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)

Seventh Sitting

Thursday 8 May 2014

(Afternoon)

CONTENTS

PUBLISHED BY AUTHORITY OF THE HOUSE OF COMMONS
LONDON – THE STATIONERY OFFICE LIMITED

£6·00

PBC (Bill 190) 2013 - 2014

Members who wish to have copies of the Official Report of Proceedings in General Committees sent to them are requested to give notice to that effect at the Vote Office.

No proofs can be supplied. Corrigenda slips may be published with Bound Volume editions. Corrigenda that Members suggest should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Monday 12 May 2014

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

The Committee consisted of the following Members:

Chairs: Martin Caton, † Mr Gary Streeter

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

Matthew Hamlyn, Kate Emms, *Committee Clerks*

† attended the Committee

Public Bill Committee

Thursday 8 May 2014

(Afternoon)

[Mr Gary Streeter *in the Chair*]

Finance (No. 2) Bill

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

Clause 39

Pension flexibility: drawdown

2 pm

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

The Chair: I remind the Committee that with this we are considering 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.

Chris Evans (Islwyn) (Lab/Co-op): It is a pleasure to serve under your chairmanship, Mr Streeter. I should like to follow the remarks of the hon. Member for Dover, who expressed a common-sense view of the changes to annuities. *[Interruption.]* I used to sell these things and I can no longer pronounce the word. We are at a time of transition when the retirement income landscape is facing a massive upheaval. We should not forget the many tens of thousands of people who want to retire and most will need to switch on a regular income. Fixed-term—

Catherine McKinnell (Newcastle upon Tyne North) (Lab): Annuities.

Chris Evans: They are one way of making the transition into retirement while waiting for the dust to settle. Under the current pension system, retirees typically exchange their entire pension savings for a lifetime—help me out again—[Hon. Members: "Annuity"]—that pays out a guaranteed income every year for the rest of their lives. This removes all the risk, in that they know exactly what they will get, year in, year out, but with annuity rates halving in 15 years, pensioners have been getting a raw deal. That is why we should support the Government's move to allow more people to have control over their pension pot.

One thing I will say—I did some research into this during the recess—is that the industry has already moved to one-year annuities. They are intended as an interim measure for retirees who want to wait for new rules to kick in. With such major changes on the way, a short-term solution could work well if they need a reliable income now or if they want to bridge the gap between semi and full retirement without committing to a lifetime annuity or exposing their pension to an investment risk.

However, drawdown rules can make that more complicated, not least because if people do not take the 25% tax-free lump sum to which they are entitled at the start of the contract, they simply lose it. This is where I depart from the hon. Member for Dover. To me, comprehensive financial planning and advice is crucial. The costs may be prohibitive on a product that lasts for only one year—that is already beginning now. Another drawback is that the time scale leaves no opportunity for a return on investment, so people may be better off leaving their pension as it is until next April. If they will be getting a lifetime annuity in a year's time anyway, there is a risk that annuity rates will be even smaller than they are now.

It could be six weeks by the time someone got their funds transferred to the new provider and benefits commenced, and by then they would have only about 10 months until the new rules came into play. Some people have predicted that the pension revolution will sound the death knell for annuities, but over the two or three years, new and more flexible products will come on to the market. There will be new vehicles. I fully support what has been said. If someone wants to draw down their pension pot for a house repair or to pay off their mortgage, that is their prerogative. It is their money and they can do what they want with it. It has already been pointed out that 353,000 annuities were sold last year and they offered a fixed income which is diminishing each and every year. Yes, there should be new entrants to the market and this is one way of doing it.

I am deeply concerned about what the Minister of State, Department for Work and Pensions, the hon. Member for Thornbury and Yate (Steve Webb) said when he appeared before the Select Committee on Work and Pensions on 29 April. He said that it was 15 minutes' worth of guidance, to which £20 million was being committed over the next two years. It is only 15 minutes' worth. When I had a customer in front of me, it took me two hours to work through their needs. When giving someone independent financial advice, it is not just their pensions that have to be looked at, but their investments, their income and what is the right product for them. It is not possible to do that in 15 minutes.

Equally, when the Pensions Minister appeared before that Committee, he said it was not independent financial advice. That concerns me. The hon. Member for Dover asked whether what was proposed was voluntary or compulsory. Personally, I think it should be voluntary. He also made a succinct point about product mis-selling. This is the major outcome of the change; we have to be

careful about mis-selling. I cannot speak from experience anymore because I have not worked in the banking industry for 10 years, but the pressure for sales moves some people to make—to be kind—unwise choices when advising clients, such as suggesting bonds for them that were unacceptable. I remember an extreme case where someone said to a client who was coming up to retirement at 65 with £50,000 of life savings, "I'm going to put you in a savings account; I'm going to put you in a bond." The client asked what a bond was. At that time we were just at the lip of the dotcom bubble, so we had a bond and were investing heavily in internet start-ups. That bond unfortunately did not return. The financial adviser said to the gentleman, who did not understand what a bond was, "It's just a savings account without a card to draw out money." That worries me.

The hon. Member for Wyre Forest said that financial advice is now better than it has ever been in this country, and I absolutely agree. I know that people sometimes think that I am on the left, but when the Government have done well, I will commend them. *[Interruption.]* I can see the hon. Member for Spelthorne smiling—I think that that is the first time I have ever said anything complimentary about the Government. [Hon. Members: "Sit down."] I should stop now.

The rules that have been introduced are shoring things up, but I really want to see far cheaper and more accessible advice. I also want to see some solidness when it comes to financial advice. We have seen so many changes in the past 20 years. We have gone from tied agents, who would sell only the products of their bank, to independent financial advisers, who can charge a fee to show various products. I would like to see some sternness.

When the Minister responds, he must address the possibility that there could—I stress: "could"—be mis-selling of the complicated products that will come into the markets. I will not condemn the industry; it is fast-moving, as it was when I was there. The industry must provide products, and there is an opportunity for that. Products will be more complicated than ever before, just as—I will stray outside the content of the Bill—pensions are rather complicated; as someone who worked in the industry, I feel out of the loop even now, all these years later.

The changes that have been made to benefit 9 million people who were entitled only to a state pension are to be welcomed, and they have been required for many years. However, I am concerned about the mis-selling that has occurred and is still perpetrated in the financial industry. It is not everyone—I do not want people thinking that—because there are some excellent financial advisers out there, and I hope that the people to whom I gave financial advice thought that about me, but that is for them to decide. Nevertheless, I would like those two issues addressed.

The provision of £20 million for 15 minutes of retirement advice for everyone should be commended, but I would like to see that advice given on the whole system.

James Duddridge (Rochford and Southend East) (Con): I am listening carefully to the hon. Gentleman, who speaks with great experience. Has he considered the use of the internet as part of the initial fact-finding process? There will always be a need for face-to-face advice, but would internet-based fact finding reduce the amount of time taken, improve consistency and provide an audit trail to guard against potential mis-selling or poor advice?

Chris Evans: That is an excellent idea, and it would also save money, although it is for the Minister to respond on rolling out such a scheme, rather than me. Nevertheless, the hon. Gentleman has a point that is worth investigating. I hope the Minister will look at that idea.

We have had our issues with legal aid, but I genuinely believe that we should look at whether the old legal aid system, whereby people were allowed half an hour of free advice, might be a model worth following. I do not know how much that would cost, but it is something to look at.

How will the Minister ensure that products are not mis-sold to pensioners? We have seen a lot of such abuse over the years. Yes, it has been cut out, but we do not want to see a repeat of the behaviour of Equitable Life, Barlow Clowes and other companies, so I hope the Minister will address that.

Sheila Gilmore (Edinburgh East) (Lab): It is a pleasure to serve under your chairmanship, Mr Streeter. It is also a pleasure to respond to some of the mood music on this issue. When major changes were made to pensions in the 1980s and the state earnings-related pension scheme was effectively ripped apart, I suspect that many of the same things were said about how wonderful it was to give people freedom of choice and how people would not be constrained by having to contribute to something given to them by the nanny state. I am sure that was greatly applauded by the Government of the day. The problem for many of us, even at the time, was that we saw the downsides.

I well remember that my secretary at the time was keen to stop contributing to SERPS because of the cost and because she had teenage children and things were difficult. She was only in her mid-30s, so retirement seemed a long time away. She was not necessarily able to make huge savings, so her choice was to leave SERPS and take out some form of private pension. Many of the people who did that did not sustain or keep up their private pension for long, and some were clearly mis-sold pensions.

It has taken a long time to claw back from that position and ask, "What do we do next?" I say that before people feel too sure that this proposal is absolutely fantastic. It is seductive to say that we are giving people a chance and all these free choices and, if they do not buy into it, patronisingly to assume that they cannot think for themselves. There is a strong public interest in pensions. That is why, unless we decide that we will somehow back off altogether, we give tax relief to pension contributions. We want to encourage people to make savings in that format, which has been the case for many years. There is a clear public interest in what happens to money thus saved.

The other public interest is in where people are left when they retire. There are many reasons why people who retired in the past 10 years, or who may retire in the next 10 years, have had pension difficulties, and we all have our own pet theory of what is to blame. There are a load of reasons, and I suspect they are all right.

[Sheila Gilmore]

We have to be careful when making changes. One of my worries—this is why we are considering these clauses—is that the decision to make the change seems to have been arrived at in a fair degree of haste. The last Labour Government did a lot of work on pensions. There were many reports and a real attempt made to achieve consensus on pension policy. In some ways, those things have been continued by the current Government. The framework for auto-enrolment, for example, was set by the last Government and has been continued by this Government, which is a good thing. Decisions needed to be taken on things such as the rise in pension age. We might disagree on the speed of that rise, but the concepts behind it were considered by the work under the previous Government, who took many of the first steps.

The previous Government's changes to the state second pension and the much maligned pension credit have created the basis for the single-tier pension because all that expenditure is now in place. If we were not already spending a considerable amount on pension credits, and if we did not already have people who have a state second pension, whether derived from the original SERPS or from subsequent schemes, it would be much more difficult for a Government to walk in and say, "We are going to create a single-tier pension." The previous Government's plan was to move towards that, albeit in a slightly different way. Nevertheless, a lot of the thinking on pensions was substantially shared, and there was a real feeling that there had to be a settlement for a generation.

We wanted to be in a position where people could have a certain degree of security. That sounds attractive, but in the Budget—we are picking up the pieces in a Finance Bill—the Government are saying, "We'll just basically change all that without looking at the implications." The measure might not cause problems in future, but we have yet to see any real modelling to suggest that that will be the case. We do not know whether people drawing down far more money in cash will have implications for those individuals and for all of us as a society, in terms of the costs that must be met.

2.15 pm

We have a social care time bomb. For many people, the costs of social care are a big issue. Capital in the form of pensions is not taken into account, but capital in other forms might and probably will be under current rules. What are the implications for people's future well-being, their families and the cost of our care system? Those are important issues. How many people might still be dependent on means-testing?

It is easy to say, "We're going to have a single-tier pension and that solves the problem," but I served on the Pensions Bill Committee and the Work and Pensions Committee and have looked at the proposal in more detail, and things are not as clear-cut as is sometimes suggested. Not everybody will get the full amount of the single-tier pension immediately. Those who have reached pension age are not covered—that includes women over the age of 60 or 61 and men over 65. They are likely to live for another 20 to 30 years and are exactly the kind of people who will be involved in those decisions. They will not be beneficiaries of the single-tier pension because they are not covered by it, but they have probably not made their final decisions on what to do with their pension funds. Those people are approaching the age at which, under the current rules, they have to think about taking an annuity. That large population of people over pension age are involved, but they are not protected by the single-tier pension. We must not forget that.

Some people will retire under the single-tier pension but will not get the full amount. According to the Department for Work and Pensions impact assessment, the number of people who will get the full amount, but still be entitled to means-tested benefits of some kind—housing benefit or council tax assistance, for example—is quite high. That is clear in the impact assessment. It is not as if, in one bound, we are free of that problem and everything will be wonderful. Perhaps I am a pessimist; perhaps I am absolutely wrong and the changes will make no difference. However, not doing the work before making the changes is dangerous and has put us in this position.

This measure flies in the face of other provisions. The Work and Pensions Committee has had considerable discussions with the Pensions Minister about the possibility of improving defined contribution schemes and creating something between defined benefit pensions and defined contribution pensions, but that allows for a form of collective risk-sharing that enables people to get a better deal—the Minister has called it "defined ambition". However, that seems to be put in jeopardy by these proposals. If there is no clarity about the sorts of funds there will be and whether they will be retained for a long time, how can we have such collective defined contribution schemes?

That was supposed to be the direction. In fact, we were promised legislation on precisely that. I know that because the Work and Pensions Committee was told to put some time aside to carry out pre-legislative scrutiny on a pensions Bill along those lines, to deal with things such as defined ambition schemes, which the Minister was keen on. We were asked to do that at the back end of last year, but the whole thing went into the long grass. If a view has been taken that that was the wrong thing to do and we should be moving in a different direction, that is all very well. However, if we do so on the back of a Budget proposal that is not fully fleshed out and has not been modelled, risk assessed or looked at alongside other options, we may well find ourselves in a difficult position in future.

Experience, sadly, tells us that however we control the schemes that go forward—and we certainly must control a lot of them—the variety of schemes that can be introduced and the way they tend to be sold means that a number of different products will almost certainly come forward that people will be tempted into. I do not think it is in any way patronising to say that people need extremely good advice, and I do not think it is enough to put guidance on the internet for people to look up. Of course they can do so, but there are lot of other implications to look at.

Henry Smith (Crawley) (Con): Does the hon. Lady acknowledge that greater choice already exists in markets in other sensible countries, such as Australia and Denmark, and that we are talking not about some highly experimental new system but about something that will extend choice for UK pensioners as well?

Sheila Gilmore: It exists in some countries, but I would not say that it is entirely problem-free. In Australia, for example, there is a compulsory superannuation scheme—it is not an opt-out scheme like auto-enrolment in this country—which has been in existence for considerably longer. Anybody who has been auto-enrolled in the past couple of years has not built up much at all; it will take some time for that to happen. In that wider context, the earnings-related superannuation scheme, which people join when they are really quite young, gives people a much firmer underpinning base than the contributory state pension. It has been running for some time, and it is compulsory, so people cannot decide that they will not be part of it. What I am saying is that if that was the right change to make, the decision would come after a lot of work had been done.

Chris Evans: I am sorry to harp on about Australia, but we can learn a lesson from it. When the scheme was introduced there, there was a drive to pay off mortgages, which left a lot of people with a shortage in their pension pot because while they were in their house, they did not have a regular income to live on. Does my hon. Friend agree that we can learn lessons from Australia to ensure that we are not left with a situation in which people have a large amount of money in their properties, but no regular income?

Sheila Gilmore: That is certainly one factor to look at. Many of the people who may be affected are among the generation who were suckered into endowment schemes that were supposed to pay off their mortgages in full. However, many of them found that, when they got to retirement, the endowment policy did not pay off their mortgage, so the idea of another lump sum that they could use to pay off their mortgage may seem extremely attractive. There is a problem, however, when it comes to how they will make their income last for 20 or 30 years. The cost of living for those in their 80s or even older is higher, because they have higher heating costs, and they often have health issues and need care. The care that we supply as a society is relatively limited, so people have to be in a position to purchase care from their own resources. That must all be looked at very carefully.

It is not good to make pensions policy, which is a long-term issue. on the strength of saying, "Oh, isn't it a good idea that people can draw down much more money than they could before?" As soon as the policy was announced, a lot of people started saying, "What about us? What about those of us who cannot wait till next year and might be on the point of having to make a decision now? We would rather be able to have some of that freedom now." The outcry was not surprising, and it is partly why we have these provisions in the Bill with an even greater hurry than for the provisions to be implemented in 2015.

For some people, the mood music may be, "This is marvellous. We are trusting people with their own money. It will all be fine." Again, that is not a good way to make long-term policy. We must get our assessment right. We must review what is happening very quickly, rather than leaving it for 10, 20 or 30 years.

Many of the people affected by some of the worst pensions mis-selling and who got caught up in things like Equitable Life thought they were quite canny and able to cope. Some of those people are my constituents, who thought that they were safe and secure. The problem with financial advice remains, although the recent changes have had lots of advantages, one being that people are clear that the advice they are getting is not simply paid for through concealed commission. However, a lot of people will not pay for the financial advice on offer, however well trained people are, because it is an extra expense. It is also an overt expense, because although people were paying for such advice before, they did not realise that because they were paying through commission. Are we sure that people will always get the full advice that they need? Everyone has said that the guidance that has been proposed is clearly not financial advice, so we must be clear about what we are offering people and at what cost.

Chris Williamson (Derby North) (Lab): It is a pleasure to serve under your chairmanship again, Mr Streeter, and to follow my hon. Friends the Members for Islwyn, for Edinburgh East and for Kilmarnock and Loudoun. Unlike my hon. Friend the Member for Islwyn, however, I will not be complimentary about the Government in any way, shape or form.

The Government really have a job on their hands to convince a sceptical public about the true motivation behind their pension proposals. I say that because it is clear that the Conservative party has form on short-changing pensioners. My hon. Friend the Member for Edinburgh East referred to that when she talked about how the state earnings-related pension scheme was decimated as a consequence of the previous Conservative Government's Social Security Act 1986.

Alec Shelbrooke (Elmet and Rothwell) (Con) *rose—*

Chris Williamson: I give way to the hon. Gentleman.

The Chair: Order. Before the hon. Gentleman gives way, may I say that we are debating clauses 39 and 40, and we do not want a review of the history of pension politics in this country? Alec Shelbrooke wishes to intervene, I believe on clause 39.

Alec Shelbrooke: Thank you for your advice, Mr Streeter. I am sure the hon. Gentleman will welcome the fact that current pension policy has led to an above-inflation rise for pensioners, which is not something I recall happening previously, without wanting to look into pension history.

2.30 pm

Chris Williamson: I acknowledge that there has been some improvement on pensioner poverty since the 1990s, but the public will be sceptical because the Conservative Government's policies and legislation created the opportunity for spivs and fraudsters to dupe people into giving up their occupational pensions. As we all know—my hon. Friend the Member for Edinburgh East referred to this—that led to the pensions mis-selling scandal. The hon. Member for Dover expressed his concern about pensioner poverty, but the truth is that, from 1979 and through the 1980s, pensioner poverty significantly increased, and there is ample evidence of that in many academic works, although I acknowledge that the situation started to improve in the 1990s. The

[Chris Williamson]

situation is detailed in the Smith Institute report "From the Poor Law to welfare to work" by David Coats, with Nick Johnson and Paul Hackett, which is clear that there was a "significant rise" in pensioner poverty "in the 1980s" and that then followed

"falls in pensioner poverty from the early 1990s".

It is clear that policies that previous Conservative Governments introduced resulted in real problems for many pensioners, which is why the public will be sceptical about the proposal before us today and why it is important that the Minister answers the questions asked by my hon. Friend the Member for Kilmarnock and Loudoun.

Chris Heaton-Harris (Daventry) (Con): I just wanted to check that the hon. Gentleman was not accusing all financial advisers of being spivs or fraudsters. If he was, I think he owes the hon. Member for Islwyn an apology.

Chris Williamson: The hon. Gentleman had his tongue firmly in his cheek while making that intervention. I was clear that I was not saying that about all financial advisers, or that my hon. Friend the Member for Islwyn was anything approaching a spiv or a fraudster. It cannot be disputed, however, that the Social Security Act 1986 made available opportunities for spivs and fraudsters, and many thousands—if not hundreds of thousands, or perhaps millions—of people who opted out of their occupational pension schemes were mis-sold pensions and got a less good deal.

My hon. Friend the Member for Islwyn made a point about the advice that will be available when he said that the Minister of State, Department for Work and Pensions, the hon. Member for Thornbury and Yate, said in evidence to the Select Committee that the only 15 minutes' advice would be available. That is clearly not very long to plan for the rest of one's life; my hon. Friend, who has experience in these matters, said that at least two hours would be required to give such advice.

There are also questions about whether what is on offer is advice or guidance, and what the difference is. The Chancellor said in his Budget speech that "face-to-face advice" would be available, yet page 44 of the Red Book is clear that

"free and impartial face-to-face guidance"

will be made available. The Minister owes us an explanation of what that will be. Will it be advice or guidance? What is the difference, and why is there a discrepancy between what the Chancellor said and what appears in the Red Book? The Minister is chuckling, but this is no laughing matter for many people planning their future incomes. He owes it to future pensioners to treat their situation seriously and with respect.

Duncan Hames (Chippenham) (LD): The hon. Gentleman talks about advice and people making serious decisions about their long-term futures. In that case, will he consider the merits of some de minimis value criteria? Surely he would not wish to place administrative burdens or expensive requirements that would not represent value for money on someone with a very small pension pot that cannot make a large difference to their future.

Chris Williamson: It is not for me to say what should or should not be done; I am merely asking questions of the Government. The Government are coming forward with the proposals. In the fullness of time—from next May when, hopefully, we are in government—we will put forward our own proposals and answer for them in the House. However, we are here today to scrutinise what this Government—the Government whom the hon. Gentleman supports—are doing. It is incumbent on the Minister to explain whether it will be advice or guidance, and what the difference is. What form will that advice take? Will somebody be entitled to face-to-face advice if they live in a remote part of the Highlands of Scotland or Cornwall?

Ian Mearns (Gateshead) (Lab): Or in the desolate north.

Chris Williamson: Or, indeed, in the desolate north, as it was pejoratively described by a prominent Conservative politician.

Alec Shelbrooke *rose—*

Chris Williamson: I shall give way to the hon. Gentleman, but I do not want to take too much time because I know that others wish to speak.

Alec Shelbrooke: In that spirit of generosity, I shall help out the hon. Gentleman. According to the definition in the dictionary, guidance is help and advice.

Chris Williamson: I am sure that the Minister will be grateful for that helpful explanation, but we are still to hear from him whether those words mean one and the same thing, or whether there is a difference. It is significant that the Chancellor chose to use one word while the Red Book included a different one. The important point, however, is whether people, irrespective of where they live, will be entitled to that face-to-face guidance or advice—whichever it is, and whether they are the same thing—so will the Minister address that point?

Who will benefit from this proposal? New clause 8 would help us to tease that out. It is important that we know who will benefit because, if we go back to the time of the Social Security Act 1986, it certainly was not people who opted out of their occupational pension schemes and took up personal pension plans but lost out as a consequence. We do not want a repetition of the mistake made by the Conservative Government of the 1980s.

Can we be certain of whether this proposal will end up costing more or less? We have heard Ministers saying that they are perfectly relaxed, but this illustrates how out of touch they are. They talk about people buying a Lamborghini, but in reality most pension pots are nowhere near sufficient to buy even half or a quarter of a Lamborghini. People might be able to buy a Lamborghini door, but not the full monty.

We have heard that people will be able to fall back on the state pension scheme, but are we going to have the situation whereby millions of pensioners will be living in poverty if they spend their pension pots unwisely? What protection is there to help people to make the right choices? Is the Minister certain that, in the long run, this will not end up costing the taxpayer more as a consequence of more people falling on hard times,

because their pension pot has run out and they have to resort to means-tested pensions instead? These are important questions and people deserve to know the answers. Until they do, the public will remain sceptical about the Government's intentions.

Mike Kane (Wythenshawe and Sale East) (Lab): It is a pleasure to serve under your chairmanship, Mr Streeter. It is also a pleasure to follow my hon. Friend the Member for Derby North—or, as he is known on these Benches, the Member for the constituency of blue touch paper, thanks to the way he fires up the Opposition.

I never thought I would agree with Charles Moore from *The Daily Telegraph*, but he said the other week that the primary purpose of pension provisions for the long term was not to be deflected. So everyone being entitled to complete flexibility in respect of their pension provision is not an argument that is universally popular on the right. He makes the point that we live in an age of short-termism and that there will be meritorious pressures on that pension provision, whether people are paying university fees, trying to get their children on the housing ladder or, increasingly—as many hon. Members from all parties are seeing with their constituents—paying for long-term care for our elderly parents. Those are real pressures. I hate to make this party political, but people will be using their pension provision for the cost of living crisis, which is faced by many throughout the land.

What choice is this? It is a choice for certain people who are well-off and can draw down some of the pot, but it is not a choice for all people. The argument boils down to subsidiarity: it is about whether people want or need this power or will treat it with respect. Government Members would argue that every day of the week, but we only have to read what Michael Ward said in *The HR Director*, which was that the pension pot chasers are already on the move, making cold calls and telling people they can draw down their pension today. With the cost of living crisis and the pressures people face, that will be tempting.

I am terribly concerned that we are setting up another predatory capitalist industry in this country. I have campaigned for a couple of years against the payday lenders and their usurious rates of interest. They borrow on LIBOR at 5% and from Barclays at between 10% and 20% and pass that on to their customers at usurious rates of 5,000%.

It is a real concern that in four, five or 10 years' time, the adverts that saturate TV will not feature old Wonga puppets looking for payday lenders—the Financial Conduct Authority yesterday and the Association of Chartered Certified Accountants have again criticised the practice of going after vulnerable repeat customers—but will be about people pulling down their pension to have the perfect life, the perfect opportunity or the thing they could never afford in another place. People, particularly low and middle income earners, are not immune to the market pressures that will come about because of this change in the Budget.

The Exchequer Secretary to the Treasury (Mr David Gauke): It is a great pleasure to serve under your chairmanship, Mr Streeter. I welcome you back to the Chair.

Clauses 39 and 40 give pension savers much greater choice and flexibility over how and when they access their savings. Let me set out a little bit of background. When this Government took office, we inherited a series of tax rules imposing tax up to 82% on older pension savers. We acted immediately to reduce these disproportionate and unfair charges. We removed a raft of other tax rules restricting the choices available to pension savers over the age of 75, while also giving draw-down pensioners with guaranteed retirement income of at least £20,000 a year full access to their pension savings. These steps have been important and successful, but given the changing shape and nature of retirement, it is time to go further. That is why, on Budget day, the Government announced a set of radical reforms, which will allow people more choice over how they access their defined contribution savings.

The hon. Member for Derby North said it was a big job for the Government to try to persuade people to support these measures. I am tempted to remind him that, in the course of some 48 hours, his party went from ignoring the changes to opposing them, back to supporting them—*[Interruption.]* Well, there was certainly quite a lot of muttering coming from Labour about its dislike of the policies.

Catherine McKinnell: Rubbish.

Mr Gauke: I am delighted that we have the full-hearted support of the Labour party on this point.

Chris Williamson: I do not want to detain the Committee for too long, but does the Minister accept that people have long memories and will recall the mis-selling scandal that was a consequence of the Social Security Act 1986, which was delivered by the Conservative party? Does he not see that there will be a degree of scepticism? It does not matter whether there is scepticism from Labour Members; he needs to convince the general public. Several of my constituents have told me that they are nervous about the Government's proposals. What will he do to reassure them?

2.45 pm

Mr Gauke: The hon. Gentleman says we have to convince the public, but I have seen no evidence to suggest that the public are anything other than supportive of the policies.

Mark Garnier (Wyre Forest) (Con): The Treasury Committee will publish its report on the Budget in due course and it would be wrong of me to pre-empt it, but from all the witnesses who came in front of us in public session who were looking at pension reforms, it was obvious that it was not just a few or some who were in favour of the flexibility; it was every single witness, be it in written or oral evidence. There is overwhelming support; indeed, I suspect this is one of the most popular policies that the Government have come up with for some time.

Mr Gauke: My hon. Friend is right. I have been involved in one or two Budgets, and it is not always the case that Budget measures get the warm and overwhelming support that this set of policies has received in recent

[Mr Gauke]

weeks. The hon. Member for Derby North may take a different view about where the public are on these measures, but I encourage him to campaign in Derby North against the policies with all the energy he can find—which is considerable, in particular, given his diet.

Chris Evans: To help the Minister, I do not think it is case of people being against this policy in particular—people are generally confused by pensions anyway. It is difficult enough to get someone in their 20s, 30s or 40s to even think about pensions, which is a problem that goes beyond this and previous Governments. People tend to think of pensions only when they are coming up to retirement age, so annuities, for example, are something that people hear of only when they are that age. The problem is trying to show people that there are alternatives. How we do that is a challenge for the Government.

Mr Gauke: I will turn in greater detail to the guidance and information that will be available. We are consulting on the detail of our longer-term proposals for pensions, and most of our debate today has been on such proposals, rather than strictly on the clauses before us. We want to ensure that individuals who are approaching retirement now can benefit from the wider range of options, which is why these clauses will help pension savers this year by giving them more choice and control over their pension wealth.

From 27 March 2014, clauses 39 and 40 will increase the capped draw-down withdrawal limit from 120% to 150% of an equivalent annuity, reduce the minimum income requirement for entering flexible draw down from £20,000 to £12,000, increase the amount of total pension wealth that can be taken as lump sums from £18,000 to £30,000, increase the amount of pension wealth that can be taken as a lump sum, regardless of total pension wealth, five times from £2,000 to £10,000, and increase the number of personal pension pots that can be paid out in that way from two to three. All income received by people taking advantage of the new, more flexible rules will be subject to tax at savers' marginal tax rates, just like other pension income.

As a result of the changes, an extra 85,000 people are expected to be able to access their pension wealth as a lump sum this tax year, if they so wish. Some 400,000 existing draw-down pensioners will be given the option of receiving significantly greater withdrawals from their pension funds. In the course of the debate, I would not want the Committee to miss out on the fact that that is what we are able to achieve this afternoon.

New clause 8 would require the Chancellor to publish any analysis on the impact

"of changes made by sections 39 to 43 of this Act to Schedules 28 and 29 to the Finance Act 2004."

Only clauses 39 and 40 make changes to schedules 28 and 29 of the 2004 Act, so I will limit my comments to them. I am pleased to confirm that the Government published a tax information and impact note, "Increasing pension flexibility", on Budget day, which covered the impact of the changes made by clauses 39 and 40. As the note sets out, the changes are likely to be of particular benefit to individuals with smaller pension wealth, including women. A number of consumer organisations have welcomed the changes and the flexibility they provide. For example, the Financial Services Consumer Panel said on the day of the Budget that it was "delighted" that the Government had taken action on the treatment of small pension pots.

I have already mentioned that the Government have published a consultation, "Freedom and Choice in Pensions", on the broader measures announced in the Budget. The document sets out the rationale and relevant analysis behind the Government's proposals and invites comments on the expected impacts. The consultation will inform the final shape of the Government's proposals, including the guidance guarantee. The Government will set out further details in response to the consultation.

It is important that we ensure that consumers get good quality guidance that meets their needs and stimulates active and informed choices, as well as promoting consumer awareness of scams and helping to ensure that consumers are less vulnerable to mis-selling. That is one of the areas we are consulting on. The Government will introduce a new guarantee that all individuals with a defined-contribution pension in the UK approaching retirement will be offered guidance at the point of retirement. That guidance will be impartial and of consistently good quality. Those providing guidance will be barred from using that as a way of selling products. The guidance will cover the individual's range of options, to help them to make sound decisions and equip them to take action, whether that is seeking further advice or purchasing a product. It is free to the consumer and is offered face to face. The FCA will work with the Pensions Regulator, consumer groups and other bodies to develop a robust set of standards and monitoring arrangements for that guidance.

Let me address some of the points raised in the debate. On funding and the £20 million, we have announced that guidance should be funded by pension providers and pension schemes. The £20 million is a development fund to help to get the guidance initiative up and running. It is not the entirety of what will happen, and we announced that in the Budget. On why there is no funding for advice after 2016—that is not part of these clauses, but it is important and is part of the consultation—the money is for setting up new systems, not for running them. We are consulting on all that.

On who should provide the guidance, that is part of the consultation. We asked for views on the best way to implement our requirements. That might be through rigorous standards for providers or through outsourcing, but we are looking at the options. As for why the guidance is only at retirement, that is subject to consultation. It is not finally decided, but we will look at the response to the consultation to ensure that we get the right answer.

Chris Evans: A simple question has just come to mind. The Minister said that there is a ban on selling products, but that there will be direction or advice to others. How will that direction or advice work out in practice? Will there be a list of approved IFAs to refer to, or something along those lines? It would be helpful if he could clear that matter up.

Mr Gauke: Again, that is a point for the consultation. I should also say, without wanting to pre-empt the Queen's Speech, that when the consultation is completed and we have reached conclusions on how to proceed, it

may well be necessary, working on the basis that the measures will be adopted, to legislate for the guidance guarantee. The House will have a full opportunity to debate the details of that and set them out. I am not downplaying the importance of this matter; indeed, the Government identified it in preparing the measure and in the announcement that we have made. We have been straightforward from day one about the fact that we recognise the need to ensure that proper guidance is in place.

I should also make it clear that in all the documentation that we have produced and the Red Book, we have consistently referred to "guidance". I know the point has been made that the Chancellor used the expression "advice" in his speech, but the important thing is to convey the fact that people who will benefit from the additional flexibility and freedom will be getting help. This Government are determined to ensure that they get the right amount of help.

To help the hon. Member for Derby South—

Chris Williamson: North.

Mr Gauke: I apologise; it is an important distinction. The hon. Member for Derby North was excited about the difference between advice and guidance, although he was not quite sure what it was. "Advice" has a particular technical meaning, involving the recommendation of a specific product, and it puts in place various rights and remedies enforced by the FCA. It is a more expensive process. We think it is right that there is guidance in place to point people in the right direction, so that they understand the options available. In some cases, they will want to take financial advice, but we are offering free, impartial financial guidance, which will give people the opportunity to assess what is right for them. It is absolutely right that we put that in place.

Nic Dakin (Scunthorpe) (Lab): If it is guidance rather than advice, does that mean that the remedies available are likely to be weaker?

Mr Gauke: The purpose is for guidance to give people an understanding of their situation and the options available for them. The point made by my hon. Friend the Member for Chippenham is that the nature of the decision will depend on the particular circumstances. In some cases, an individual will decide for themselves whether they want to go on and get financial advice, with all that that involves, or whether they are satisfied that the guidance gives them the information that they need to make a decision.

Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): I have been listening carefully to what the Minister has been saying. May I probe him further on face-to-face guidance? I think I heard him say that there would be face-to-face guidance, and that it would be free. Has the work done taken account of the different nature and geography of different parts of the country, and can we be assured that it will be face to face in absolutely every part of the country? Secondly, I think that he mentioned the possibility of outsourcing. Can he give us any assurance on how monitoring and evaluation will take place if the guidance is outsourced?

Mr Gauke: First, the three attributes of the guidance that we have been clear about since day one are that it will be free, impartial and face to face where people want that. I am happy to reiterate those points. In terms of the details of exactly how that will be delivered, I will come back to the point I made earlier. There is a consultation and all these points are ones that we wish to take into account. I am sure that Members on both sides of the Committee want to ensure that the appropriate guidance is provided to our constituents to enable them to make the right decisions. We will seek to achieve that.

3 pm

James Duddridge: May I urge the Minister to look very seriously at the use of online, even when there is face to face at the end? There is no sense in having a full-time, qualified adviser or financial services professional spending two hours going through a fact-find, taking down people's date of birth and how many pensions they have. It is simply a waste of Government money. That element, for most people, will be relatively easy to do online. I urge him to consider that and to use the financial services face-to-face time for real, value-added activity.

Mr Gauke: I am grateful to my hon. Friend who makes an important point. It is also worth highlighting the work that the FCA is undertaking to ensure that there are not unnecessary costs here so that financial advice can be provided. The area that he highlighted is an important part of that. He made a practical comment about how we can ensure that the support provided to the public can be as well targeted and cost-effective as possible.

Teresa Pearce (Erith and Thamesmead) (Lab): The Minister has clarified what he believes to be the difference between advice and guidance. Surely the ultimate difference is that one is heavily regulated and the other is not. The hon. Member for Rochford and Southend East talked about independent financial advisers going out to face-to-face meetings. But that is not what is on offer. I understand that what is on offer is guidance face to face, not advice. Is that correct?

Mr Gauke: I have been absolutely clear. What we are talking about here is guidance. We believe that that is the sensible approach. It may well follow that some people wish to seek advice, having received that guidance, but we think it is important that guidance is provided that will help people understand the retirement income market and the options available to them, thereby empowering them to make their own decisions.

Cathy Jamieson: May I follow on from my hon. Friend's point and the difference between something that is regulated and something that is not? Just for the avoidance of doubt, are we therefore to understand that the guidance will be in the unregulated end of the market and will not be provided by qualified financial advisers?

Mr Gauke: The question of who will provide the advice is a matter for the consultation. The hon. Lady will be well aware that the Financial Services and Markets

[Mr Gauke]

Act 2012 lists, or has provision for an order to list, what constitutes a regulated activity. Included in that list is the provision of investment advice. For these purposes, the provision of investment advice includes making recommendations as to specific products. What we are talking about here is not a system whereby there is a scheme that will come along and make recommendations about specific products, so it is not investment advice for the purposes of the Financial Services and Markets Act. It is about setting out the options that are available, the nature of the retirement market and placing individuals in a position to know what their options are. The support that is available has been very clear since the Budget.

Let me pick up some of the points that were raised in the debate. The hon. Member for Kilmarnock and Loudoun asked whether there is a contradiction between auto-enrolment and the pension flexibility measure. The answer is no. Auto-enrolment is designed to harness inertia and to support and encourage new and increased pension saving. The FCA found that the annuity market was not working for consumers, which is why we have introduced choice and flexibility. As more people save through auto-enrolment, it is important that they can make choices that best suit their circumstances.

On costings, the hon. Lady raised concerns about fiscal risks. In truth, the impact is difficult to predict, but the Government do not expect it to be significant in the context of steps taken to improve the sustainability of pension spending, including single tier, and the changes to the state pension age and public service provisions.

On the interaction with social care and whether people will be forced to take their pension to pay for the cost of care, the current rules on eligibility for social care funding were not written to account for such pension flexibility. The Government are committed to considering new financial services products when reviewing and developing new guidance and regulations on charging for care. It is not our intention that someone's eligibility for social care support should be affected simply because they purchased certain flexible pension products as an alternative to annuities, and we will ensure that the appropriate updates are in place for the start of the new flexibilities in April 2015.

The hon. Member for Islwyn asked whether annuity rates will fall. Annuities will remain the right product for many people. The new flexibility will help consumers to get a better deal when choosing retirement income products in a much more competitive market. Many may choose to buy an annuity later in life, allowing them to benefit from higher rates at a time that suits them.

Duncan Hames: Does the Minister think that the greater flexibility for savers, including the freedom to choose not to take out an annuity or as much of an annuity, may incentivise the providers of such products to be more competitive in the terms they offer?

Mr Gauke: My hon. Friend raises a good point. Providing greater choice and flexibility is likely to have a beneficial effect on the market, encourage greater innovation and provide the type of products that our constituents want. The current restrictions force people into particular products that do not necessarily suit them, which stifles innovation.

The hon. Member for Edinburgh East argued that the single tier does not solve all the problems, but it will provide pensioners with much greater certainty on the state support they can expect. The Government are also introducing class 3A national insurance, which will allow people to top up their basic state pension.

Sheila Gilmore: I am sure the Minister is aware that the provision for those additional contributions is restricted to a very small age group. I have a constituent who has had to leave work due to ill health, but she will not reach pension age until about 2022. She has been told that she is not eligible for the additional contributions, which also do not apply to people who, as I said before, are already well into retirement.

Mr Gauke: To be fair, many people who are already retired will have taken an annuity, so this additional flexibility is not necessarily relevant to them. For some of the people about whom the hon. Lady is concerned, class 3A gives them an opportunity to top up their pension. She also raised defined ambition, which is also about creating choice and flexibility. Last year, the Government published a consultation on their defined ambition proposals, which are designed to give providers more choice about the types of pension that they can offer their employees. The Government are considering the responses to the consultation. We expect that allowing greater flexibility will lead to product innovation, which will result in greater choice and certainty for individuals.

The changes introduced by clauses 39 and 40 are precursors to the more radical reforms that we will introduce in April. We have spent much of our time this afternoon debating those measures, but let us not forget that these clauses are, in their own right, a significant step towards the creation of a tax system that recognises that people should be able to determine what to do with their money and that those who have earned it in the first place are best placed to make decisions about it. As I have said, a significant number of people will benefit from the additional flexibility provided by these clauses. I hope that clauses 39 and 40 will stand part of the Bill, and that new clause 8 will not be pressed to a Division.

Mike Kane *rose—*

Mr Gauke: But first I will give way to the hon. Gentleman.

Mike Kane: The Minister says that the clauses give people the ultimate flexibility about what they do with their pension pot. In his opinion, would it be appropriate for them to draw it down to pay off their usurious payday loan?

Mr Gauke: It is for individuals to decide what they do with their assets. That principle is deeply felt by both parties of the coalition Government, and I hope that the Opposition will share our approach and support the clauses.

Cathy Jamieson: I will be brief, because we have had a fairly extensive debate. As the Minister correctly pointed out, we have been discussing the clauses, which stand in their own right and which we will not oppose. It was right for us to have a wider debate to probe questions that we will have to discuss at a future date. It is important for us to understand where the Government are coming from so that we can take a view on the clauses.

It was appropriate to try to tease out some of the concerns that have been raised about language, such as the difference between advice and guidance, and the Minister has been helpful in explaining that. A great deal is still out to consultation, and I have no doubt that further proposals will be advanced. Opposition Members' comments have been made in the spirit of ensuring that people have the opportunity to access advice and information if they need it, to enable them to make the correct decisions and not to put themselves at a disadvantage. We were also anxious to ensure that there are no loopholes or opportunities for less scrupulous parts of the market—I hesitate to use the word "spivs" again, because it has been much used today—to move in and make money inappropriately by mis-selling to people who do not have all the information at their fingertips.

I am concerned to ensure that the commitment to provide face-to-face guidance is delivered, notwithstanding what the hon. Member for Rochford and Southend East has said about online. Some people will be comfortable to go online to gather information or to give information about themselves in order to receive detailed information on options, but many would prefer to sit face to face, particularly when they are discussing something that is personal to them and they do not feel confident about using internet sources. I look forward to hearing more from the Minister about how that will work in practice and about outsourcing, or who will provide that guidance, because that is critical.

On new clause 8, it is important for us to press the Government on the work that was done before the announcement was made. When the time comes, we will therefore press it to a vote.

Question put and agreed to.

Clause 39 accordingly ordered to stand part of the Bill.

Clause 40 ordered to stand part of the Bill.

Clause 41

TRANSITIONAL PROVISION FOR NEW STANDARD LIFETIME ALLOWANCE FOR 2014-15 ETC

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

The Chair: With this it will be convenient to consider schedule 4.

3.15 pm

Cathy Jamieson: We are moving on to a couple of clauses making technical provisions. I suspect that we may not have so much debate on clauses 41 and, possibly, 42 as we had on the previous two clauses. I will try to move fairly speedily through my points.

The clause offers transitional protection to wealthy savers who are concerned that they may be affected by the reduction in the lifetime allowance to £1.25 million, which was announced in the autumn statement 2012. It introduces a transitional protection regime, known as IP2014 that will protect any UK tax-relieved pension savings that an individual has built up at 5 April 2014, up to an overall limit of £1.5 million. Individual protection was available from 6 April 2014, and must be applied for by 5 April 2017. It is open to those who do not have primary protection. Those with IP2014, unlike those with 2014 fixed protection—FP2014, as it is known—may continue to place savings in pension schemes. If, however, they exceed the limit, they will be subject to the lifetime allowance charge when they take their benefits.

In the autumn statement 2012, the Government announced that they will reduce the lifetime allowance from £1.5 million to £1.25 million from the 2014-15 tax year onwards. In essence, that means that those who have accrued pensions in excess of £1.25 million will now be subject to the lifetime allowance charge. Pension benefits in excess of that are subject to the lifetime charge. The rate of the lifetime allowance charge is 25% if the excess is taken as a pension, or 55% if it is taken as a lump sum.

Going back to the original introduction of the lifetime allowance in April 2006, at £1.5 million, those with pots exceeding that amount before 2006 could apply for that primary protection, or enhanced protection. The intention behind that was to ensure that those whose pots already exceeded the lifetime allowance before its introduction would not incur unfair charges. Following a period of growth, the lifetime allowance was decreased to £1.5 million in 2012, and it is now being decreased again. In order to protect those who have exceeded it in the interim, the Government have introduced the transitional measures. Last year's Finance Bill introduced the FP2014 scheme, which ensured that the lifetime allowance for certain pots remained at £1.5 million, subject to certain conditions.

We have no objection in principle to what is being done with HMRC's tax-raising powers. We note, however, that the introduction of the clause will have cost implications for pension providers, mostly through providing checks and evaluations to those who wish to apply for IP2014. We also note the cost implication for HMRC, which is estimated at £1 million.

I have a couple of questions for the Minister about the clause. According to the tax impact and information note accompanying the measure, although an assessment has been made of its impact on small and medium-sized enterprises:

> "It would not be appropriate for the measure to apply differently according to the size of the firm within which the affected workers operate."

Does the Minister have any comment to make on that statement?

The tax impact and information note also provides the estimate that the implementation of the measure will cost HMRC £1 million. The Minister might argue that that is not a huge amount in the global scheme of things, but I would again argue that we are talking about HMRC's resource and staffing budgets, and any implications for HMRC arising from the measure. Finally, looking ahead, will he confirm whether he has any plans further to reduce the lifetime allowance at any point?

Mr Gauke: Clause 41 and schedule 4 provide a new transitional protection regime from the lifetime allowance charge, known as individual protection. Its introduction, alongside the previously announced fixed protection, is intended to give individuals greater flexibility in how they choose to protect pension savings built up before 6 April 2014 from the lifetime allowance charge.

To ensure that the pension tax relief system is fair, affordable and sustainable the Government have reduced the lifetime allowance from £1.5 million to £1.25 million, and the annual allowance from £50,000 to £40,000, from the 2014-15 tax year onwards. The changes were legislated for in the Finance Act 2013 and will restrict the cost of pension tax relief by about £1 billion a year.

Around 98% of pension savers nearing retirement have pension pots below £1.25 million and so will be unaffected by the change. To prevent pension savers who have built up pension savings above or near £1.25 million from being subject to retrospective tax charges, we originally introduced fixed protection. That gives individuals a protected lifetime allowance of £1.5 million, although there are restrictions on future savings. Following informal discussions with interested parties on whether a further protection regime should be offered, we announced in last year's Budget that an individual protection regime would also be offered.

A consultation document on individual protection was published on 10 June 2013. Nearly all respondents welcomed the flexibility provided by the further protection regime. A summary of the consultation responses and updated draft legislation were published alongside the autumn statement.

Cathy Jamieson: I understand that some changes were made as a result of the consultation. Will the Minister say whether account was taken of a point raised by the Association of Taxation Technicians about the time scale for notifying HMRC of an intention to rely on IP2014? It suggested that there should be some inflexibility on that. It also suggested a publicity campaign to raise awareness among people who need to make such notifications to HMRC.

Mr Gauke: HMRC has published comprehensive guidance on both individual and fixed protection, and the Government have issued a number of alerts to highlight the new protection regimes, which have received comprehensive coverage in national newspapers. Messages have recently been published on the HMRC website and websites of intermediaries, and a full communications strategy will be implemented in August when the application form becomes available. HMRC has worked with the pension industry and pension advisers to help to raise awareness of the new protection regime. About 50,000 individuals applied for fixed protection before 6 April this year. I hope that provides some reassurance to the hon. Lady on that point.

The clause and schedule set out the detail of how individual protection will work. Individuals with pension savings greater than £1.25 million on 5 April 2014 will be able to apply for individual protection provided that they do not have existing primary protection. Individual protection will give them a protected lifetime allowance equal to the value of their pension savings on 5 April 2014, subject to an overall maximum of £1.5 million. Unlike fixed protection, there are no restrictions on future pension savings. Individuals with individual protection can therefore continue to save into their pension scheme, if they wish, with tax relief on those savings. However, as their lifetime allowance will be the value of their savings on 5 April 2014, if the value of the savings increases after that, a lifetime allowance charge will be due on the excess when they take their benefits. Individual protection will particularly benefit those who do not want to opt out of their pension scheme, for example, because they receive a valuable employer contribution. It is estimated that some 120,000 individuals will have pension savings above £1.25 million in April 2014 and may be eligible to apply for individual protection.

I was asked about the impact on SMEs and why they are treated the same as large firms. The entire pension industry is treated the same as it is difficult to legislate for different firms. As for whether pension providers will face a cost, the costs are to provide valuations and change guidance, which is much the same as for all other protection regimes when such a change is made. As for HMRC's implementation costs for a new IT database to monitor compliance and provide certificates, if the hon. Lady wants a lengthy debate on HMRC and its resources, I would be more than happy to oblige, given its ever-increasing yield and improved customer service. I suspect, however, that were I to go on for too long, I would displease you, Mr Streeter, so I shall avoid doing so.

On whether there are further plans to reduce the lifetime allowance, which is the sort of question that the hon. Lady would ask, I would say that the Government have no plans to do that. All tax measures are kept under review, but we have no plans to return to that matter.

Following those clarifications, I shall conclude by saying that the clause ensures that individuals have a choice about how they protect existing pension savings. It follows extensive consultation and supports the steps taken by the Government to ensure that the pension tax regime is affordable and fair. I therefore hope that clause 41 and schedule 4 will meet with the approval of the Committee.

Question put and agreed to.

Clause 41 accordingly ordered to stand part of the Bill.

Schedule 4 agreed to.

Clause 42

Taxable specific income: effect on pension input amount for non-UK schemes

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

Cathy Jamieson: I will be extremely brief on this clause, which is technical and removes an anomaly resulting from the employment income tax legislation's interaction with the treatment of employer contributions to relevant non-UK schemes, which could have led to another measure in clause 49—on employment-related securities—creating unintended tax and national insurance liabilities for internationally mobile employees. Subsections (2) and (3) will ensure that when assessing the annual allowance charge any taxable specific income is treated the same as other employment income that is taxable. On that basis, we do not oppose the clause.

Mr Gauke: I thank the hon. Lady for her support. She has said all that needs to be said.

Question put and agreed to.

Clause 42 accordingly ordered to stand part of the Bill.

Clause 43

PENSION SCHEMES

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

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

Government amendments 6 to 10.

That schedule 5 be the Fifth schedule to the Bill.

3.30 pm

Mr Gauke: Clause 43 and schedule 5 make further changes to tackle the growing threat of pension liberation fraud, in which individuals are encouraged to access their pension savings before reaching the age of 55. The measure supports the Government's objective of fairness in the tax system by maintaining the integrity of pension tax relief. The changes will give HMRC the powers that it needs to identify and tackle pension schemes that are being used as, or are intended to be used as, liberation vehicles. The measure also provides changes supporting future regulatory action by the Pensions Regulator in the relevant area.

Over the past few years there has been a growing threat to individuals' hard-earned pension savings: a number of unscrupulous companies have been encouraging individuals to take money from their pension fund early. Such firms charge high fees and often do not tell the individual of the tax consequences of taking their pension early, resulting in the individual being left with little or no pension savings for their retirement. It is commonly known as pension liberation.

The Government are committed to tackling pension liberation to ensure that individuals who save in a pension scheme have their pension funds available to them when they retire, so that they can make the right choices about providing for their retirement.

Ian Mearns: Everything that the Minister has just said rehearses the points that the Opposition made earlier in the debate and bears out our concerns. There are unscrupulous people out there who are willing to take advantage of people with the ability to access their own funds.

Mr Gauke: I have two points to make in response to the hon. Gentleman. First, if we are going to return to the earlier debate, I made it clear that the Government have initiated a process and are consulting in order to ensure that the appropriate guidance is provided to the people affected. That is the sensible response.

Secondly, I fully acknowledge the hon. Gentleman's point that there are unscrupulous people out there who will try to persuade people to act unwisely if—to use the phrase he used—they have access to their own funds. That is true, but it is not an argument for saying that people should not have that access, and I am sure that he does not want to make that argument. The Government are always determined to deal with those who will act unscrupulously in a way that is to the detriment of the public. The measures before us are an example of our determination to do that.

Let me set out the changes made by the clause in more detail. They will give HMRC new powers to help to detect and prevent pension liberation schemes from being registered for tax relief. In addition, they will make it easier for HMRC to de-register such schemes. Another aspect of the changes supports future regulatory action by the Pensions Regulator in order to protect members' interests. The Pensions Regulator will typically decide to intervene because the trustees are suspected of involvement in pension liberation. As part of the intervention, independent trustees or scheme administrators may be appointed at the instigation of the regulator. The changes ensure that the independent trustees or scheme administrators will not be made liable to pay certain tax charges for the pension scheme relating to events that occurred before they were appointed. Instead, the person liable to pay such charges will be the last scheme administrator to act before the regulator intervened.

To ensure that schedule 5 works fairly and as intended, we have tabled a number of amendments. Amendment 9 will give the former scheme administrator a right of appeal against liability to pay the tax charges being imposed on them. It will also ensure that, after the regulator's intervention has ended and a new scheme administrator is appointed, all outstanding tax liabilities of the scheme will become due from the new administrator.

Amendments 6 to 8 and 10 make a number of improvements to the drafting of paragraphs 19 and 21 of the schedule. Currently, the risk of becoming liable for tax charges incurred as a result of the liberation activities of the previous scheme administrator is discouraging professional firms from agreeing to act as independent trustees. The changes will remove this obstacle to the Pensions Regulator taking effective regulatory action.

The clause and schedule will help to protect vulnerable people who have saved money for their retirement, and will protect individuals from pension liberation. They also support the Government's efforts to tackle abuse across the tax system. I therefore hope that the clause and the schedule, as amended, will meet with the approval of the Committee.

Cathy Jamieson: Clause 43 is important, and I welcome what the Minister has said about it so far. As has been outlined, schedule 5 enhances HMRC's powers in the battle against so-called pension liberation. There has been an extensive trade in pension transfers to suspect pension providers, which exploit pension loopholes and, in many cases, pension holders.

The matter was first brought to my attention by constituents who had fallen prey to people trying to persuade them to unlock—as it was described to them—their pensions; and by my hon. Friend the Member for Motherwell and Wishaw (Mr Roy), who, along with the *Daily Record*, exposed in 2012 how many former Ravenscraig workers were being approached by unscrupulous sources trying to get them to unlock their pensions and put themselves in a difficult situation.

[Cathy Jamieson]

The practice was also happening in my own constituency, as I mentioned earlier, when there were changes to the Diageo work force. People were being approached with the promise of access to their pensions, but without any proper information as to what the tax consequences would be. In some instances, when people discovered that they had been scammed, they turned to properly regulated independent financial advisers to try to sort out the problems that they had got themselves into. The attempt to shut down such arrangements is therefore welcome.

Clause 43 seeks to shut down another liberation device, which creates a tax-free payment by artificially creating a surplus within a registered pension scheme through a member surrendering their pension rights. That is not an authorised pension payment and is liable to income tax charges of up to 70%.

Under the new powers, HMRC will be able to enter the business premises of a scheme administrator to inspect documents relating to the pension scheme and to impose a series of penalties on scheme administrators and individuals for failure to present information, or if the information is inaccurate. Again, that is welcome, and independent financial advisers to whom I have spoken feel that that is necessary.

It is unfortunate that people have fallen prey to unscrupulous firms and advisers who claim to be able to give savers early access to their pensions. They do so by registering a new pension scheme and encouraging the individual to transfer some or all of their benefits to that scheme, without telling the individual that such unauthorised payments incur a punitive tax charge, often of more than half the unauthorised payment.

Schemes are often sold without any mention of the possible tax liability. In some extreme cases that I have been made aware of, false claims were made that the liberated sum was tax free. However, the saver is exposed to a combination of taxation up to 55%; commission to the advisers who facilitated the unauthorised payment, which is usually about 35%; and hefty administrative costs.

That particular trade, if I could call it that, often preys on people who are vulnerable or who, for whatever reason, require immediate access to funds. Often, the amounts are below the new trivial commutation lump sum limit of £30,000. People who were preyed upon were often those whose financial circumstances made it difficult or impossible to raise funds in a more conventional manner, and people who had not got proper professional advice. The points made by my hon. Friend the Member for Birmingham, Ladywood earlier in the debate are indeed pertinent.

We welcome the clampdown on pension liberation schemes. The repercussions of being caught using unauthorised payments are severe. It can potentially wipe out an individual's entire pension savings. Given that, as we discussed earlier, some individuals who are caught out are victims of unscrupulous firms and advisers, it seems that some measure of individual intent be taken into account when choosing what penalty to apply.

I want to bring the Government's attention to the recommendations. It has been suggested that there ought to be some discrimination between determined tax evaders and the innocent victims of exploitation. Has the Minister considered the measures outlined by the Low Incomes Tax Reform Group to ensure that individual victims of unscrupulous pension providers and advisers are protected? Is he aware of arrangements, which were also highlighted, that allow savers who have chosen a retirement date of 60 to transfer their pension rights into the new schemes, which allow them to access 25% tax-free at age 55, before extracting a substantial fee? I know the Minister will be concerned about that. Does he agree that, although technically permissible, such arrangements should be proscribed where it is clear that they are being established solely to access the 25% tax-free and, more pertinently, to extract substantial fees for the adviser?

Mr Gauke: I thank the hon. Lady for her support for the measures. The matter is important, as she has highlighted. The Government are doing a great deal to warn individuals about pension liberation. The Pensions Regulator produced the Scorpion campaign to warn pension scheme members of the risks of seeking to liberate their pension, and it provides useful guidance to trustees and pension scheme administrators to help them spot pension liberation vehicles. TPR has also acted to secure and protect money already transferred to pension liberation vehicles, including through court action and appointing independent trustees.

HMRC has published warnings and factsheets detailing the tax consequences of being involved in pension liberation. The National Crime Agency has acted to take down or disrupt websites used to facilitate pension liberation and fraud; the National Fraud Intelligence Bureau and Action Fraud have facilitated collating and disseminating intelligence of suspected pension liberation vehicles; the City of London police has conducted raids and made arrests; and we urge people to recognise the dangers of entering into pension liberation schemes and to read the guidance issued by HMRC, the Pensions Regulator and the Financial Conduct Authority, which sets out various warning signs to look out for. So the Committee can see that across government there has been a real determination in this area.

HMRC has an active programme to tackle all attempted misuse or abuse of the pension tax rules. As part of that, HMRC will continue to work to identify promoters and schemes that seek to abuse the pension tax rules. The vast majority of pension funds abide by their legal obligations, but HMRC will not hesitate to act where rules are not adhered to, and it will pursue the promoters of liberation schemes for all penalties due under the legislation. It is far more important that individuals recognise the dangers of entering into such schemes and do not put their retirement savings at risk in the first place. We want to ensure that individuals with pension savings are protected, so that those savings are available to provide benefits for them later in their life. Where an individual thinks they may have received a liberation payment, it is essential that they contact HMRC as soon as possible to ensure that the correct tax is paid.

3.45 pm

I do not want to be drawn into individual cases without knowing all the details. None the less, this matter is important. I am pleased that we have the

support of all members of the Committee and I hope that the clause and schedule, as amended, can stand part of the Bill.

Question put and agreed to.

Clause 43 accordingly ordered to stand part of the Bill.

Schedule 5

PENSION SCHEMES

Amendments made: 6, in schedule 5, page 232, line 31, leave out 'the relevant day' and insert '—

(i) the day on which the trustee's appointment as mentioned in paragraph (a) takes effect, or

(ii) if the trustee is appointed as mentioned in paragraph (a) on more than one occasion, the day on which the first appointment takes effect'.

Amendment 7, in schedule 5, page 234, line 41, leave out 'the liability of' and insert 'retained or assumed by'.

Amendment 8, in schedule 5, page 234, line 45, leave out from 'be' to end of line 46 and insert

'retained or assumed by the person who was, or the persons who were, the scheme administrator when there last was a scheme administrator before the relevant day (unless dead or having ceased to exist).'.

Amendment 9, in schedule 5, page 235, line 17, leave out 'section)."' and insert 'section), and in particular the liability continues to be a liability of the scheme administrator for the purposes of section 271(2).

"(10) If a person assumes the liability under section 271(2) at a time after P or Q's appointment as, or as one of the persons who are, the scheme administrator has ceased, the person who has, or the persons who have, the liability by reason of subsection (3) or (4) is, or are, released from the liability.

(11) A person who has, or persons who have, the liability by reason of subsection (3) or (4) may apply to an officer of Revenue and Customs to be released from the liability.

(12) Section 271(6) to (13) applies in relation to an application under subsection (11) as it applies in relation to an application under section 271(5)."'

Amendment 10, in schedule 5, page 235, line 39, leave out sub-paragraph (3).—*(Mr Gauke.)*

Schedule 5, as amended, agreed to.

Clause 44

GLASGOW GRAND PRIX

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

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

Amendment 13, in clause 45, line 6, at end insert—

'( ) The Chancellor of the Exchequer shall carry out reviews of the effects of the operation of the provision made by or under this Clause.

( ) The first review must be completed before the end of the period of five years beginning with the date on which section 45 of this Act, so far as it inserts this section, comes into force.

( ) Subsequent reviews must be completed before the end of the period of five years beginning with the date on which the previous review was completed.

( ) A report of each review must be laid before both Houses of Parliament.

( ) A report of each review must be made available to the Treasury Select Committee.'.

Clause 45 stand part.

Catherine McKinnell: And now for something completely different, in the words of Monty Python.

The Chair: Order. The same Bill, I hope.

Catherine McKinnell: Clauses 44 and 45, and amendment 13 relate to provisions for tax exemptions for non-UK resident competitors at major sporting events. Those provisions have made regular appearances in successive Finance Bills in recent years.

The provisions in clause 44 follow on from those considered in previous Finance Bills by providing for exemptions for the Sainsbury's Glasgow grand prix event at Hampden Park in Glasgow. It is an IAAF diamond league fixture that takes place just two weeks before the Commonwealth games. The provisions in clause 45 introduce powers to make such provisions outside of primary legislation such as a future Finance Bill.

The issue was debated at length at the Committee stage of the 2012 Finance Bill. That lively discussion focused on the exemption from UK taxation of the income of non-resident footballers and team officials in relation to the UEFA champion's league final. The issue stems from the landmark case of 2004 against the tennis star, Andre Agassi, in which HMRC was successful. The 2004 ruling meant that, in practice, the number of days that a foreign athlete or sportsman or woman spends training or competing in Britain in a year is apportioned on the basis of the proportion of events that an athlete trains and competes around the world. HMRC then uses that figure to calculate the percentage of global income that is taxable. If that is not correct, I am sure that the Minister will set out the correct details in his response.

The current situation has led to growing concerns that the UK may be seen to be closed to sport, thereby deterring organisers from considering the UK as a location for their event, and prompting sportsmen and women to question whether participation in an event staged in the UK should be included in their schedule. We therefore find ourselves in the situation where tax exemptions for sporting events have been dealt with on an ad hoc basis in Finance Bill to Finance Bill. As a result, some athletes and professional sportsmen and women have benefited from exemptions from some sporting events, while others have not.

The Finance Act 2006 provided for both income tax and corporation tax exemptions at the 2012 London Olympic and Paralympic games. The Finance Act 2011 provided for income tax exemptions for the 2011 champion's league final at Wembley, while the Finance Act 2012 made similar provisions for last year's champion's league final at Wembley if either team were foreign—of course. The Finance Act 2013 provided for income tax exemptions at last year's London anniversary games, and at this year's Glasgow Commonwealth games, which the then Economic Secretary, the right hon. Member for Bromsgrove (Sajid Javid), said would encourage

"world-class athletes to take part in each event",

which the Government saw as a "key objective".

[Catherine McKinnell]

As my hon. Friend the Member for Kilmarnock and Loudoun pointed out in last year's Finance Bill Committee, those piece-by-piece provisions have been fluid and have changed from event to event. She said that that had created either a real or a perceived unfairness and that, of most concern, it had led to uncertainty for participants in events, organisers, officials, fans and spectators who want to compete in or watch major sporting events in the UK. Clause 44 continues the event-by-event approach by providing for an income tax exemption for non-UK resident accredited competitors at the Glasgow grand prix athletics event in respect of any income arising from the event.

Returning to a similar debate in last year's Committee, the then Economic Secretary, whom have I have already quoted, stated that the main driving factor behind the exemptions was to secure elite international events that otherwise would not be possible, saying:

"The Government's policy is that such tax exemptions are provided when they are a requirement of the bidding process to host an international sporting event at the highest level of world sport. That is why, for example, exemptions were provided for the Olympic games in 2012 and the champions league final in 2013 at Wembley stadium."—[*Official Report, Finance Public Bill Committee,* 16 May 2013; c. 160.]

I am sure the Minister this afternoon will confirm that securing another diamond league grand prix in Glasgow shortly before the city hosts the Commonwealth games was contingent upon the exemptions provided for in clause 44.

As I have outlined, successive Ministers have made clear—and have been supported by the Opposition—that, aside from meeting bidding requirements, these exemptions are necessary to attract world-class sportsmen and women to compete in events in the UK. According to an article in *The Scotsman* last week, Usain Bolt will "almost certainly" be taking part in the Sainsbury's Glasgow grand prix at Hampden park. That event is taking place just two weeks before the Glasgow Commonwealth games, in which the article reports it is "95% certain" that Usain Bolt will also compete. The article cites

"dispensation from taxes and all that sort of thing".

The consequence of provisions in clause 44 is one of the main reasons why the organisers are so confident that the Olympic champion will be there. Perhaps the Minister can comment further on the speculation and enlighten the Committee on any information he might have about Usain Bolt competing in the games. It would be useful if the Minister could share any inside knowledge.

Clause 45 and our amendment 13 address this piecemeal legislation relating to sporting events and the fact that the issue recurs at every Finance Bill. It was announced at Budget 2014 that a power would be introduced to allow provisions to be made for income tax and corporation tax exemptions for major sporting events, using secondary legislation instead. According to the explanatory notes the clause introduces a new power to allow the Government to make provision "by Treasury regulations" for income tax and corporation tax for major sporting events, thereby unfortunately removing the need to debate these issues every year in the Finance Bill Committee. The clause provides that regulations made under this power must be approved by resolution of the House of Commons. The Government have said:

"This will allow for more flexibility whilst retaining parliamentary scrutiny of any proposed exemption or provision."

Perhaps most interestingly, the background note sets out the criteria by which the Government plan to grant certain exemptions for sporting events, while no similar details are provided in any other document—to the best of my knowledge, although I am happy for the Minister to correct me. That suggests that exemptions will be granted only if the event is

"world-class, internationally mobile, and where exemption by the host country is a requirement of a bid to host the event".

Although Ministers have made clear before that such provisions are often demanded as a condition of the event being held in the UK—the previous Labour Government agreed to make similar provisions ahead of the London Olympic and Paralympic games—I do that the definitions set out in the explanatory notes warrant further clarification. It would seem that a number of world-class sporting events held in the UK would be eligible under these guidelines, for which the Government have previously rejected tax exemptions.

For example, the IAAF diamond league series is widely seen as the highest level of athletic competition outside of international championships. There are 14 diamond league meetings being held across the world this year, two of which are taking place in the UK, at Glasgow and Birmingham, with Glasgow of course receiving the tax exemptions. In view of the criteria, surely the Sainsbury's Birmingham grand prix is equally internationally mobile—it could be taken elsewhere in the world. Indeed, it is certainly a world-class event and, now that the Government have granted tax exemptions for the other two UK-based diamond league events, the precedent is there to grant a similar exemption.

Ian Mearns: I know some detail about the bidding for diamond league events such as the event in Birmingham that my hon. Friend has mentioned. Gateshead stadium has hosted diamond league events in the past and the UK faces hot competition in attracting such events, which are intensely important to the world athletics circuit. Unfortunately, that stiff competition means that, unless we have exemptions, there is a real danger that such events will go to other European cities.

Catherine McKinnell: My hon. Friend raises an important point. As a fellow north-eastern MP, I know that not only are these important sporting events, but that the areas that win the bid to host them see major economic consequences. There appears to be a lack of clarity and, therefore, either real or perceived fairness in the way the exemptions are granted.

Charlie Elphicke (Dover) (Con): The hon. Member for Gateshead made a powerful point. In our debates in the Finance Bill Committee in 2012, I had doubts about these exemptions; however, having thought about it, I think the ferocity of the international competition for these events means that a strong case can be made for them. People will come here and spend money, and some of that spending will result in extra tax revenue for the UK. There is a serious issue: we are in an international, competitive marketplace and we need to do everything we can to grow our economy.

Catherine McKinnell: I thank the hon. Gentleman for his intervention; I will be interested to hear the Minister's response.

This issue was put to the then Economic Secretary—now the Secretary of State for Culture, Media and Sport—who suggested that the Government's policy for tax exemptions was in part to build on the Olympic legacy and to support athletic competitions that include para-athletic events. With specific reference to the Birmingham grand prix, he said:

"The London anniversary games and the Glasgow Commonwealth games 2014 are both exceptionally placed to build on the Olympics' legacy. For example, both events will not only be multi-sport, but will include para-athletic events, which is not usually the case for the diamond league. It is in order to keep promoting the legacy of the Olympics that we have provided special treatment here and not for a similar event in Birmingham."—[*Official Report, Finance Public Bill Committee,* 16 May 2013; c. 160.]

In the light of the Government's decision to grant exemptions for another British diamond league grand prix and the fact that events such as the Birmingham diamond league grand prix now seemingly meet the criteria for future exemptions as outlined in the explanatory notes, will the Minister today restate the Government's position? Are they still of the view that the London anniversary games and the Glasgow grand prix warrant special circumstances as they build on the Olympic legacy and include para-athletic events? If so, should the eligibility criteria for future exemptions not make that clearer?

Can the Minister say what other future sporting events he envisages becoming eligible for tax exemptions for non-resident competitors as a result of this clause? Do the Government plan to extend the number and range of events that are eligible for such exemptions beyond football, athletics and the Olympic and Commonwealth games?

There is a great deal of uncertainty surrounding this deal, so amendment 13 would commit the Government to review these questions and, more importantly, decisions that they will take over the next five years on tax exemptions to ensure effectiveness. As we set out, since the Olympic and Paralympic games—but by no means ending with them—not only has the UK become an increasingly important destination for international sporting events, but the Treasury has found itself reacting on a case-by-case basis to tax decisions on such events, which are becoming a more regular feature on the UK sporting calendar. Amendment 13 would ensure that the Treasury never had to catch up with events because it would keep them constantly under review. To expand the debate outside the remit of the Committee—not that I underestimate the valuable contribution that all hon. Members make to the debate—amendment 13 also seeks the views of the Treasury Committee and its expertise as part of these five-yearly reviews.

4 pm

Mike Kane: Does my hon. Friend agree that sport can bring regeneration to our regional economies? In the late 1990s, as a serving Manchester city councillor, I stood on the steps of the Manchester velodrome that we had built as a precursor to bidding for the 2002 Commonwealth games. It was built on a bleak, desolate, many-acre site to the east of the city that had been de-industrialised in the 1970s and 1980s due to structural economic change. The development was labelled as the greatest white elephant in Britain by some of the press, but if Manchester velodrome had been a country at the 2012 Olympic games, it would have come seventh in the medal table. The development led to the building of the City of Manchester stadium, the national taekwondo centre, the national squash centre and the national hockey centre, so my hon. Friend is putting forward an essential argument.

The Chair: That was a very long intervention. Interventions should be brief.

Catherine McKinnell: My hon. Friend gives an example of the eminent contributions that Committee members make to the debate. He also pre-empts a point I am about to make, which my hon. Friend the Member for Kilmarnock and Loudoun raised in last year's Finance Bill Committee. Two years ago, the Government cited a MasterCard study that estimated that, having lost out on hosting the 2010 UEFA champions league final in London, in part due to the UK's tax law, when the 2011 UEFA champions league final was held at Wembley, it yielded £45 million for the London economy. That is clearly not to be glossed over. Indeed, in Manchester, Birmingham and many parts of the country, we have seen the huge value that such sporting events bring to various parts of our economy.

As a Newcastle MP, I could not help but cite figures from the local inward investment agency, NewcastleGatestead Initiative, which show that tourism's contribution to the economy increased by £400 million, or 8%, between 2011 and 2012. A large part of that increase can be attributed to the Olympic football matches that were hosted at St James' Park. We are looking forward to the prospect of hosting three matches in the 2015 rugby world cup which, by some estimates, could boost the north-east's economy by more than £14 million, as about 50,000 overseas fans are expected to visit the region during the tournament.

What assessment has the Minister made of the economic benefits of sporting events to the national and local economies? Has any analysis been carried out of the economic benefits to Glasgow and the UK of staging the Commonwealth games and the Glasgow grand prix? Has any comparison been made between the effects of providing tax exemptions for such events and not doing so? Equally critically, do the Government have any plans to carry out such assessments when deciding whether to expand the number of events eligible for tax exemptions?

Those questions are the essence of amendment 13, which is a reasonable provision that would ensure that we have fully informed and timely reviews of UK tax policy that is consistent with the Government's stated aims of continuing the London 2012 Olympic and Paralympic legacy, and making the UK one of the premier sporting locations across a multitude of sports, given the social and economic benefits that such events bring. I urge the Committee to support the amendment.

Mr Gauke: Clause 44 provides an income tax exemption for non-UK resident competitors on any income received as a result of their performance at the Glasgow grand prix 2014, or as a result of any activities in the UK between 5 July and 14 July 2014 to support or promote

[Mr Gauke]

that athletics event. As we have heard, clause 45 introduces a new power that will allow the Government to give exemptions from income tax and corporation tax for specific sporting events held in the UK.

On clause 44, hon. Members will be aware that the Government introduced exemptions for some highly successful major sporting events in recent years, including the London 2012 Olympic and Paralympic games. The Government's policy is to consider providing a tax exemption for internationally mobile events at the top level of world sport when that is a necessary condition of the bid, or in exceptional circumstances when there is an opportunity to prolong the legacy of the London 2012 Olympic and Paralympic games. The Government will therefore provide an income tax exemption for non-UK resident competitors at the Glasgow grand prix 2014 on an exceptional basis.

The changes made by clause 44 will provide an income tax exemption for non-UK resident competitors that will apply to appearance fees, prize money and endorsement income related to a performance at, or to support and promote, the Glasgow grand prix between 5 July and 14 July 2014. The exemption will not be for UK residents, nor will it be for non-competitors such as officials, sponsors or coaching staff. The Glasgow grand prix will be a two-day athletics and para-athletics competition at Hampden Park stadium. The cost of providing the exemption will be negligible and is likely to be offset by the economic benefits of raising the profile of the games.

As we heard from the hon. Member for Newcastle upon Tyne North, the Government have introduced exemptions for highly successful major sporting events in recent years, and debates on such exemptions are often the highlight of Finance Bill Committees. The bad news is that clause 45 means that it will no longer be necessary to use the annual Finance Bill to make exemptions or other provision. Instead, the Government will make future exemptions through statutory instruments. Hon. Members will be pleased to hear, however, that there will still be opportunity for debate, as such regulations will be subject to the affirmative procedure. They should contact their Whip to express their interest in participating in such debates.

The way in which the Government consider whether to grant exemptions will not be changing, just the process. The Government will still consider whether an event is world class and internationally mobile, and whether the exemptions are part of the conditions of a bid to host the event. The Government will also consider exemptions when, as for the London anniversary games, an event is exceptionally well placed to prolong the legacy of the highly successful 2012 Olympics and Paralympics.

As we heard from the hon. Lady, the Opposition have tabled an amendment to clause 45 that would require the Government to undertake regular five-yearly reviews of the effects of that clause. Although I commend hon. Members for their zeal in seeking to establish the effectiveness of Government policy, I cannot support the amendment. The Government review all tax policy in the appropriate place and at the appropriate time. Requiring reviews to be published for specific periods is inefficient and arbitrary. The Government might use the power only once in the next five years, for example, so undertaking to publish reviews to such a schedule would not be proportionate. Furthermore, the Government have already set out their view of the clause's effect in the tax information and impact note, which was published by HMRC in "Overview of Tax Legislation and Rates." Similar assessments will be published on later policy changes as and when they occur.

Catherine McKinnell: I apologise for interrupting the Minister's flow, and I appreciate that he believes that the Government do not need any help in formulating good policy. Perhaps he is about to explain this, but there is a lack of certainty in the existing guidelines and explanatory notes setting out the criteria. Why was the competition in Glasgow granted an exemption when the competition in Birmingham was not? How will things work under the new rules and guidelines?

Mr Gauke: I hope that I can reassure the hon. Lady by turning to those questions immediately. First, there is no change in policy. We will continue to consider exemptions for those events that meet the criteria which, as I have already stated, include whether an exemption is a necessary condition of a bid to host an internationally mobile event at the top level of world sport, or the exceptional circumstances that an event is an opportunity to prolong the legacy of the London 2012 Olympic and Paralympic games.

Specifically on diamond league events—and on why the Glasgow event is covered, but a similar event in Birmingham was not—the Glasgow grand prix will help to support the 2014 Glasgow Commonwealth games in maximising the legacy of the London 2012 Olympic and Paralympic games and spreading that legacy to Scotland. The situation needs to be put in that context. We therefore think it is wholly appropriate to support that athletic and para-athletic event. Unlike the Glasgow grand prix, and the London anniversary games, the Birmingham event does not have a para-athletic element, so it does not meet the Government's policy criteria.

It is worth pointing out that there are 14 diamond league events each year, two of which are hosted in the UK. They will be hosted in the UK in the future whether or not the exemption is provided. The Glasgow event is connected with the Commonwealth games, which we see as a way of continuing the Olympic and Paralympic legacy, which is why the exemption has been granted in that case.

Catherine McKinnell: I appreciate the Minister's explanation, but he has not really explained the new guidelines—if they can be called that—or the explanatory notes setting out the criteria. They do not necessarily include the criteria to which he refers as the basis for the decision in the Glasgow case. There still seems to be uncertainty about what will happen in the future, and it is important to establish as much certainty as possible at this stage.

Mr Gauke: I think that I am being clear, but I will have another go. The policy criteria for tax exemptions fall into two categories: first, when an exemption is a necessary condition of a bid to host an internationally mobile event at the top level of world sport; and,

secondly, the exceptional circumstances of an opportunity to prolong the legacy of the London 2012 Olympic and Paralympic games. We believe that the Glasgow grand prix falls into the second category, especially given the connection with the Commonwealth games and the fact that it is an athletic and para-athletic event. There has been no change in policy.

The hon. Lady asked about the economic benefits to Glasgow of hosting the event. No assessment has been made of the economic benefits, but it is worth drawing a parallel with the London anniversary games, the direct economic impact on London of which was £15.2 million. To be fair, that was a three-day event while the Glasgow grand prix will be two-day event for which fewer tickets are available, but I hope that that gives a helpful indication.

The hon. Lady wonders whether Usain Bolt will compete, but I cannot answer that question. I also doubt that I will receive inspiration on that point. However, I suspect that Usain Bolt is following these events closely, and I have no doubt that as soon he receives a copy of the *Official Report* of this debate, he will contact the hon. Lady directly to reassure her about whether he will attend.

4.15 pm

The hon. Lady raised a number of queries about the policy, as it was appropriate for her to do, given her role. I thank her for her broad welcome for the Government's approach to offering exemptions in such circumstances so that, for highly mobile individuals who have choices about where they locate, we have a competitive tax system that ensures that they will come to the UK. I am glad that she has taken that approach. She could have categorised the measures as a tax cut for millionaires, and she would probably have been right. None the less, I was delighted that the Opposition were supportive of the proposals, because it is important that we have a competitive tax system that attracts jobs and investment to the UK, which is exactly what we are doing. I hope that the Committee will support clauses 44 and 45 and that I have persuaded her to withdraw amendment 13.

The Chair: In a moment, the hon. Member for Newcastle upon Tyne North will indicate whether she wishes to move amendment 13 but, in the meantime, we must reach a decision on clause 44.

Question put and agreed to.

Clause 44 accordingly ordered to stand part of the Bill.

Clause 45

MAJOR SPORTING EVENTS: POWER TO PROVIDE FOR RAX EXEMPTIONS

Amendment proposed: 13, in clause 45, page 43, line 6, at end insert—

'( ) The Chancellor of the Exchequer shall carry out reviews of the effects of the operation of the provision made by or under this Clause.

( ) The first review must be completed before the end of the period of five years beginning with the date on which section 45 of this Act, so far as it inserts this section, comes into force.

( ) Subsequent reviews must be completed before the end of the period of five years beginning with the date on which the previous review was completed.

( ) A report of each review must be laid before both Houses of Parliament.

( ) A report of each review must be made available to the Treasury Select Committee.'.—*(Catherine McKinnell.)*

Question put, That the amendment be made.

The Committee divided: Ayes 10, Noes 16.

Division No. 6]

AYES

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

NOES

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

Question accordingly negatived.

Clause 45 ordered to stand part of the Bill.

Clause 46

SHARE INCENTIVE PLANS: INCREASES IN MAXIMUM ANNUAL AWARDS ETC

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

Shabana Mahmood (Birmingham, Ladywood) (Lab): It is a pleasure, Mr Streeter, to serve under your chairmanship again this afternoon. I was beginning to despair that I might not have an opportunity to contribute to the Committee today, but I am happy to find that I will get to have my say.

In essence, clause 46 does three things. It increases the maximum value of free shares that can be awarded annually to an employee from £3,000 to £3,600 by amending schedule 2 of the Income Tax (Earnings and Pensions) Act 2003. It increases the maximum value of partnership shares that an employee can purchase annually from £1,500 to £1,800, although the value still cannot be more than 10% of an employees' salary. Both those changes come into effect from 2014. Share incentive plans were introduced in July 2000 to give tax and national insurance contributions advantages to employees when they buy or are given shares in the company they work for.

Companies can offer one, or a combination, of four types of shares. The first type is free shares. An employer can award up to £3,000 of free shares in any tax year. The clause increases that amount to £3,600. An employer can choose to link the award of shares to its employees' performance. The second type is partnership shares. Employees can buy partnership shares using their gross pay, but there are limits on how much can be spent. The clause increases that limit from £1,500 to £1,800. The third type is matching shares, where employees can buy partnership shares that will be matched by their employer, giving them up to two free shares for every partnership share they buy. The fourth type is dividend shares. As a shareholder, employees may be paid dividends on their

[Shabana Mahmood]

shares. If dividends are received on free, partnership or matching shares, employers may allow employees to use those dividends to buy more shares. Employees can use up to £1,500 of plan dividends in that way in any tax year.

The impact of the clause on the Exchequer is a cost of £5 million in 2014-15, and the same amount in each year until 2018-19. Share incentive plans were introduced in 2000 as all-employee share ownership plans, which were the successor to the approved profit-sharing scheme, which ran from 1978 to 2002. They were rebranded in 2001 as SIPs, and very little detail had changed until the announcement in the autumn statement. We support the principle of encouraging saving through tax-advantaged schemes, but we want to ensure that this aspect of the tax system is having the desired effect and that take-up levels are good and spread out across different types of business and employee and across the economy, both by sector and by region.

The Quoted Companies Alliance welcomed the changes made under the clause. It made the point, which it has been vigorously pursuing, that the limits should rise in line with inflation. It would be helpful if the Minister indicated whether the Government have received additional representations of that kind. Are the Government reviewing the linking of limit rises to inflation or thinking of doing that at a later point?

This feature of the tax system is there because Governments of different party political persuasion have wanted to encourage employees to behave sensibly and responsibly by saving for their futures. It would be helpful if the Minister indicated whether the level of take-up is sufficiently high to justify Government incentivisation and intervention in this aspect of the tax system. This is one of the first changes to SIPs in a very long time, so is he sure that the change will, in and of itself, increase take-up? Is there sufficient knowledge of these schemes to ensure that they are as successful and taken up as much as possible?

Mr Gauke: The clause, as we heard, increases the limits on the value of shares that employees can obtain under share incentive plans. SIPs are all-employee share schemes under which employees can purchase shares or have shares awarded to them, with favourable tax treatment.

The clause increases, from 6 April 2014, the maximum value of SIP free shares that can be awarded annually to an employee from £3,000 to £3,600, and the maximum value of SIP partnership shares that an employee can purchase annually from £1,500 to £1,800. By helping employees to acquire a stake in the company they work for, SIPs have an important role in encouraging the work force to identify with the fortunes of the enterprise and to share in its success.

As a separate matter, we have also increased through secondary legislation the limits on the maximum amount employees can save under tax-advantaged save-as-you-earn share option schemes. These increases to the limits under the all-employee SIP and SAYE underline the Government's commitment to the schemes, which are popular with employees and employers alike.

To answer the hon. Lady's questions on take-up, in 2011-12 the number of companies with tax-advantaged employee schemes increased by 3%, to 9,260. Clearly, this measure should support that and a significant increase in the limit may further encourage take-up.

On whether the limits should be indexed and rise annually in the same way that ISA limits increase—we received a representation on that—it is worth saying that there are differences between SIP and SAYE employee share arrangements, which are available only to employees of certain companies, and ISAs, which are general purpose broad-based mainstream savings accounts used by millions of savers. Different considerations must be taken into account when setting limits for these schemes, including the need to ensure a fair distribution of tax advantages and helping people achieve flexibility in the way that they save and invest.

The increases in the SIP and SAYE limits that we have announced are significant and exceed a simple indexation of last year's limits. Although we continue to keep the limits under review, it is preferable to make ad hoc increases when we judge that they are affordable and when the time is right, rather than tying ourselves to a particular formula for annual increases.

The clause makes the scheme more generous and it has been widely welcomed. I hope that the clause meets with the approval of the Committee.

Question put and agreed to.

Clause 46 accordingly ordered to stand part of the Bill.

Clause 47

Share incentive plans: power to adjust maximum annual awards etc

Shabana Mahmood: I beg to move amendment 14, in clause 47, page 43, line 35, at end insert—

> (a) The Chancellor of the Exchequer shall, within six months of this Act receiving Royal Assent, undertake a review of the impact of changes made by this section to the Income Tax (Earning and Pensions) Act 2003 (share incentive plans) on—
>
> (i) the uptake of Share Incentive Plans;
>
> (ii) changes made to the maximum value of Share Incentive Plans that can be awarded to an employee;
>
> (iii) changes made to the maximum amount of an employee's salary that can be used to purchase Share Incentive Plans;
>
> (iv) the types of business using Share Incentive Plans.'.

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

Shabana Mahmood: The clause amends schedule 2 of the Income Tax (Earnings and Pensions) Act 2003, to allow future changes to share incentive plan annual limits to be made by Treasury order. The order-making power would apply to the maximum value of SIP free shares that can be awarded to an employee and the maximum amount of an employee's salary that can be used to purchase SIP partnership shares, both of which we have just discussed in relation to clause 46, under which those limits have been increased.

I hope that I will make myself popular with the Committee by saying that amendment 14 is intended as a probing amendment, designed to continue the debate that we have just had on clause 46.

The amendment is designed to press the Government and to ensure that we will be able to assess the impact of the changes that are being made. Of course, we support the principle, but I am sure that all Members agree that that principle should be effective in practice. I should like to press the Minister on take-up levels and the types of businesses, and therefore employees, that are using the tax-advantaged schemes.

We have already had lengthy discussions during the debate on clause 3 about the savings ratio being revised downward and the inability of many people to save anything at all, and we have discussed pension savings today, which are clearly important. We want to ensure that the measures before us encourage saving and that the people who need to be aware of it are aware of it, and use it in the way envisaged by successive Governments.

4.30 pm

Does the Minister know how much money companies will have to spend on human resources to ensure that they cover all aspects of clauses 46 and 47? Could the resource implications for companies prevent the proper take-up of such schemes, or prevent some types of business or sector from using them at all? Are there cold spots in terms of sectors and take-up? If so, does the Minister plan to review and reconsider any issues relating to such sectors with take-up cold spots?

We also discussed the shares for rights scheme earlier in Committee. Getting information on it has been difficult, so we want to continue to press the Government on the measure. The scheme is a long-standing feature of the tax system, and we support it, but we should look into its impact so that we can ensure that any increases to the limits will better enable employees to save, invest, and contribute to their own futures, alongside their gaining a real stake in the companies they work for.

Mr Gauke: Clause 47 alters the mechanism for future increases to the limits on the value of shares that employees can obtain under share incentive plans. As I set out during discussion of the previous clause, SIPs are all-employee share schemes under which employees can purchase shares, or have shares awarded, with favourable tax treatment.

The clause amends the legislation to allow future increases in SIP limits to be made by Treasury order, without the need for a provision in the Finance Bill. That will align the process between SIPs and save as you earn share option schemes. The change will come into force on Royal Assent.

The hon. Lady said that she hopes to be popular with the Committee by making it clear that amendment 14 is just a probing amendment. I am grateful for that and can reassure her that she is already popular, and I am sure that she has all her Back Benchers behind her on this occasion.

The amendment would require the Chancellor of the Exchequer to review the impact of the changes set out in clause 47 on the uptake of SIPs, the maximum value of free shares that can be awarded, the maximum value of partnership shares that can be purchased by plan members, and the types of businesses offering SIPs. The Government believe that such a review is unnecessary.

HMRC already publishes significant data on SIPs on an annual basis, including the number of companies offering the scheme, the number of employees who have purchased or been awarded shares, and the average value of those shares. Detailed data on the use of the schemes are also published by representative groups in the industry. All of that will provide sufficient information to allow the detailed assessment of the impact of the change. The measure is expected to have a negligible effect on businesses.

The clause makes worthwhile improvements to SIPs. In addition, HMRC will continue to publish data on SIPs as part of the annual share scheme reporting cycle, so processes are already in place to allow the policy's impact to be assessed. I therefore hope that the clause will be agreed to and that amendment 14 is, indeed, probing.

Shabana Mahmood: One always likes to be popular. I am grateful to the Minister for his comments and, further to his clarification, I am happy to beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 47 ordered to stand part of the Bill.

Clause 48

EMPLOYEE SHARE SCHEMES

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

The Chair: With this it will be convenient to consider schedule 6.

Shabana Mahmood: We have just discussed the increases in the SIP and SAYE scheme limits, which were announced in the autumn statement. In addition, the clause gives effect to several changes to the rules for employee share arrangements that were recommended by the Office of Tax Simplification.

In July 2011, the Minister asked the OTS to review the four schemes to identify when they are complex and place unnecessary administrative burdens on their users, and to suggest ways they could be simplified. The OTS report was published on 6 March 2012 and, in June 2012, the Government launched a consultation containing 16 proposals for changes to the rules of all four types of scheme. In December 2012, the Government confirmed that they intended to proceed with the three OTS proposals that are found in clause 48.

In May 2013, HMRC published details of its proposed arrangement for the self-certification of SIP and SAYE schemes and company share option plans, and digital filing of forms and returns for employment-related securities, or ERS. The main changes include the introduction of self-certification by businesses for three of the tax advantaged employee share schemes—SIP, SAYE and CSOP—to replace the need for approval from HMRC, which was previously required. Secondly, there are changes including online filing for all employee share scheme returns and information, including for enterprise management incentives—EMIs—and non-tax advantaged arrangements providing ERS. Thirdly, there are a number of technical changes to the SIP, SAYE and CSOP rules that are designed to clarify legislation, including the modification of the so-called purpose test that must be met by the schemes.

[Shabana Mahmood]

The changes aim to simplify the employee share scheme rules when they might create undue complexities or unnecessary administrative burdens for scheme users, so we are broadly supportive of the proposals in the Bill. The changes came into effect on 6 April 2014.

There has been helpful commentary on the changes, especially from the Quoted Companies Alliance. It broadly welcomed the changes, although it noted some points of concern, especially the decision not to grandfather previously approved schemes under the new regime. The alliance says that having to revisit schemes to see if they comply will place an unnecessary burden on businesses, so will the Minister tell the Committee what discussions he has had with the QCA and other stakeholders about such matters?

Is the Minister confident that, in the absence of a distinction in legislation between serious default and other breaches, companies that operate schemes without full-time HMRC share scheme managers will not find themselves facing substantial penalties for inadvertent but ultimately minor mistakes? A number of commentators have made that point. While broadly welcoming the changes, they have asked whether the Government have considered how best to assist smaller businesses without an in-house tax team, and unrepresented taxpayers, to understand the changes and their new obligations. Will the Minister outline the Government's views on those matters?

The QCA and one or two other organisations have been somewhat critical of the new purpose tests saying that they will be no more helpful than the previous tests. What is the Minister's response? Is he confident that the tests will represent a simplification?

Will the Minister also confirm whether, under the new system, if a company misses the deadline for self-certification, it will not mean that all the grants, for example of SAYE options, in the previous tax year no longer qualify for preferential tax treatment? That might go too far and could lead to uncertainty and hardship for employees potentially through no fault of their own.

Mr Gauke: Clause 48 introduces schedule 6, which gives effect to recommendations of the Office of Tax Simplification on employee share schemes. The Government asked the OTS in 2011, as we have heard, to review employee share schemes and identify ways in which existing tax provisions and processes might be simplified. Last year, we brought in a substantial package of changes to give effect to many of the OTS's recommendations on tax-advantaged schemes. We have now produced a second tranche to address further OTS recommendations on which we needed to undertake preparatory work and consultation before we could put detailed proposals before Parliament. This is just one of the Bill's provisions that implements OTS recommendations, and I pay tribute to that organisation for enabling us to take forward a major programme of tax simplification for employee share schemes in this year's and last year's Finance Bills.

Schedule 6 makes several changes that I shall run through fairly quickly. It removes the current requirement that a share incentive plan, save-as-you-earn option scheme or company share option plan must be approved by HMRC to qualify for favourable tax treatment, and replaces that with a process of self-certification of schemes by businesses. It introduces online filing for the information and returns on employment-related securities that companies are required to submit to HMRC and applies that to enterprise management incentives and non-tax-advantaged schemes and arrangements, as well as SIPs, SAYE option schemes and CSOPs.

The changes replace processes that the OTS told us were outdated and time consuming for businesses with up-to-date digital arrangements. Other changes under the measure clarify or simplify various technical rules governing the operation of such schemes. There are new, more specific purpose tests for SIP, SAYE and CSOP, and significant changes in areas such as requirements in relation to the provision of information by companies to scheme participants, variations of share capital, company events that are subject to overseas legislation and the exchange of options. HMRC has consulted extensively with businesses and leading professionals to make the new arrangements simple and user-friendly, and I am grateful to all those who have helped us to develop a system fit for the 21st century.

The hon. Member for Birmingham, Ladywood asked whether the system should have grandfathered existing schemes already approved by HMRC instead of requiring them to self-certify. The Government's view is that once the new system has come into operation, all schemes should be treated on the same basis, meaning that all schemes—new and existing alike—need to self-certify. Published guidance will make it clear that if a scheme received formal approval prior to 6 April 2014, HMRC accepts that the scheme met the legislative requirements on the date of approval. That will be sufficient evidence that the scheme is suitable for the company to self-certify, assuming that there have been no significant changes to the scheme or how it has operated since approval was granted.

4.45 pm

The hon. Lady asked whether HMRC's ability to impose penalties may result in innocent mistakes by companies being penalised, as well as raising a concern about whether these are the right powers. We believe that the new arrangements strike a reasonable balance. Clearly HMRC must have adequate powers to impose penalties when companies fail to comply with the new rules. It will be publishing guidance on how it expects the new penalties regime to work, which will include examples of the sorts of errors and omissions that might be considered serious and those that might be seen as less serious. HMRC aims to publish detailed guidance on the new rules by the time the Bill receives Royal Assent to provide information for companies and advisers on all aspects of the new arrangements. HMRC will undertake an informal process of consultation on the guidance to help make it as useful and comprehensive as possible.

Shabana Mahmood: What timetable on the consultation and publication of the guidance is the Minister hoping for?

Mr Gauke: The aim is to publish detailed guidance on the new rules by the time the Bill receives Royal Assent, which will be in July. HMRC will be undertaking

an informal process of consultation on the guidance but, as I said, the aim is to publish it by the time the Bill receives Royal Assent.

On the purpose test and whether it is narrow, the old purpose test broadly required that the scheme should not contain provisions that were not essentially or reasonably incidental to the purpose of providing shares or share options. The OTS told us that the test should be simplified and that the legislation should be more specific about what should not be included in a scheme. The new purpose test precludes schemes from providing benefits other than in accordance with the terms of the legislation and specifically bans the provision of cash in place of shares or share options. The new approach provides a straightforward and workable test that strikes a reasonable balance and should counter the most obvious types of abuse that might arise.

I turn to safeguards for members of existing approved schemes, if their employer fails to self-certify. In the case of SAYE, SIP and CSOP schemes approved by HMRC before 6 April 2014, companies must notify and self-certify them by 6 July 2015 if they wish the schemes to remain tax-advantaged from 2014-15 and in following years. If schemes are not properly registered by that date, they will no longer be tax-advantaged. In such cases, legislation will protect the interests of participants in the all-employee SIP and SAYE schemes in relation to shares awarded or options granted prior to 6 April 2014. However, there is no comparable protection for participants in discretionary CSOP schemes on options granted prior to 6 April 2014 in cases when the 6 July 2015 deadline for self-certification is missed.

With those points of clarification, I hope that the Committee will accept the clause and schedule. I hope that they demonstrate the Government's support for simplifying the tax system and ensuring that it is sensible and encourages businesses to award shares to employees.

Question put and agreed to.

Clause 48 accordingly ordered to stand part of the Bill.

Schedule 6 agreed to.

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

4.49 pm

Adjourned till Tuesday 13 May at ten minutes past Nine o'clock.