidiary trading companies. The measures will assist such clubs because the subsidiary companies will be able to claim tax relief on any profits they give to the CASC. We do not know how many more clubs will opt for CASC status as a result of the changes. HMRC will be working with the Department for Culture, Media and Sport, Sport England and the respective sports bodies in the devolved nations, and the national governing bodies of various sports to promote the CASC scheme to the sports sector over the next few years. There is a great deal of potential out there and we want to encourage clubs to consider applying for CASC status.

Although the clause does not have any impact on national insurance contributions, as the hon. Lady mentioned on Tuesday, clubs with employees will be paying less in class 1 employer contributions this year. The employment allowance will reduce their bill by up to £2,000 and provide a welcome boost to clubs with employees. The amendment is unnecessary and would create a heavy and unwelcome administrative burden on clubs. I therefore ask the hon. Lady to withdraw it.

To answer the hon. Member for Inverclyde, there is no tax relief on sponsorship for companies that sponsor CASCs or charities. Companies may be able to get tax relief if the sponsorship is for advertising—that applies

[Nicky Morgan]

to both CASCs and charities. Companies can get tax relief on gifts of land to charities, but not to CASCs. That process can be quite complicated, because land valuations and legal transfers are needed. As I have mentioned, CASCs are lightly regulated and would experience an administrative burden if we expanded the donation scheme. That is why the scheme has been limited to money. I hope that answers his questions.

The Government are committed to promoting a healthy sports sector that provides everyone with the opportunity to enjoy the benefits of participating in sport. We are determined to continue building on the Olympic legacy by promoting grass-roots sports, and CASCs have a vital part to play in their local communities in helping us to realise that ambition. Fundraising and financial support are very important to CASCs. Even with the generous tax reliefs available to them, many clubs struggle to survive on their current funding, so any additional financial support they can receive from donations will be welcome. We hope the measures will provide CASCs with a new means of fundraising and encourage companies to donate more to their local CASCs.

Catherine McKinnell (Newcastle upon Tyne North) (Lab): I thank the Minister for her thorough response to the concerns we have raised. However, the amendment asks only for the potential impact of the changes to be monitored and kept under review. That is reasonable, given the impact the clause could have on CASCs, which are vital in so many communities. We will therefore be pressing the amendment to a vote and urge all hon. Members to support it.

Question put, That the amendment be made.

The Committee divided: Ayes 13, Noes 18.

Division No. 5]

AYES

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

NOES

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

Question accordingly negatived.

Clause 35 ordered to stand part of the Bill.

Clause 36

CHANGES IN COMPANY OWNERSHIP

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

11.45 am

Catherine McKinnell: We now come to some rather technical clauses. Clause 36 contains provisions on changes in company ownership. The Chancellor announced in the 2013 autumn statement that the Government would introduce measures to bring the UK loss relief rules on corporation tax more up to date with modern commercial practice. The clause therefore amends and supplements existing corporation tax provisions to ease the rules restricting the availability of relief for corporation tax trading losses when companies change ownership.

I will leave it to the Minister to outline the Government's reasoning for bringing forward the clause, but I have one or two brief questions to put to him for clarification. The tax information and impact note highlights how these measures will benefit businesses, yet does not provide much more information than that. It states:

> "Although there will be a negligible one-off cost of familiarisation, the measure will provide greater flexibility to make company ownership changes so will be welcomed. Overall, the impact of the measure on businesses and civil society organisations will be negligible."

Will the Minister elaborate on the tax information and impact note and inform the Committee how many investment businesses, following ownership changes, would have avoided the loss relief restrictions had they previously been relaxed? It would be useful to get a greater understanding of how many investment businesses might benefit from the changes in the clause, based on previous trends.

On the proposed new section, which is designed to prevent abuse of the easement, it would be helpful if the Minister informed the Committee how many companies have previously been caught out by loss relief restrictions where a new holding company has been inserted on top of a group of companies. Clearly the provisions were originally intended as anti-avoidance measures. Indeed, the Government introduced three new clauses to last year's Finance Bill to strengthen anti-avoidance measures on loss reliefs from company ownership changes. Considering that, and the fact that the tax gap rose last year to £35 billion, will the continuity rules, which will continue to apply to holding company shareholders throughout the transaction, be sufficient to prevent abuse, as the tax information and impact note so confidently claims?

The Exchequer Secretary to the Treasury (Mr David Gauke): It is a great pleasure to serve under your chairmanship this morning, Mr Caton.

Clause 36 makes changes to company losses anti-avoidance legislation, which potentially restricts a company's ability to set brought-forward trading losses against future profits if the company changes ownership. There are two changes to the rules, both of which bring the legislation up to date with modern commercial practice. Let me first set out a little background to the clause. The rules that potentially restrict brought-forward losses being used after a company changes ownership have not seen significant amendment for many years. However, modern commercial practice involves more complex restructuring arrangements and increases in capital than were common in the mid-1990s. More flexibility in the rules was required to prevent genuine commercial arrangements from being caught by the legislation, and this clause is the result.

The changes that the clause makes are twofold. The first will allow a holding company to be added to the top of a group structure. Under current legislation, such a transaction would be treated as a change in company ownership and so potentially trigger the anti-avoidance rules. The second change will allow a company with investment business to increase its capital after a change of ownership by a much greater margin before the anti-avoidance rules are triggered. The changes will have effect for changes of ownership on or after 1 April 2014. This will affect any company changing ownership, especially those with investment business. As the tax information impact note makes clear, the cost to the Exchequer will be negligible.

The hon. Lady essentially raised two points. First, she asked about the number of businesses likely to be affected that were previously caught up by the legislation, despite having commercial arrangements that were not intended to be caught up by it. The view in the Treasury and HMRC is that we anticipate that this will be a relatively small number. I cannot give any more information than that at this stage. If it is possible for us to determine more precisely how many businesses were caught up, I will certainly write to the hon. Lady, setting out those details. At the moment, we are talking about a relatively small number.

Secondly, the hon. Lady asked whether the measure could open up an opportunity for avoidance and whether we were weakening anti-avoidance legislation. Let me reassure her that we are confident that there is no weakening of the intended scope of the change of company ownership rules in part 14 of the Corporation Tax Act 2010. The situations that the clause would deal with are commercial, but could be caught by the rules as they stand, which would be an unintended consequence of the rules.

Finally, let me correct a comment made by the hon. Lady. As far as the tax gap is concerned, the most recent numbers that are available show that it fell as a percentage of liabilities. I am sure that she would not want to give an impression to the contrary.

Catherine McKinnell: Just to clarify exactly what I said, the figure has increased to £35 billion. There was nothing inaccurate in my comment.

Mr Gauke: For the sake of completeness, I am grateful for the hon. Lady's intervention. I think her point was that although there was a cash increase of £1 billion, the tax gap fell as a percentage of tax liabilities. I am glad that we have got that clarified and on the record.

Question put and agreed to.

Clause 36 accordingly ordered to stand part of the Bill.

Clause 37

TRANSFER OF DEDUCTIONS: RESEARCH AND DEVELOPMENT ALLOWANCES

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

Catherine McKinnell: This clause is similar to the previous one; it relates to provisions introduced in the Finance Act 2013 for loss relief rules in respect of corporation tax. That Act introduced three new sections—29, 32 and 33—to the Corporation Tax Act 2010, which sought to close down various loopholes in the loss relief rules because, as Her Majesty's Revenue and Customs' technical note at the time made clear, HMRC had seen a marked increase in companies entering into arrangements to circumvent these rules.

The tax information and impact note accompanying clause 37 states:

> "The anti- loss-buying rules had a more significant adverse impact on RDAs than intended. The rules catch situations where a company does preliminary capital work in the furtherance of research and development, but does not reach the point of trading, and then is sold on to trading groups. Before the rules introduced by FA 2013 the trading groups could claim the Research and Development Allowances under Part 6 Capital Allowances Act 2001 (CAA 2001).
>
> Although these rules contain an avoidance motive test their introduction has caused uncertainty and risks undermining capital investment in research and development."

The impact note goes on to suggest that representations were made by business following the introduction of the loss-buying rules in the Finance Act 2013.

The clause amends the definition of deductible amounts in section 730B of the Corporation Tax Act 2010 to exclude an expenditure of a trade to the extent that it arises from research and development allowances. Although the tax information and impact note suggests that the Exchequer impact of the changes will be negligible, it describes the predicted benefits to those companies that presumably have been inadvertently caught by the rules introduced in the Finance Act 2013, stating:

> "For companies involved in pre-trading activity who make capital expenditure on research and development this will preserve the value of their investment on the sale or partial sale of the company.
>
> For those who rely on the preliminary capital research and development work of unconnected companies this will enable them to benefit from the expenditure made on their behalf."

The concern was raised that the changes were necessary because there had been significant uncertainty among taxpayers as to whether the rules restricted RDAs on a transfer of a company in circumstances where that company had undertaken preliminary research and development work but did not reach the point of trading.

In light of such concerns, will the Minister provide more detail on what representations on research and development the Government received from interested parties and businesses? Will she also describe the extent to which the Government believe the anti-avoidance loss-buying rules impacted on research and development? Have the Government made any assessment of the impact on jobs and economic growth—in general and in the R and D sector in particular—following what were clearly inadvertent effects? Indeed, will she confirm whether the Government were made aware of the potential adverse impacts on research and development before the changes were implemented last year?

Nicky Morgan: I thank the hon. Lady for those questions, which I will come to. The clause makes changes to ensure that tax allowances for certain capital expenditure on research and development are not denied by the Finance Act 2013 anti- loss-buying rules, reflecting the Government's continuing commitment to making the UK a home for innovation and discovery through investment in R and D. Hon. Members may recall that in the previous Finance Act we extended the loss-buying rules to curb the sale of tax losses. The rules concentrated on expenditure made but not yet recognised for tax.

[Nicky Morgan]

As the hon. Lady mentioned, there has been concern within industry that that change could have an unintended adverse impact on start-up R and D companies. Such companies tend to be capital-intensive and involved in activities that may not lead to the point of trading. Previously that was mitigated by the knowledge that large, existing trading concerns could benefit from the unclaimed R and D tax allowances, but changes to the anti-loss-buying rules could mean that the buyer would not benefit from certain key expenditure of the start-up. That would reduce the value of the new companies and thereby increase the risk for investors.

Although the rules in the Finance Act 2013 contained an avoidance motive test, the Government are keen to remove any uncertainty that could undermine capital investment in research and development. The changes made by the clause will allow a company with unclaimed research and development allowances to claim tax relief for the company's capital investment after it has been acquired by new owners. The measures have effect for changes of ownership on or after 1 April 2014.

Research and development allowances give relief for certain capital expenditure on R and D projects, and would create a trading loss if the company failed to return a profit. The changes will mainly affect small, capital-intensive start-up companies involved in research and development, but other companies in similar circumstances could also benefit. As the hon. Lady has highlighted, and as is made clear in the tax information and impact note, the cost of the change is negligible, reflecting our confidence that there is no weakening of the intended scope of the loss-buying rules, but as she said, and as I have said before, the changes are intended to remove uncertainty about the impact of the rules.

12 noon

The hon. Lady asked about the impact on jobs and growth in research and development. The basis of the queries that industry raised with the Government was that it was unclear whether the rules would apply. I have set out why the Government think that the uncertainty should be removed, so that there is no doubt.

Industry bodies representing the oil and gas sector, among others, made representations. They had concerns about the impact of rules on small exploration companies. We have probably already debated in other Committees the Government's support for the oil and gas sector, and concerns have also been raised with us about exploration, and the need for Government to support exploration in the oil, gas and other sectors. I have mentioned the intention of benefiting small, capital-intensive companies.

I cannot give the hon. Lady a definitive analysis of the impact on jobs and growth in research and development, because the point is to remove uncertainty about what might happen, and not about things that have happened—an impact that can be measured. It depends on individual cases.

Catherine McKinnell: To clarify the question, it related more to the last 12 months since the uncertainty was legislated for—unintentionally, of course—and the lost research and development growth and jobs, and whether there was any impact assessment of that in the past 12 months. That was obviously to get an understanding of the future projections that I assume the Treasury has made.

Nicky Morgan: As it is a question of what has happened in the past 12 months, it is difficult to say, as the hon. Lady will understand. Many representations are made; people say that things will affect jobs and growth, without being able to give the number of jobs. Oil and gas exploration in particular are important to the Government and the economy. We are removing an uncertainty that industry has highlighted. It is worth doing that, so that there will be no doubt that the rules will be available to small companies that have not yet made a profit. The clause will remove uncertainty for investors and an unnecessary risk for R and D start-ups by ensuring that tax relief for the investment in R and D is not lost just because a company is taken over.

Question put and agreed to.

Clause 37 accordingly ordered to stand part of the Bill.

Clause 38

TAX TREATMENT OF FINANCING COSTS AND INCOME

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

Catherine McKinnell: We now turn to the final clause of chapter 3 and the general provisions for corporation taxation. The clause relates to worldwide debt cap provisions; it is of particular relevance to multinational groups of companies, and was originally announced in the autumn statement in 2013. I shall not go into the detail of the clause—I will leave that to the Minister—but by way of background I shall put into context the couple of queries that I want to make on the Committee's behalf.

The worldwide debt cap was first introduced in the Finance Act 2009 under the previous Labour Government, as part of a package of changes to the taxation of companies on their foreign profits. It limits the corporation tax deduction for interest and other finance expenses of the UK members of large groups of companies, so that such expenses cannot exceed those of the worldwide group.

Clause 38 will makes two key changes: the first protects revenue and puts beyond doubt the way in which the grouping rules apply, by making three clarifications; the second, according to the explanatory notes, makes a "minor change" to the power to make regulations relevant to the potential impact of the provisions on whole business securitisations.

I should be grateful if the Minister would elaborate on some of the comments made in the tax information and impact note, and in particular new paragraph (za), which relates to the tax treatment of financing costs and income interpretation, and explain whether that is intended to provide greater regulation for whole business securitisations, or to relax the rules around the worldwide debt cap in respect of such restructurings. The final line in the explanatory notes for the clause states that the new regulation-making powers will

"enable companies involved in whole business securitisations to remain bankruptcy remote",

yet as far as I can see, the tax information and impact note makes no reference to that. It would be helpful to the Committee if the Minister could clarify that point.

Concerns have also been expressed about the first measure being introduced "due to perceived abuse". If the first measure, which clarifies the grouping rules, is indeed in response to perceived abuse and, in the Government's words, to "protect revenue", why is it not expected to have any Exchequer impact? The tax information and impact note suggests that the projected impact is not just negligible, but nil. If there is perceived abuse, the measures are surely intended to prevent it, meaning increased revenue to the Exchequer from closing down potential opportunities for abuse. If the abuse is only perceived, as opposed to actual abuse, will the Minister explain why the measure is necessary and give a helpful introduction to the legislation?

Mr Gauke: Clause 38 makes two changes to the rules for the tax treatment of financing costs and income, commonly referred to, as we have heard, as the debt cap. The first change puts beyond doubt the way in which the grouping rules apply. The second change amends the powers to make regulations designed to make whole business securitisations easier.

The debt cap rules were introduced in 2010 to limit the tax deduction for the finance expenses of the UK members of multinational groups of companies, so that UK companies do not avoid tax by paying excessive amounts of interest. The rules used to identify the members of the group to which the provisions apply were based on the grouping rules already used elsewhere in tax legislation. Some groups have claimed that the rules do not have their intended effect, which happens when a group of companies includes structures that are not companies and that do not have ordinary share capital in the way that a company would. The amendment is designed to put it beyond doubt that entities that do not have ordinary share capital, and their subsidiaries, can be members of a group for the purposes of the debt cap rules. The second change addresses concerns that can arise when the debt cap rules are applied to whole business securitisations.

The changes made to the grouping rules by clause 38 will ensure that the definition of a group for debt cap purposes can deal correctly with an entity that does not have ordinary share capital. The limit to relief for interest and other finance expenses applies to companies that are 75% subsidiaries of the ultimate parent of the group. Some groups have argued that an entity without ordinary share capital, and its subsidiaries, cannot fall within that definition, so they are not caught by the debt cap rules. The amendment ensures that the entities do fall within the group and further makes it clear that they are included even when the different entities are held indirectly or controlled in other ways. The changes will take effect for accounting periods starting on or after 5 December 2013.

The debt cap rules include a regulation-making power that allows regulations to be made to help companies that raise finance by arrangements known as securitisations. The regulations would benefit companies involved in securitisations by allowing them to transfer tax liabilities arising from the debt cap legislation between companies. The change ensures that regulations, if required, would be simpler and more efficient for both business and HMRC than the regulations that can be made under the existing power.

As for whether the changes to the regulatory powers relax the rules, the answer is no. The changes are designed to allow regulations to be made where needed. The regulations will allow a company that is party to a whole business securitisation to pass on its tax obligations to another group company. The new paragraph (za) in the securitisation legislation is intended to enable simpler regulations.

As for why no extra revenue is included within the tax information and impact note, the measure is about revenue protection, not revenue raising as such, so the debt cap has a deterrent effect. The difficulty is that we do not have an effective debt cap. Existing revenue that is coming into the Exchequer is put at risk, and I am sure the Committee would not want to permit that. Through the clause, we are preventing a loophole from being exploited, rather than expecting additional revenue to come in as its consequence. With those points of clarification, I hope that the Committee will support the clause.

Question put and agreed to.

Clause 38 accordingly ordered to stand part of the Bill.

Clause 39

Pension flexibility: drawdown

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

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

New Clause 8—*Pension flexibility: Treasury analysis*—

'(1) The Chancellor of the Exchequer shall, within six months of this Act receiving Royal Assent, publish and lay before the House of Commons any analysis prepared by the Treasury prior to the publication of Budget 2014 relating to the impact of changes made by sections 39 to 43 of this Act to Schedules 28 and 29 to the Finance Act 2004.

(2) The information published under subsection (1) must include—

(a) any assessment made of the impact of the provision for independent face to face guidance on the 2004 Act;

(b) the distributional impact, by income decile of the population, of changes made by sections 39 to 43 of this Act;

(c) a behavioural analysis; and

(d) the financial risk assessment.'.

Clause 40 stand part.

Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): It is a pleasure, Mr Caton, to be yet again in the exciting environment of the Finance Bill Committee—[Hon. Members: "Hear, hear."] Everyone is now awake and ready for our debate ahead.

We are coming on to very important clauses. Of course, every clause in the Bill is important, but there are quite a few aspects of its pensions clauses that we want to explore in detail. We cannot predict what will be in the Queen's Speech, but we expect further pensions legislation. Clauses 39 to 42 introduce a number of

[Cathy Jamieson]

transitional measures that will be effective immediately. If pension scheme rules allow, they will give pension savers more flexibility in how they access their defined contribution schemes and savings.

The changes in the Bill follow on from measures affecting the pension regime in recent years, most notably the triple lock, changes to public sector pension schemes, the auto-enrolment scheme for workplace pensions and the introduction of a new flat-rate pension. I mention that because I will want to probe the consistency of approach in the Government's proposals.

It is worth having something on record about the current pensions regime under which savers are entitled to take up to 25% of their pension tax-free. For the remainder there are four main options. Those aged 60 and over with overall pension savings of less than £18,000 can take that in a lump sum, which is known as trivial commutation. People can also draw down a set annual sum for their pension up to a maximum yearly allowance of up to 120% of an equivalent annuity, which is known as the cap drawdown. Wealthier savers have no set limit on the amount they can draw down from their pot each year but, to qualify, they must have a guaranteed annual income in excess of £20,000 in retirement—that is the flexible drawdown.

The majority of savers—some 75%, it is estimated—purchase an annuity, which is an insurance product through which a fixed sum of money is paid to someone each year, typically for the rest of their life. The Opposition have consistently called for reform of the annuities market because we believe that the cost of savers not shopping around could be as much as £1 billion. Clauses 39 and 40 increase the amounts that savers can access through trivial commutation, cap drawdown and flexible drawdown.

Clause 39 allows those in defined contribution pension schemes to withdraw more money from their pensions annually and reduces the income threshold at which wealthier savers can have unlimited access to their pension pots. For schemes that allow members to take their pension via a drawdown, from 27 March 2014, the cap drawdown limit has been increased from 120% of the amount of an equivalent annuity to 150%.

12.15 pm

Sheila Gilmore (Edinburgh East) (Lab): Before my hon. Friend moves to the detail of the provisions, may I ask whether she shares my concern that these clauses have become necessary because of the sudden introduction of changes that have not been consulted on, researched or trailed? They are necessary because of an outcry from some people that they would find themselves on a cliff edge and denied a better deal.

Cathy Jamieson: My hon. Friend makes a good point. Constituents have contacted me about that issue because they worry about the so-called cliff edge. When the overall announcement about pensions was made in the Budget, some organisations suggested that they were "perplexed" at how the announcement had been made. We are now in a scenario in which we have to move on and look at the detail in front of us, but I share my hon. Friend's concerns.

Clause 39 also reduces the amount of guaranteed annual income that savers must have to draw down their pensions flexibly from the current minimum of £20,000 to £12,000.

The Minister might well say that he is not surprised about the nature of new clause 8, because we are once again asking the Government,

"within six months of this Act receiving Royal Assent",

to

"publish and lay before the House any analysis prepared by the Treasury, prior to the publication of Budget 2014 relating to the impact of changes made by sections 39 to 43 of this Act"

and the relevant schedules.

We are also asking for the information published as a result to include

"any assessment made of the impact of the provisions for independent face to face guidance on the 2004 Act."

We will come back to discuss that in due course. We are also asking that the information includes

"the distributional impact, by income decile of the population, of the changes made by sections 39 to 43…a behavioural analysis; and the financial risk assessment."

Our reasons for asking for that are partly the points raised by my hon. Friend the Member for Edinburgh East. Given how the proposal was introduced, there was concern that not all the information would be available. It is reasonable to ask the Government to do what they can to put such information into the public domain so that additional scrutiny can take place before further legislation is considered.

Clause 40 will allow people over 60 with total pension savings of £30,000 or less to take all out all those savings as one or more lump sums. That is an increase from the current trivial commutation threshold of £18,000. In addition, the clause amends the Registered Pension Schemes (Authorised Payments) Regulations 2009 to increase the amount that can be paid out in small lump sums, irrespective of the overall value of an individual's pension savings, to £10,000, which is an increase from the current limit of £2,000. It also increases from two to three the number of small lump sum payments that an individual can receive from registered pension schemes other than occupational pension schemes or public service pension schemes.

It may seem to those of us who follow such things in detail, who have some knowledge and information, and the opportunity to find out more about the world of pensions and what the Bill proposes, that these proposals are all well and good. However, we are worried that there is still some way to go to ensure that those people receive the further advice, guidance and information that will enable them to make the best use of the provisions.

We have made it clear that we are not in principle against the idea of increased flexibility for people in retirement and reform of the pensions market, as long as people get a better deal. However, we put to the Minister the real concern that the benefits of greater flexibility might be lost if they are not accompanied by measures and safeguards that will enable savers to make informed decisions about how they choose to save or invest for the future. That has been characterised as us not trusting people with their own money, but that is unfair. It is not enough simply to say, "There you are; on you go." The Government have a duty to give people

information and proper advice so that they can decide what is the best thing for them, rather than putting themselves and their long-term financial security at risk.

Charlie Elphicke (Dover) (Con): The hon. Lady talks about Labour Members being characterised as not trusting people with their money, but that view is held because it was what a senior Labour adviser said on "Newsnight".

Cathy Jamieson: With all respect to whatever anyone has said on "Newsnight", I am saying that we have concerns because if people do not access the correct advice, they might make decisions that will not benefit them in the long term. We have consistently called for reform to the annuities market and a cap on pension fund charges—certainly while I have been a Member—but our concern is that we have not seen reforms to the private pensions market to stop people feeling that they have been ripped off. We want a system in which people can have confidence and that they trust.

Ian Mearns (Gateshead) (Lab): It is not the case that any Labour Member does not trust people to manage their own money, but when money is concerned, the sharks are always circling. The problem is that many sensible people have been caught up by con merchants posing as financial advisers or those who look after people's assets—*[Interruption.]* From my perspective, such ready access to funds can only lead to a greater number of circling sharks in the highly infested waters of financial management.

Cathy Jamieson: There seemed to be some hilarity among Government Members while my hon. Friend was making his valid and valuable point, but I cannot comment on what was going on. Financial advisers in my constituency—I am sure that members of the Committee have encountered the same situation—have warned about people who should not even be describing themselves as financial advisers. None the less, because of a lack of proper regulation, such people might try to give advice to or to prey on people who have lump sums. Such a thing happened in my area following major redundancies after Diageo pulled out of the town that I represent. There is no reason to believe that the people who tried to prey on those individuals affected, some of whom had significant sums, would not do the same in other circumstances.

Mark Garnier (Wyre Forest) (Con): The hon. Lady makes a fair point because there are individuals who will try to prey on vulnerable people, but that is more a question of regulation. The Government have brought about a profound reform of the regulatory system to ensure that that does not happen. Her argument is rather like saying that we should close down shops because shoplifters are about.

Cathy Jamieson: I thought that the hon. Gentleman was about to make a valid point, so it was unfortunate that he ended his intervention as he did. I absolutely appreciate that work has been done to tighten regulation, but many people's experience is that no matter how much regulation is tightened, there will always be individuals who try to get around it. We will support the Government when we think that they are doing the right thing not only to ensure that people get a better deal, but to give them appropriate protections.

Ian Mearns: Since I heard the announcement about access to pension pots, I have never thought that thousands of people would rush out and buy a Lamborghini. However, with access to a pension pot of that nature, people might be tempted to spend, say, 15% or 20% of it on a home improvement. There is nothing wrong with that, but perhaps the thinking behind this measure is the Chancellor's desire for a pension pot-driven mini-boom in the economy.

Cathy Jamieson: My hon. Friend again makes a good point. It was unfortunate that some of the debate was couched in the terms of people going out to buy a Lamborghini or something else. The majority of people might be accessing their pension pots for home improvements, for example, that they wanted but could not afford, or to provide something for their family or whatever else. However, if they do not get the right advice on long-term financial planning—I will come to that in more detail—they could make the wrong decisions.

Chris Evans (Islwyn) (Lab/Co-op): My hon. Friend makes a distinct point. The basis of the argument is not about trusting people with their money; the real issue is good, sound financial advice. I worked as a financial adviser in the past and I know that many investment products over the years have seen people lose their life savings owing to rum advice from poor advisers. If the Government push on with this proposal, does she agree that there needs to be even stricter regulation on the advice given to people?

Cathy Jamieson: I recognise my hon. Friend's experience in this area. That is exactly why I think advice is so crucial. I will talk later about tests that we feel these measures ought to be judged against.

Charlie Elphicke: The home improvement example raises an important point. Home improvement is rational not only to improve the home, but as an investment to increase its value. How far does the hon. Lady want regulation to go? Does she want people to take advice before making a home improvement? Most people would regard that as manifestly absurd.

Cathy Jamieson: I am genuinely sorry that some of the valid points we are making about access to, and the availability of, advice are seemingly being trivialised. I am sure that the hon. Gentleman pays regular attention and knows to the penny what his position will be in retirement, but many people simply do not do that. One concern is that if people without proper advice make the wrong decisions too early on in the process, they could put themselves and their families at a disadvantage later on. It is in no sense unrealistic for us to ask the Government to take that into account and for that to be part of the process.

Ian Mearns: An interesting point can be raised about investing money in home improvements, as it all depends on people's situations. I saw some statistics from the

[Ian Mearns]

National Housing Federation only last week that showed that, of those who were forced into negative equity after the 2007-08 crash, only 0.8% in the south-east of England are still in negative equity, whereas the figure in the north-east is 56%. Is that an investment?

Cathy Jamieson: My hon. Friend makes another valuable point.

Let me come to our three tests. First, there is the advice test. We want to ensure that there is robust advice for people who are providing for their retirement, and that measures are in place to deal with mis-selling, which my hon. Friend mentioned earlier. We all agree that the comment about buying a Lamborghini was perhaps made in jest and not all that helpful, but let us put that to one side and say that we need to ensure that robust advice is available.

12.30 pm

Charlie Elphicke: Will the hon. Lady give way?

Cathy Jamieson: I will, but I want to move on to other issues and I am conscious of the time.

Charlie Elphicke: Just so that the Committee understands, does the hon. Lady believe that if I, as a pensioner, want to spend that money on a home improvement or a car, I should take advice—yes or no?

Cathy Jamieson: As I tried to explain earlier, perhaps the hon. Gentleman knows exactly to the penny how much he is going to have in retirement and what he wants to do with it. However, there will be people who will not have had the benefit of his experience and for whom it would be best to take proper advice. I do not think there is anything wrong in suggesting that advice ought to be available. At the end of the day, people may choose not to listen to advice, but they should be able to access it.

Richard Fuller (Bedford) (Con): I am a little confused about the hon. Lady's position. We know that advice is available and that people may take it, but is she suggesting that they should be required to take it? Is she not concerned that it might be slightly condescending towards people to say that, because they are retired, they must need to take advice?

Cathy Jamieson: Once again, I am genuinely disappointed that a Government Member is suggesting that it is condescending when we simply argue for proper advice to be available to try to ensure that people are not ripped off and mis-sold. I do not think it is condescending to say that advice should be available

Teresa Pearce (Erith and Thamesmead) (Lab): Would it not be fair to say that the Opposition agree with the following statement:

"In expanding the range of choices available there is a corresponding need to help consumers navigate those choices"?

Those are the Government's words and, for once, I agree with them.

Cathy Jamieson: I thank my hon. Friend because I will come on to some of the words in the Red Book, so that makes a neat link.

I have already mentioned what the advice test ought to be, and we also think that there should be a fairness test. The new system has to be fair to those on low and middle incomes, which means that they should still be able to access products that give them the certainty in retirement that they want. The billions we spend in pensions tax relief must not benefit just those at the very top, which is why we have already called for a restriction on pensions tax relief for people earning more than £150,000.

There is also a cost test. The Government must ensure that this policy does not result in extra costs to the state, either through social care or pensioners falling back on means-tested benefits such as housing benefit. I find it difficult to understand why the Government are reluctant to look at the situation in the round and to think about how people live their lives and will have to plan for the future.

Chris Evans: What is going to happen with this market is what happens with every market. Now that there is an opportunity, companies will come together and create new investment vehicles. As someone who worked in the industry, I know that such vehicles can be extremely complicated. They can often be very risky, involving investment in the stock market that can go up as well as down, so annuities will still have a role to play as a low-risk investment. There will be more need for good advice. Perhaps I may be so bold as to answer the question from the hon. Member for Dover: if someone does not need advice, they do not have to take it, but good advice has to be available—

Kwasi Kwarteng (Spelthorne) (Con) It still is.

Chris Evans: Perhaps I can continue. In a market in which there have been a number of shady deals, equity release will become more of a player, so good advice must be available. Unfortunately, there are sharks in that market, although that is not the case for everybody.

Cathy Jamieson: Once again my hon. Friend shows the benefit of his previous work in this area. He gets to the nub of the issue. People do not need to take advice, but it must be available and it must be robust. We should remember that many workers who retire have been in low-income jobs all their working lives and have very modest pension pots, so we need to ensure that they get the best deal.

Let me finish on a point about the cost test. I said that I felt the Government should ensure that the policy does not result in extra costs to the state, which is why the Treasury should publish the analysis of the risks it considered when costing the policy, which the Office for Budget Responsibility described as "highly uncertain".

Mark Garnier: I apologise for harking back to a couple of sentences ago, but the high-quality advice has got better under this Government with the delivery of the retail distribution review. All independent financial advisers are required to have a level 4 qualification, as opposed to level 3, as was previously the case.

Cathy Jamieson: I think that I acknowledged earlier the work that has been done in that context, but many of us—certainly Labour Members—are aware that that in itself does not fully stop those who will try to circumvent the regulation. People who are not regulated providers will try, in one way or another, to move in when people have money available. We have to be conscious of that and ensure that we do not inadvertently create further loopholes.

Duncan Hames (Chippenham) (LD): It is relevant that the hon. Lady mentioned that many of these pension pots are very small. Would she apply the requirement to take advice when considering purchasing replacement products, or would that apply simply to taking funds out of these pension pots? A constituent who recently came to my surgery was on a modest NHS pension, but also had a very small pension pot that, until now, she had not been able to access, despite being a cancer patient. For her it was a simple question of whether she wanted an appalling annuity rate from which she would never get value. She was not looking at purchasing a complicated product; she just wanted to get hold of her own money while she still was in a position to spend it.

Cathy Jamieson: The hon. Gentleman makes a valid point. There are circumstances in which individuals will be able to assess and then make decisions, presumably with guidance, if not advice, in the context of regulated scenarios. Again, I find it quite odd that Government Members seem to be suggesting that we are trying to put onerous requirements on individuals. I want to robust advice that people can trust to be available.

I shall now move on and ask some questions, because it is important to probe what the Government intend to do. Once we are sitting on the other side of the Committee following the election, the circumstances may well be different—*[Interruption.]* It is up to the Government to answer not only our questions, but those that professional organisations are raising.

Charlie Elphicke: Will the hon. Lady give way?

Cathy Jamieson: I think I have been pretty generous in giving way. I could go on for some considerable time on this.

Mark Garnier: Please do.

Cathy Jamieson: I assume that the beady eyes of the Whips would be on me if I tried to go on too long.

Let me bring this back to the Red Book. The Red Book says that

"from April 2015, all individuals with defined contribution pension pots are offered free and impartial face-to-face guidance at the point of retirement".

The budget for that is just £20 million: £10 million each for 2015-16 and for 2016-17.

Advice is significantly more expensive than guidance. The Association of Professional Financial Advisers estimates that the average flat fee charged by an adviser for annuities advice is £681. The Association of British Insurers estimates that 500,000 members of defined contribution pension schemes retire each year, which means that a full advice service would cost £340.5 million a year. Therefore, we clearly see that the £10 million annual budget is a small percentage of that. The Treasury's estimates are based on an expected cost of £70 to £100 per individual, which equates to at least £35 million a year.

I want to probe the Government with some general questions and some questions specifically related to the guidance. The Government recently introduced auto-enrolment for workplace pension schemes. Does the Minister think that there is any contradiction between encouraging people to invest in pension schemes throughout their working lives and the incentives that may encourage them to take money out of those schemes as soon as they retire? Will the Minister explain what financial analysis the Government have conducted on the impact of these clauses? The new clause would require such analysis in the future, but if he can answer that question now, perhaps we will not need to press it to a vote.

Does the Minister have anything to say on the comments made by the Minister with responsibility for pensions, the Minister of State, Department for Work and Pensions, the hon. Member for Thornbury and Yate (Steve Webb)? I do not want to go back to the Lamborghini issue, but does he have any comments on long-term planning as opposed to a quick fix? What was the Government's thinking on that? The Minister with responsibility for pensions suggested that everything would be okay because people would be covered by their state pensions.

Will the Minister also confirm whether the Government have conducted any consultation on how and where savers will invest the money that they take out of their pension pots? That is important given the concerns expressed by many of my hon. Friends. What—if any—impact does he think that the changes in these clauses will have on the household savings ratio, which the OBR has projected will fall from 5% in 2013 to just under 3% at the end of the forecast period?

I will pose several questions now so that the Minister will have plenty of time for inspiration to arrive before he responds. Will he explain why the proposed guidance will be available only at retirement age and not at, for example, age 55 when many people will have access to their pensions under the increased flexibility? Professional associations have raised that with me.

In the Budget speech, the Chancellor said:

"We are going to introduce a new guarantee, enforced by law, that everyone who retires on these defined contribution schemes will be offered free, impartial, face-to-face advice on how to get the most from the choices they will now have."—[*Official Report*, 19 March 2014; Vol. 577, c. 793.]

The Committee will see why we have spent so much time looking at what that statement means in practice, because advice and guidance are very different. The Chancellor used the term "advice", but the Red Book refers to "free and impartial…guidance". I would like to hear the Minister's explanation of why the Budget speech referred to advice and the Red Book says guidance. Which will it be, and why is that? I am sure the Minister appreciates from a legal standpoint the fundamental difference between advice and guidance. In the Treasury Committee, one of my hon. Friends pointed out that advice is regulated and, as we have heard this morning, it carries significantly greater consumer weight than guidance does.

12.45 pm

Was the use of the word "advice" in the Budget speech an oversight? Was it just one of those unfortunate things that happen and may lead to confusion? Will the Minister also inform us who should provide the guidance? If the guidance is given by pension providers, how will the Government ensure that the advice is impartial and in the interests of the saver? Will he also confirm that the Government intend everyone, regardless of where they live, to have access to face-to-face guidance? That is what has been said and I would like to hear that commitment again. I want to know how that will be offered in practice.

On cost, will the Minister confirm how the £20 million allocated to providing free and impartial guidance will be spent? According to the tax impact and information note, the measures in this year's Bill will enable up to 400,000 people to draw down their pensions. Will the Minister explain why no money has been put aside for that free and impartial guidance in this financial year? Will the Minister say more about the difference in value between advice at an estimated cost of £681 per individual and guidance, set by the Treasury at £70 to £100 per individual? What is expected in return for that money paid?

The cost of guidance has been estimated at between £35 million and £50 million annually. That is significantly above the £10 million per year that the Red Book outlines. Will the Minister tell us how that gap is to be met? If it is raised by, for example, a levy on the pension providers, will not the cost inevitably be passed on to the customers? Will the Minister explain why there is no budget for advice beyond 2016-17? Are the Government looking only a couple of years ahead, or is there a specific reason why they have decided not to include it beyond that date?

I understand that the Minister with responsibility for pensions told the Work and Pensions Committee that the provision of guidance will lead people to take more formal advice. I want to probe the Minister's thinking on that. We have had a lot of discussion about whether people should have advice or should be required to take advice, how they will do so and how it will be provided. Does the Minister think that the provision of the guidance is simply a stepping stone that would encourage the individuals involved then to seek formal advice? We need to understand the Government's thinking on that.

We also need to understand the costings, because the changes could potentially lead to individuals incurring expense at a later stage. I have left the Minister with a number of questions to answer. We have probed a number of the issues, and I will want to come back to points raised by other clauses.

I want to end with a point raised by the Low Incomes Tax Reform Group in its briefing on this set of clauses. It says it welcomes the extension of the limits for trivial commutation of small pots, which we have already mentioned. It has pointed out that it is concerned that there is an anomaly for the rest of this tax year, and that those at the bottom of the income distribution, with only small pots, will be constricted by "two shackles", as it puts it. The first is that, with one or two minor exceptions, they must wait until they are aged 60 to effect a commutation, and the other is that, within the £30,000 limit, they must complete all commutations that they ever wish to take within a 12-month period. By waiting until April 2015, they will be able to exercise their choice at age 55, and at any time that suits them, perhaps making full withdrawal now from one fund and then, five years later, from another one.

The LITRG also asks whether it is unnecessarily onerous to continue with the restrictions for the rest of this tax year, at the inconvenience of those whose financial plans or circumstances would lead them to operate under the existing rules. Has the Minister considered those points, and the LITRG's specific request to amend some of the rules to bring them into line with those for larger pension schemes? I have probably given the Minister enough food for thought just before lunch.

Charlie Elphicke: It is a pleasure to serve under your chairmanship, Mr Caton, and I will keep my remarks pithy, as is the wont of Government Back Benchers.

I welcome the clause and the intended reforms. Back in 2004, I wrote a paper entitled, "Ending Pensioner Poverty" for the Centre for Policy Studies, and I advocated an increase in the retirement age, a flat pension and the scrapping of the annuity requirement. I have a long been a troubadour for the kind of reforms that, a decade on, the Government are rightly making. It is a massive, important reform.

I simply note the remarks of Paul Johnson, of the Institute for Fiscal Studies, who said:

> "There are clearly advantages to this liberalisation. It will allow people freedom to manage, and make choices over, their own affairs. It will likely increase the incentive to save in a pension. And some of the biggest worries that have traditionally held governments back from such a move are becoming less salient. In future fewer people are expected to be falling back onto means tested benefits in retirement, and so the incentives created by means testing to reduce income or assets in order to qualify for benefits are, for many, less salient than they were."

That is the key issue. It is all about increasing pension saving. We saw the pensions tax, which destroyed confidence in savings for pensions, and pensions means-testing, which was massively corrosive to the savings culture that we had built up. We had such a great pensions system and so much damage was done.

The reform will, I hope, reignite the culture of saving for retirement, which was so hard won over such a long time and so quickly lost. The hon. Member for Kilmarnock and Loudoun spoke about advice. I asked whether someone should take advice on the money required for home improvement or to buy a car. The Opposition were not clear on whether seeking that advice should be voluntary or compulsory. I got the impression from the Opposition that it should be compulsory. No one would realistically argue that advice should be compulsorily taken on whether someone should spend money on home improvement or to buy a car. With respect to the Opposition, they muddled two things.

Cathy Jamieson: Does the hon. Gentleman accept that when the Chancellor uses the word "advice" in a speech, and the Red Book refers to "guidance", that does look a bit like a muddle?

Charlie Elphicke: No, I would not accept that at all. The Red Book says on page 44, at 1.160:

> "The government recognises that under the new system it will be important that people are equipped to make the decisions that best suit their personal circumstances. The Budget therefore

announces that the government will introduce a new guarantee that everyone who retires with a defined contribution pension will be offered free and impartial face-to-face guidance on their choices at the point of retirement."

To my mind, that means the availability of that advice, free, face to face, if people need it. I believe that the Opposition are slightly mistaken. One gets the impression that they are concerned about people being mis-sold products; that is a matter of product regulation and product marketing. It is not a matter of the person deciding whether they want to take their pension and spend it, and how that pension is spent. It is about the products they then buy and how those products are regulated and marketed. There is a big gulf between the Opposition's real concern and the reality. Their concern is not about pensions and pension draw-down, but product regulation, which is a separate issue.

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

12.55 pm

Adjourned till this day at Two o'clock.