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)

Ninth Sitting

Tuesday 13 May 2014

(Afternoon)

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Saturday 17 May 2014

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

The Committee consisted of the following Members:

Chairs: †Martin Caton, Mr Gary Streeter

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

Matthew Hamlyn, Kate Emms, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 13 May 2014

(Afternoon)

[Martin Caton *in the Chair*]

Finance (No. 2) Bill

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

Clause 61

Business premises renovation allowances

Amendment proposed (this day): 21, in clause 61, page 52, line 41, 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 on—

(i) the uptake of the business premises renovation allowances (BPRA);

(ii) the number of BPRA schemes disclosed through DOTAS being investigated by HMRC; and

(iii) the value of BPRA schemes disclosed through DOTAS being investigated by HMRC.

(b) the Chancellor of the Exchequer must publish the report of the review and lay the report before the House.'.—*(Shabana Mahmood.)*

2.3 pm

Question again proposed, That the amendment be made.

The Chair: I remind the Committee that with this we are discussing clause 61 stand part.

At 11.25 am, the Minister had not quite finished, so I call him to conclude his remarks.

The Exchequer Secretary to the Treasury (Mr David Gauke): It is a great pleasure to welcome you back to the Chair this afternoon, Mr Caton. As you say, I had not quite managed to complete my remarks on clause 61 regarding business premises renovation allowances.

When we were interrupted, I was responding to the question from the hon. Member for Birmingham, Ladywood (Shabana Mahmood) about whether the definition used in proposed new subsection (2C) to section 360B of the Capital Allowances Act 2001 is exact enough. I was making the point that BPRA aim to offer relief on the cost of project management services provided to co-ordinate building works. In some BPRA schemes, the project management role can be much wider and can include attracting tenants or marketing the property to investors, which are not allowable expenditure. To focus the relief on managing the building works, allowable costs have been limited to 5% of the total cost of those works, which is considered to be in line with commercial rates for such activities. The legislation does not prevent more than 5% from being charged, but only a sum that relates to direct building works can be relieved. Her Majesty's Revenue and Customs will also examine claims to check whether they are realistic.

The hon. Lady also made a point about how many disclosures of tax avoidance schemes there have been in relation to BPRA. In 2011-12 there were 19; the same number in 2012-13 and 13 in 2013-14. During the period 2007 to 2011 there were 11 such disclosures. I have combined those years to ensure that individual schemes cannot be identified.

I shall quickly address amendment 21. It asks that the Chancellor, within six months of the Act receiving Royal Assent, undertakes a review of the impact of changes made by the clause. While the Government keep all tax policy under review, there is limited merit in conducting an evaluation in the way the amendment suggests. There are also a number of obstacles that mean it would not be possible. HMRC will not have the relevant data to conduct such an evaluation for another year. It is also worth pointing out that BPRA is due to end in April 2017 and a review of its effectiveness, based on the available data, will be carried out in the preceding year in line with the normal tax policy making practice. I think the hon. Lady said it was a probing amendment. I hope on that basis that I can persuade her not to press it to a vote.

Finally, clause 61 ensures that BPRA continues to benefit the most disadvantaged areas in the UK while preventing abuse by confirming its original intentions. That is the balance that we have to strike in terms of BPRA, the point made by the hon. Lady earlier. I believe we are striking that balance. I ask that the amendment be withdrawn and hope that that clause can start part of the Bill.

Shabana Mahmood (Birmingham, Ladywood) (Lab): It is a pleasure to welcome you back to the chair, Mr Caton. I am grateful to the Minister for his comments on the clause, particularly his explanation of the definitions used in new subsection (2C). We need to keep a watching brief on this area to ensure that it is not open to the abuse we have seen in the past, which we hope the clause will remedy. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 61 ordered to stand part of the Bill.

Clause 62

Mineral extraction allowances: expenditure on planning permission

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

Shabana Mahmood: Clause 62 aligns mineral extraction allowances with the existing principles of plant and machinery allowances. In Budget 2013 the Government announced that they would consult on proposals to align the treatment of assets for mineral extraction allowances with that for assets eligible for plant and machinery allowances where profits were not subject to UK tax. This confirms that MEA allowances can only be used for activities that fall under the ambit of British

taxation. It will prevent UK taxable profits from being reduced by offsetting activities that are not subject to British tax.

The changes to the legislation confirm that for the purposes of MEAs, a mineral extraction trade consists of an activity that is within the charge to UK tax. It also confirms that the activity of an exempt foreign permanent establishment is treated as a separate mineral extraction trade for the purposes of MEAs and aligns the treatment of MEAs with the existing principles for plant and machinery allowances. It further confirms that notional allowances will be given automatically in calculating the profit or losses of the exempt FPE as if the exempt FPE were within the charge to UK tax.

The tax information impact note tells us that the measure will affect a small subset of companies in the FPE regime that carry on a mineral extraction trade. What is the size of this subset? How many companies are carrying out the mineral extraction works that would be caught by the clause? The note tells us that the measure will be incorporated within routine IT and guidance changes. How long will it take for that to happen? How regularly will those routine changes in HMRC take place? Could the Minister set out the nature of the exempt FPE regime and tell us how many companies are involved?

Mr Gauke: As we have heard, the clause makes changes to the treatment of mineral extraction allowances where the mineral extraction activity enters or ceases to be within the charge to UK tax. The changes ensure that the treatment of MEAs is certain and consistent between businesses and aligns with the existing treatment for plant and machinery capital allowances. The changes also confirm that a mineral extraction trade consists of an activity that is within the charge to UK tax and that MEAs are available only in respect of activities that are within the charge to UK tax.

The Government announced at Budget 2013 that they would consult informally on their proposals to align, under the foreign branch exemption rules, the treatment of assets eligible for MEAs with the treatment of assets eligible for plant and machinery allowances. Section 18A of the Corporation Tax Act 2009 allows a company to elect for the profits and losses of its FPEs to be excluded from the calculation of profits chargeable to UK tax. There are specific rules for plant and machinery capital allowances that deal with FPEs, but there are no corresponding rules for MEAs.

As the Committee will be aware, capital allowances are made available in respect of capital expenditure on the provision of plant and machinery for the purposes of qualifying activities. The activities of a company are qualifying activities for capital allowance purposes only to the extent that profits or gains from the activity are chargeable to UK tax.

The clause amends the Capital Allowances Act 2001: to confirm that, for the purposes of MEAs, a mineral extraction trade consists of activity that is within the charge to UK tax; to provide for the activity of an exempt FPE to be treated as a separate mineral extraction trade for the purposes of MEAs; to introduce transitional rules for MEAs similar to those for plant and machinery allowances so that, where a disposal value is required to be brought into account, it will not, in most cases, give rise to a balancing allowance or balancing charge when a company elects into FPE exemption; and to stipulate that notional capital allowances are given automatically when calculating the profits or losses attributable to the FPE, as if it were within the charge to UK tax.

The clause will affect a small number of companies with MEAs in relation to foreign branches that choose to make FPE exemption elections. The companies most likely to be affected are mainly those in the oil and gas sector. There were only two responses to the Government's informal consultation on the proposed changes that closed on 20 September 2013. Both responses recognised the need for the proposed changes and raised some technical points that were considered when finalising the clause's detailed provisions. Since the draft legislation was published with the autumn statement on 5 December 2013, there have been no representations from companies or their advisers suggesting that any changes to the clause are needed.

I have no information on the size of company subset, as companies in the oil and gas sector may have overseas operations. In answer to how long it will take HMRC to adapt and update the guidance, the guidance will be published in October 2014. I hope that information is helpful. As I said earlier, a small number of companies with MEAs in relation to foreign branches that choose to make FPE exemption elections will be affected by the change. Those companies are likely to be in the oil and gas sector, but I cannot be any more specific. I hope the hon. Lady finds that answer helpful.

In conclusion, the clause brings the treatment of MEAs into line with the existing rules for plant and machinery allowances and confirms that MEAs are only available in respect of activities within the charge to UK tax. I hope the clause will stand part of the Bill.

Question put and agreed to.

Clause 62 accordingly ordered to stand part of the Bill.

Clause 63

Mineral extraction allowances: expenditure on planning permission

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

2.15 pm

Shabana Mahmood: As we discussed in relation to clause 62, companies involved in extracting deposits from the earth—for example, sand, gravel, oil, hard rock or geothermal energy—can claim mineral extraction allowances. MEAs are available, first, for mineral exploration and access expenditures at 25%, but that is broadly all expenditures up to first production from a source. If a company gets to the point of planning permission but does not then get it, it can get relief at the rate of 25%. Secondly, MEAs are available if a company is successful in its planning application, at which point it is deemed to have acquired a mineral asset and the relief is levelled at 10%. The clause means that, if planning permission is granted, the expenditure attracts the higher 25% rate of relief, therefore aligning the treatment of successful and unsuccessful applications because the costs of a successful planning application will now be treated as expenditure on mineral exploration and access, rather than on acquiring a mineral asset.

[Shabana Mahmood]

I have a few questions for the Minister. It would be helpful if she could set out the rationale for the previous differential treatment of the two types of application and expenditure, and the reason for them now being aligned. What representations did she receive which persuaded her to make that change? It would be helpful if she would explain how many companies are active in this area and will now avail themselves of the change made.

The Financial Secretary to the Treasury (Nicky Morgan): It is a pleasure to serve under your chairmanship, Mr Caton. I thank the hon. Member for Birmingham, Ladywood for her comments.

The clause makes changes to the treatment of costs associated with successful planning permission for the purposes of mineral extraction allowances. The changes ensure that costs incurred by the mineral extraction industry on successful planning permission are treated as expenditure on mineral exploration access, rather than expenditure on acquiring a mineral asset. This accelerates the tax relief available to companies in respect of these costs. It is expected to facilitate investment in the mineral extractives industry.

Mineral extraction allowances give extractive companies relief on two types of cost. The first is costs associated with mineral exploration access. These costs attract MEAs at a written down value of 25% per year, or 100% in the first year for oil and gas companies. The second is costs associated with acquiring a mineral asset. These costs attract MEAs at 10%. Companies can get quicker relief on costs associated with exploration and access than on acquiring a mineral asset. Under existing legislation, successful planning and permitting costs are treated as costs associated with acquiring a mineral asset, so they receive slower relief. However, in many cases successful planning permission will not give companies a right to the mineral asset. In a case of onshore oil and gas, for example, rights over the minerals are only granted through a separate licence from the Department of Energy and Climate Change. Planning permission gives companies the right only to access the minerals. It is therefore right that successful planning permission costs are treated as a cost associated with exploration access and receive quicker relief. That is consistent with the current treatment of costs associated with unsuccessful planning applications.

The hon. Lady asked about the change and the rationale for the previous treatment. That was an inconsistency pointed out by those in the industry and, once companies had highlighted that inconsistency, we acted quickly in cases where we agreed with their assessment. She will understand that Her Majesty's Treasury receives representations from a number of different companies across the spectrum. In terms of how many businesses will be affected by the measure, it is not possible to say with any certainty as planning costs are incurred at the outset of projects, so it is difficult to know how many will come to fruition.

I hope I have explained the purpose of the clause, which is to amend the existing legislation to ensure that all costs incurred in obtaining planning permission for the purposes of a mineral extraction trade qualify for relief at the higher rate.

Question put and agreed to.

Clause 63 accordingly ordered to stand part of the Bill.

Clause 64

EXTENDED RING FENCE EXPENDITURE SUPPLEMENT FOR ONSHORE ACTIVITIES

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

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

That schedule 11 be the Eleventh schedule to the Bill.

Amendment 22, in clause 65, page 55, line 36, at end insert—

'(1) The Chancellor of the Exchequer shall, within three months of Royal Assent, undertake a review of the impact of the creation of the onshore allowance introduced under this section.

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

(a) the estimated total loss of tax revenue to the Treasury in the next 10 financial years;

(b) the impact on onshore oil and gas exploration and field development in the next 10 years; and

(c) the differential impact on individual shale fields.

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

Clause 65 stand part.

That schedule 12 be the Twelfth schedule to the Bill.

Catherine McKinnell (Newcastle upon Tyne North) (Lab): Clause 64 and schedule 11 amend the Corporation Tax Act 2010 to extend from six to 10 the number of accounting periods for which a company can claim ring fence expenditure supplement in relation to qualifying expenditure or losses from onshore oil and gas activity. As the oil and gas trade is subject to high start-up costs and a relatively lengthy period of likely unprofitability, the supplement currently allows both onshore and offshore companies operating inside the oil and gas ring fence to lift their ring fence losses—or, in the period before their trading, their qualifying pre-commencement expenditure—by 10% for up to six accounting periods to maintain their time value until they can be offset against future profits. Clause 64 and schedule 11 extend the ring fence period to up to 10 accounting periods, but only for onshore activity because, to quote the tax information impact note:

"The early development of projects for shale gas and other onshore hydrocarbons is expected to have longer payback periods than offshore hydrocarbon projects and to be dominated by companies which do not have existing ring fence profits against which to set their expenditure. Extending the number of accounting periods for which these companies can claim RFES allows them to maintain the value of their expenditure for longer to recognise the extended period before they are able to utilise those amounts."

The Government have said that they expect the measure to support companies involved in the exploration and appraisal of onshore oil and gas projects. However, the tax information impact note makes it clear that it is expected to have nil Exchequer impact over the period 2013-14 to 2018-19, and states:

"Only a small number of UK businesses will be affected by the measure. This measure is expected to have a negligible impact on these businesses."

It would be helpful if the Minister indicated the number of businesses that will benefit from the measure and how many jobs may be created or supported as a direct

result of its introduction, given that HMRC believes it will have a negligible impact. I am sure that it will have undertaken an assessment of that impact, however negligible.

I turn to amendment 22 and clause 65. The Government intend the clause to support the onshore oil and gas industry through the exploration phase and into development. If exploration establishes the commercial viability of the UK's onshore oil and gas resources, there could be significant longer-term increases in domestic production of hydrocarbons, which would increase energy security, create jobs and bring benefits to the UK supply chain. Clause 65 and schedule 12 will replace existing field allowances for onshore oil and gas projects with a new onshore allowance, which will exempt a portion of profits made from such projects from the supplementary charge.

As Committee members will know, in addition to the ring-fenced corporation tax, which is set at 30% for profits of more than £1.5 million, oil and gas companies are subject to an additional tax—a supplementary charge—on adjusted ring-fenced profits, which is set at 32%. Field allowances provide relief by reducing the amount of adjusted profits on which the supplementary charge is due for both onshore and offshore oil and gas projects that meet certain conditions, thereby significantly reducing the effective tax rate on that portion of eligible onshore projects from 62% to 30%.

Before I outline the Opposition's significant concerns about the measure and speak to amendment 22, I want to give the context of our wider position on onshore gas projects, or shale gas exploration and extraction through hydraulic fracturing—more commonly known as fracking. The Opposition's approach to shale gas is to foster a mature debate, adhere to our climate change commitments and ensure that fracking takes place only in a robust and appropriate regulatory environment that provides safeguards for local communities, with local consent after legitimate environmental concerns have been properly addressed. Gas has a role to play, alongside renewables, nuclear, and carbon capture and storage, in the future balanced energy mix, which should be as low carbon as possible without endangering our energy security.

With 80% of homes reliant on gas for heating and in the context of declining North sea production, shale gas may have a positive impact on our energy security. However, we have been clear that shale gas cannot come at the expense of our long-term climate change commitments. Indeed, the Opposition have pledged that a future Labour Government would introduce a 2030 decarbonisation target as soon as possible after coming to office, committing the Government to a target for the effective decarbonisation of the power generation sector and setting out the long-term direction of Government policy.

Charlie Elphicke (Dover) (Con): Does the hon. Lady accept that shale gas could make a contribution to decarbonisation, because gas produces half the amount of carbon dioxide as other fossil fuels such as petrol, diesel and coal?

Catherine McKinnell: I will come to those points. I have made clear that we accept that gas has a role to play as part of a balanced energy mix, but the benefits of fracking have been somewhat overstated. I will explain why that is our position. A future Labour Government would ensure that the development of shale gas in the UK went hand in hand with support for carbon capture and storage projects, which we believe to be the key to a long-term future of fossil fuels as part of our energy mix.

Charlie Elphicke: Can the hon. Lady name more than two successful carbon capture and storage projects in the world today?

Catherine McKinnell: That is the very point we are debating. There has to be support for carbon capture and storage if we are going to realise the benefits.

Chris Williamson (Derby North) (Lab): I wonder whether the nation, and indeed the world, would be further forward were it not for the fact that when the coalition came to office it cancelled the carbon capture and storage power projects that were on the stocks prior to the election.

Catherine McKinnell: I thank my hon. Friend, because as we debate these clauses it is important that we put into context some of the concerns surrounding shale gas exploration.

Christopher Pincher (Tamworth) (Con): I am grateful to the hon. Lady for giving way again. She has been very kind. She said that the development of shale gas, which is an issue of energy security, must go hand in hand with the green agenda. She suggested carbon capture and storage as a way forward. What further expenditure does she believe is necessary to build the carbon capture and storage environment in the UK?

Catherine McKinnell: I believe you would rule me out of order, Mr Caton, if we were to turn this into a debate on carbon capture and storage. The Labour party has clearly set out that we believe there needs to be a balanced approach to the energy debate. That stands in contrast to the coalition's approach to energy, particularly that of the Conservatives, who appear—this is backed up by the rather frantic contribution from Conservative Members today—to have settled on fracking as a panacea to all our energy concerns, whether energy security or ever-increasing domestic and business energy bills. That has led to Ministers repeatedly overstating the potential benefits of a new and relatively untested technology and, of course, the measure introduced by clause 65.

Christopher Pincher: Can the hon. Lady tell the Committee where this technology has been "untested"?

Catherine McKinnell *rose—*

Nicky Morgan: The US?

Catherine McKinnell: The Minister mentions the US. I will explain why we are concerned about direct comparisons with the US, which seem to contribute to the overstating of the Government's position.

Shale gas is simply not the cheap, abundant, immediately available silver bullet that the Government would like it to be and often suggest it is.

James Duddridge (Rochford and Southend East) (Con): I thank the hon. Lady for giving way; she is being most generous and I will try not to be too frenetic or overly excitable. Has she seen the report from the other place

[James Duddridge]

on this subject, which was produced by a cross-party group? It was very supportive and said that we should move faster on this issue.

2.30 pm

Catherine McKinnell: I thank the hon. Gentleman for his non-frantic contribution to the debate. I have seen the report that he refers to. I do not want the Committee to misunderstand the argument that we are putting forward, because we have said that we welcome fracking as part of the solution to a mixed and balanced energy security for this country. However, we wish to highlight our concerns about the Government's approach on this issue.

The Minister of State, Department of Energy and Climate Change, the right hon. Member for Sevenoaks (Michael Fallon), has spoken about some 20 to 40 exploration wells being drilled in the UK in the next two to three years. Many industry commentators indicate that we are likely to see just one to two wells at most by the end of this year. Indeed, an Ernst and Young report commissioned by the United Kingdom Onshore Operators Group, which was published just last month and for which the Energy Minister provided the foreword, made it clear that this is no imminent revolution, with shale gas production unlikely to get going until 2020 and peak production not expected to be reached until a decade from now, in 2024. The EY report also stated:

"It is not yet possible to make any forecast of potential recovery rates",

because although we know that the gas is in the ground, we do not know how much of it is extractable. Shale gas is, therefore, a significant unknown and not a certain proposition.

Christopher Pincher: The hon. Lady says that shale gas is "a significant unknown". Does she not think that her amendment will only make it even more difficult to extract shale gas and explore for it, and therefore make it even more unknown? It seems that she supports shale gas on the one hand and yet does not support it on the other.

Catherine McKinnell: No, I do not agree, because our view is that there needs to be a balanced debate that is fully informed, and we will take a reasonable, rational and honest approach to it. Our amendment seeks to assist the Government in that end.

Of course, the Government have been particularly keen to emphasise the jobs potential created by shale gas exploration and production. The Opposition welcome the development of highly skilled employment. However, we are again concerned about the over-optimistic promises being made by Ministers. Just in January, the Prime Minister predicted that shale gas would develop some 74,000 jobs, citing a May 2013 study by the Institute of Directors that was funded by the firm Cuadrilla. However, an independent strategic environmental assessment undertaken by AMEC and commissioned by the Department of Energy and Climate Change concluded that the next licensing round for shale gas could deliver

"16,000-32,000 full time equivalent…positions"

in the peak development phase,

"including direct, indirect and induced jobs".

Even if the Government extended their model to include the current licence sites, the job creation estimate would still be 10,000 to 25,000 fewer than the figures predicted by the Prime Minister.

Of course, the over-optimism does not stop there. We all know the Government are desperately keen to find an answer to the ever-increasing domestic and business energy crisis, and little wonder after household energy bills have increased by more than £300 since 2010, while a typical small business has seen its energy bills rise by more than £13,000 in the same period. So we have repeatedly heard the Prime Minister, Chancellor and Energy Minister propagating one of the most pervasive myths about fracking, namely that it will deliver significantly cheaper bills. Indeed, the tax and information impact note for clauses 64 and 65 suggests that any increase in shale gas production resulting from those measures would contribute to the security of the UK's energy supply and has the potential to lower bills for households and businesses.

Charlie Elphicke: Will the hon. Lady give way?

Catherine McKinnell: I was going to explain, but if the hon. Gentleman would like to intervene before that, he can do so.

Charlie Elphicke: I thank the hon. Lady. The point is that a lot of our energy is from resources outside this country and is part of the global market, where this country cannot control price fluctuations. When energy is home-grown, this country is much more able to control price fluctuations, particularly if that energy is bountiful, because that helps to drive down the cost. Surely hard-working people and their families deserve to have lower electricity, gas and energy bills.

Catherine McKinnell: Indeed, but the concern is that the Government's analysis is based on experience in the USA, which has seen lower bills as a result of fracking. The Government make a simplistic extrapolation from the US experience, which is just not valid in the UK context. Lower prices for domestic consumers and businesses in the US have in part been because the US is not able to export gas. As supply increases in a closed market, the cost correspondingly decreases. In contrast, the UK is well connected to the European gas network and any cost-reducing benefits of an increase in supply will be shared with the rest of the continent, dissipating the impact, particularly as extra-European demand for gas is likely to increase.

Mr Iain McKenzie (Inverclyde) (Lab): Could it be a coincidence that we see certain energy companies moving away from offshore wind projects and hydro projects towards fracking, which they see as an easier and cheaper opportunity to make a quick buck? Fracking has been encouraged in the tax system, which has led to the companies putting aside all other green projects.

Catherine McKinnell: There is a real worry that if we put all our eggs in one basket and believe that fracking is the silver bullet to solve many of our concerns about the cost and supply of energy, we will, to our detriment,

not have a broader, more balanced approach to renewable energy production and other forms of energy production along with fracked gas.

Ian Swales (Redcar) (LD): I am listening carefully to what the hon. Lady is saying. So far, I have not heard her mention energy security. Is she comfortable with the fact that her party's potential Government would rely on gas supplies through Ukraine for longer than would be the case under the current Government's policy?

Catherine McKinnell: I have very much mentioned energy security, and it is one reason why the Government support the moves towards fracking, where it is in the correct, safe and properly considered method.

To return to the point I was making about the Government's over-optimism, the geography of the two countries is completely different and makes exploration less likely in the UK. Many areas of the US where production takes place are largely deserted. Despite what the Chancellor's father-in-law, Lord Howell, might like to think about the "desolate" north-east or north-west—whichever it is—the UK is a much more densely populated environment. That will affect the exploration and extraction permissions that local authorities grant.

Ian Mearns (Gateshead) (Lab): I do not claim to be an expert on fracking, but I do know that when Lord Howell described the "desolate" north-east as an appropriate place for fracking, he could not have been more wrong. Both geographically and geologically, the north-east is regarded as a low-yield area. I think that he meant the north-west, and corrected himself the next day by saying that his comments about the "desolate" north-east should have been about the north-west. It is worth making that point for the record.

Catherine McKinnell: My hon. Friend makes an important point, because there are significant geological distinctions that make the UK very different from the US. UK shale is also considered to be thicker than that in the US, which makes extraction harder.

Mike Kane (Wythenshawe and Sale East) (Lab): If Lord Howell meant to refer to the north-west, does that mean that there is a strong possibility that there will be fracking in his son-in-law's constituency of Tatton?

Catherine McKinnell: My hon. Friend raises an important prospect. I have a map of the part of the UK that seems to be the most likely given its potential yield. It does not seem to be broken down by constituency, but it is worth a closer look.

Nicholas Riley of the British Geological Survey commented that

"faulting and changes in the rock type both vertically and horizontally"

mean that the fuel pools are more separated in the UK. The US Energy Information Agency explained that that is why the UK's

"drilling and completion costs for shale wells are substantially higher"

than in north America. In other words, believing that the US experience of fracking, including lower energy bills, can simply be replicated in this country is misguided. That view is shared by many experts, including Lord Stern, the author of the review on the financial implications of climate change and the chair of the Grantham research institute on climate change and the environment at the London School of Economics. He commented:

"It's a bit odd to say you know that it will bring the price of gas down. That doesn't look like sound economics to me. It's baseless economics."

Christopher Pincher: I am grateful to the hon. Lady for giving way again; she is being very generous. She mentioned the British Geological Survey. Is she aware that when it gave evidence to the Energy and Climate Change Committee it made it clear that the 15% extraction rate of the total pool of shale gas that may be available to us in the UK could give us 60 years' worth of gas supply? Does that not conflict with the points that she is making in relation to her concerns about shale gas?

Catherine McKinnell: The point is that there is a lot of conflicting information out there and a lot of uncertainty surrounding it. That is the reason for the amendment. To give a tax relief without a greater level of understanding of what the potential yields, implications and geological consequences of fracking might be is a questionable approach.

Christopher Pincher: I am grateful to the hon. Lady. I promise it will be my last intervention, unless I hear something else that requires an intervention. She has mentioned her amendment and she said earlier that there is an expectation that there will be minimal exploration drilling in the next year or two, and therefore minimal extraction. Why is it necessary to undertake an examination of the estimated total loss of tax revenue to the Treasury when, by her own admission in her earlier remarks, such revenue will be negligible, if she is right?

Catherine McKinnell: That is very much the purpose of the amendment. We need to look at exactly why the Government are giving a tax incentive when their own tax information and impact note states that its impact will be negligible. The Government need to answer that question. Our amendment asks for an estimated total of the tax revenue that is due to be lost over the next 10 years, and it asks about the impact on exploration, because there does not seem to be any assessment of what the impact on exploration will be and what impact it will have on field development over the next 10 years. We want a little more transparency from the Government in relation to the potential impacts.

I can see that Government Back Benchers are interested in the subject. I am sure they would support greater transparency from the Government as to what their intentions are and what their assessments are of the impact of the tax incentive that is being granted in the Bill.

Charlie Elphicke: I have proposals in my constituency for underground coal gasification, and shale and underground gas exploration. The hon. Lady supports underground coal gasification in her area in her constituency. It is important that we look at working cross-party on how to bring forward these new technologies on a bipartisan basis, rather than going on about how it

[Charlie Elphicke]

is bad because we want to keep the green vote. There is a real issue about energy security in this land, and the Labour party should be more constructive and more embracing of how we deal with these issues for the long-term future of our whole nation.

2.45 pm

Catherine McKinnell: I think the hon. Gentleman is sincere in his comments but cynical about what the Opposition are putting forward. We are putting forward concerns that are held up and down the country by members of the public about the level of uncertainty and unknowns on this subject. All we are asking for is a bit of transparency and proper assessment of the impacts that these changes will have.

I return to those experts who agree that it is not possible to extrapolate the US experience and apply it to the UK and get the same results. Bloomberg New Energy Finance stated:

"Exploitation of the UK's significant shale gas resources is unlikely to result in low natural gas prices. The cost of shale gas extraction in the UK is likely to be significantly higher than in the US, and the rate of exploitation insufficient to offset the decline in conventional gas production, meaning market prices will continue to be set by imported gas."

DECC's own chief scientific adviser Professor David MacKay concluded:

"Because the UK is well connected to the Western European gas market, the effect of UK shale gas production on gas prices is likely to be small."

So despite all the serious concerns that I have outlined about the Government's over-optimism about the benefits of fracking, the Chancellor decided to offer, through clause 65, a very generous tax concession to shale gas operators, in the mistaken belief that fracking offers the answers to all of our energy problems. It would appear that Government Back Benchers share his absolute belief.

Although the Minister might argue that such tax incentives are required to stimulate the new market dealing with a number of unknowns, such as size, recoverability of resources and the regulatory framework, the Opposition strongly believe that it is precisely those issues, including environmental and safety concerns, that need to be clarified before there is any consideration of advantageous tax treatment for this sector.

As my hon. Friend the Member for Rutherglen and Hamilton West (Tom Greatrex) commented in his capacity as shadow Energy Minister,

"Announcing community benefits and tax breaks before we know how much shale gas is actually recoverable, or before anyone even has a licence to extract it, is typical of a Government that seems prepared to accept fracking at any cost."

The Opposition simply do not accept that any substantive case has been made for the type of blanket tax break being offered by clause 65, especially when there remain such unknowns about the commercial viability of fracking in the UK context. Marginal field allowances granted for offshore activity in the North sea are an exception rather than the rule, and are given on the basis of commercial viability in relation to specific fields where conditions mean that costs are higher than in other fields.

The generous and blanket tax reduction being proposed by clause 65 is quite different. In that context amendment 22 calls on the Chancellor to undertake a proper review of the likely impact of the measures introduced by clause 65. It is an entirely reasonable amendment and one that all Committee members should be prepared and keen to support, as we believe that it is only right to be fully aware of the likely impact of this generous, blanket tax break for the shale gas sector;

If the Minister is not prepared to back the amendment, the Committee would benefit from her addressing some of the issues that have been raised. Although the tax information and impact note suggests clause 65 will have a net Exchequer impact of £45 million between now and 2018-19, could the Minister estimate the total loss of tax revenue to the Treasury in the next 10 financial years as a result of this measure? What specific impact does she expect clause 65 to have on onshore oil and gas exploration, in terms of increased investment and activity?

Does she, like the Energy Minister, expect to see between 20 and 40 exploration wells being drilled in the UK in the next two to three years? Could she clarify how many jobs the Government currently expect to be created as result of the shale gas industry? Could she outline the evidence base for the claims repeatedly made by the Prime Minister, Chancellor and Energy Minister that fracking in the UK will lead to lower energy prices for domestic and business consumers?

Given that the blanket measure apparently came as a complete surprise to the industry on its announcement, could the Minister confirm what representations the Government received, and from whom, for this measure to be introduced? Finally, in this context, will the Minister comment on the likely impact on the shale gas sector of not proceeding with the clause?

Mr McKenzie: It is a pleasure to serve under your chairmanship again, Mr Caton. We are discussing a tax cut for a particularly contentious and challenged method of gas extraction. Because the Government are slashing in half the tax that the energy industry would pay, it may look on the surface as though they are saying that it may frack at any cost.

My previous intervention was about the impact on green industries and green generation. The public are aware of opportunities to produce energy other than fracking up and down the country, if indeed that is allowed to take place: we have been made aware that there will be no extraction in certain areas. Two such green projects in my area have been shelved by energy companies, because—it is no coincidence—they are now looking to fracking as a cheaper alternative to get into the energy market. One project for wind energy off Tiree, which Scottish Power had expressed interest in and for which it was looking at obtaining a licence, has been shelved. The construction of such offshore wind generators would have brought many jobs to my constituency. Some hydro projects have now also been shelved. Again, it is significant that that those decisions came at such a time.

The public remain unconvinced that fracking is a way forward. We have absolutely no idea, and the Government cannot say with any certainty, how much gas down there will be recoverable through this process and, as my hon. Friend the Member for Newcastle upon Tyne

North said, we do not even know if anyone has a licence for that, yet the Government seem happy to halve the tax to encourage companies to step forward. Only when the public have confidence that the environmental issues have been looked at and when they have some idea of the amount of gas that can be extracted will they move towards supporting this method of energy retrieval. There are real dangers for the other, green industries from fracking.

Ian Mearns: In a nutshell, I had the pleasure last Friday of visiting Rettig, a large manufacturer of radiators in my constituency that took over Myson. It is one of the largest manufacturers of radiators in the country. From the horse's mouth, the managing director—without me prompting him at all—told me that, from his perspective, the Government's green deal has been an unmitigated failure.

Mr McKenzie: I agree wholeheartedly that the Government's green deal has been an absolute disaster. The uptake figures further emphasise that. We do not want to sacrifice the other, green industries by giving this massive tax cut to promote and encourage fracking. It is wrong that this industry should be given a pre-emptive tax cut. We ask for our amendment to be supported.

Chris Williamson: It is a pleasure to serve under your chairmanship again, Mr Caton. My hon. Friend the Member for Newcastle upon Tyne North said that Labour's proposed amendment is reasonable and I entirely agree. In fact, I would go further. The amendment is not only reasonable, but essential for the future of our energy infrastructure. We heard a lot in the run up to the previous general election about the Conservative party changing its persona and somehow embracing the green agenda. However, the truth will out. The Prime Minister was reported as saying to his advisers last year that they needed to get rid of "the green crap."

This measure is an example of the Prime Minister's wishes being brought to fruition. It is also important, for the record, to acknowledge that in the Budget the Chancellor did his level best to ensure that investment in the green renewable energy sector was all but eliminated, and that is regrettable. The Committee heard various flurried interventions from Government Members about their concern for energy security. If they were genuinely concerned about energy security, surely they would have protested about a proposal from the Chancellor that effectively kills off a meaningful future for the renewable energy sector?

Chris Heaton-Harris: I would hate to think that the hon. Gentleman's statements were not based on facts, so I thought I would read a fact out. Is he aware of a written ministerial statement yesterday confirming that in December 2013, consent was given for more onshore wind farms with more megawattage—I do not really agree with this, but alas, this is the case—than in any previous month in the United Kingdom?

Chris Williamson: It is interesting that the hon. Gentleman is trying to rescue his party's reputation, which is torn and tattered. It is widely reported that experts in the field are saying that the UK is virtually a no-go area for investment in the renewable sector due to the Government's approach to the whole issue. If Government Members were genuinely concerned about energy security, they would be doing more to promote the renewable energy sector, not, for example, completely undermining solar energy by chopping and changing the feed-in tariff regime.

Duncan Hames (Chippenham) (LD): If the hon. Gentleman is concerned about there being an appetite for solar power, he should visit Wiltshire, where there are numerous applications under way. Why would any energy company be interested in raising finance to invest in new electricity generating capacity when a prospective Government are committed to freezing the company's prices and preventing it deriving a return on that investment?

Chris Williamson: There speaks a Liberal Democrat who is clearly under the control of his Conservative masters. Opposition Members will never defend the interests of big corporate concerns that are ripping off consumers. I am proud of the future Labour Government's commitment to freezing energy prices. Hard-pressed consumers are being ripped off by the energy utilities in the United Kingdom. It is instructive and interesting to hear a Liberal Democrat stand up for the big six energy companies which are blatantly ripping off the British consumer.

Chris Evans (Islwyn) (Lab/Co-op): Does my hon. Friend agree with Lord Lawson, who told *The Times* that Britain "doesn't have an energy policy" at all? *The Times* in its editorial said:

"the coalition energy policy is a tangle of regulations, subsidies and incentives. There is delay in investment, driving up prices over the long term and making blackouts a real possibility by as soon as next year."

3 pm

Chris Williamson: I am grateful to my hon. Friend—I could not have put it better myself.

In response to the comment that the Labour party was somehow trying to shore up its green flank, Government Members should be aware that Labour's record on the environment is second to none. I remind the Committee that the Climate Change Act 2008 was introduced by a Labour Government. I must take exception when Government Members refer to their concerns about energy security not only because of the manner in which they are undermining renewable energy in this country, but because it was a Conservative Government who decimated the coal industry in this country—*[Interruption.]* Government Members may laugh, but there are hundreds of years of coal reserves under our feet. It is no coincidence that when this coalition came to power, it cancelled—*[Interruption.]*

The Chair: Order. I need to be able to hear the speakers. We should return to the clause and amendments that are under discussion.

Chris Williamson: I will, Mr Caton, but, to finish my point, it is no coincidence that the coalition cancelled the four demonstration carbon capture and storage projects that were on the stocks prior to the election.

[Chris Williamson]

My other point on energy security is that 50 million tonnes of coal were imported into the United Kingdom last year, so coal is clearly still an important part of the mix. If we are genuinely and seriously concerned about energy security, which we should be, in particular given events in Ukraine, we need to consider all the available options and not rush headlong into a potential environmental catastrophe by giving tax breaks to the fracking industry—one wonders about the hidden agenda there—while undermining carbon capture and storage and the UK's renewable energy sector.

Ian Mearns: I am grateful to my hon. Friend for giving way. Short-term energy security is also important, because, as he points out, we hope that the gas supply from Ukraine is not in jeopardy, but we just do not know. Of course, much of the coal that we import into places such as the port of Tyne—coal is being taken to Newcastle—also comes from Ukraine.

Chris Williamson: My hon. Friend is absolutely right.

In conclusion, it is essential that the amendment 22 is passed. We should not be rushing, using taxpayers' money, to encourage an industry that focuses on something that might not even be extractable, as my hon. Friend the Member for Inverclyde has suggested. There are also environmental concerns, not least in relation to carbon emissions—notwithstanding the fact that the carbon emissions are somewhat less than those from coal power generation. If we are serious about a decarbonised economy, we cannot be putting too many eggs—can we?—in the fracking basket. While it may be part of the mix, we need to consider supporting and encouraging the renewable energy sector.

Duncan Hames: I thank the hon. Gentleman for giving way, because my point is relevant to the debate and the Bill. Given his concerns about hydraulic fracturing, am I right to interpret from his remarks about coal that he would rather the UK burn more coal—more UK coal—for electricity than develop hydraulic fracturing to extract gas? Is that his position?

Chris Williamson: My position is this. First and foremost, we should seek to expand the UK's renewable energy capacity. Secondly, I think there is a potential role for fracking, but a lot more research needs to be done before we start to give these big tax handouts to exploit this unproven technology in the UK. Coal could form part of the mix—particularly when, as I said, we imported 50 million tonnes of coal last year. What are we doing? There is potentially a role for coal, but we need to invest in carbon capture and storage to ensure that we have clean coal technology and do not exacerbate the environmental implications.

The most important thing is to ensure that we decarbonise our economy. That means investing in renewable, but also reducing the demand for energy, and not by undoing and undermining our industry, but by reducing the demand through better energy efficiency measures. That would mean a massive investment in energy efficiency, home insulation and more efficient measures in industry as well. That would not only be environmentally beneficial, but would generate hundreds of thousands of much needed, highly skilled jobs in our country. That would help to create an economic virtuous circle, because those people would obviously pay tax and national insurance, creating demand in the economy, so everyone would benefit.

Christopher Pincher: The hon. Gentleman is very generous in giving way, as well being very entertaining. He made the point that the expansion of the green renewable economy is important. Is he aware that today wind power generates 538 MW of capacity? That is 1.5% of our national needs. If he so keen on a massive expansion in our green economy, how much does he think we need to generate?

Chris Williamson: It is not just about wind turbines. I have already made the point that it is about reducing the demand and looking at a range of different areas of renewable technology. Solar plays a part, as does geothermal. There is a host of different areas that could be looked at. I do not want to put a figure on it, but I know it needs to increase. It is vital for the future of humanity and the long-term economic interests of the UK. I very much endorse and support the amendment of my hon. Friend the Member for Newcastle upon Tyne North.

Chris Heaton-Harris: It is a pleasure to serve under your chairmanship, Mr Caton. I will be brief because I do not want to detain the Committee. I wanted to follow the hon. Member for Derby North because I am not convinced that he is the one for picking winners in any argument. At the weekend he was praising the Venezuelan Government for being so wonderfully democratically elected—interesting—and celebrating Hugo Chavez's legacy. This is a country that is rationing not just food and water, but electricity. Listening to the hon. Gentleman, I tend to think that he would be very pleased for the UK to go down that track.

It is interesting to hear how the Opposition have framed the debate today. In the political environment we live in, we all know that the Greens are chomping at their heels. While Government Members might have our own issues, it is fairly obvious that, for the Opposition, pandering to the Greens is the big deal to try to shore up their core vote at the moment. This amendment is definitely part of that. It is fascinating that the party of miners is now against mining. What a full circle the Opposition have made.

Chris Evans: Does the hon. Gentleman think that when Governor Schwarzenegger was in power in California, he was right to pursue a target of a million solar-powered homes, a hydrogen highway and also to reduce carbon—*[Interruption.]* That was really unhelpful. I was trying to make my point and the hon. Member for Tamworth has just ruined it.

Chris Heaton-Harris: Just for the record, my hon. Friend the Member for Tamworth said that we cannot make comparisons with America in this debate. We probably cannot make true comparisons with America, but it is worth looking to America to see what has gone on. On the extraction of shale gas, America did not sign up to its Kyoto targets, but it has hit them, not because it is doing anything dramatic with renewables, but because

it has switched its energy production from mainly coal to mainly shale gas. If we want to go greener in the medium term, shale is obviously the way forward.

I understand how the hon. Member for Newcastle upon Tyne North couched her argument, and fair enough, but I do not think the reason for the amendment is the one she stated. Rather, it is to try to put off investment in shale, which is particularly bad for our economy. I hope she will not press the amendment, because we have to invest in this technology. It has been proven to be a game changer. Indeed, I am quite convinced that one reason why President Putin is involved in Ukraine as we speak is the Crimean shale ban and his concerns about Poland and Ukraine becoming energy-efficient in the future.

Catherine McKinnell: The hon. Gentleman misreads the Opposition's amendment. We are asking the Government to look at the potential impact and implications of the change. The amendment would in no way prevent the exploration that clause 65 looks to encourage.

Chris Heaton-Harris: Forgive me, but I listened to the hon. Lady's speech, as well as reading the amendment, and it was the words in her speech that gave that impression. Realistically, if we want to have energy security and a sensible energy policy, we have to include shale gas. Why not invest in it? One concern she raised was that environmental and other concerns need to be addressed beforehand. If the Government had done that before wind turbines, she could have looked at amplitude modulation and the public health problems associated with wind, or the economic consequences of siting wind turbines close to people's homes and what that does to individuals. However, the Government chose not to do that; indeed, they have over-subsidised onshore wind to a huge extent, but that is a different argument. I just think it is unwise for the Opposition to go down this particular track, unless of course they are worried about their green fringe.

Nicky Morgan: I thank all hon. Members for entering into this debate. I will set out the reasons why I disagree with what the hon. Member for Newcastle upon Tyne North said, but I thank her for at least waking the Committee up. There is no doubt that energy policy has got Members in all parts of the Committee interested in what we are saying, whereas some of the other, perhaps more exciting clauses have not had that impact.

Clause 64 and schedule 11—which aroused less excitement among hon. Members—make changes to support the early development of onshore oil and gas projects. The change will extend from six to 10 months the number of accounting periods for which a company can claim ring-fence expenditure supplement, in relation to qualifying expenditure or losses from onshore oil and gas projects. It is part of a package of measures providing significant support to the UK oil and gas industry.

As we have heard, the exploitation of shale gas and other onshore hydrocarbons provides—as at least those of us on this side of the Committee believe—a significant economic opportunity for the UK. It could create thousands of jobs, generate billions of pounds of business investment, lead to substantial revenue for the Exchequer and increase our energy security, so kick-starting exploration for onshore oil and gas is very much a part of our economic plan. That includes ensuring we have the right tax regime in place to incentivise early—I emphasise the word "early"—investment.

The oil and gas tax regime includes a ring-fence expenditure supplement, which allows companies without profits in the oil and gas ring fence to uplift their losses and pre-trading expenditure by 10% for up to six accounting periods. That ensures that companies can maintain the time value of their losses and pre-trading expenditure ahead of being used to set off against profits. Onshore projects typically have longer payback periods than those offshore, so the restriction to six accounting periods is likely to act as a disincentive to investment. The changes made by clause 64 will support the development of onshore activity by recognising the longer payback period for these projects and that, at least in its early stages, the industry will be dominated by companies without other profits from oil and gas production.

The change made by clause 64 will amend the Corporation Tax Act 2010 to extend the number of claims available to companies involved in onshore oil and gas activities from six to 10 accounting periods. The measure will have effect for pre-trading expenditure incurred on or after 5 December 2013. For losses arising in an accounting period straddling the commencement date, the measure apportions the losses before and after it. The measure is not expected, as we have heard, to have an Exchequer impact. Together with the onshore allowances, which I will come to in a moment, clauses 66 and 67—the extension to reinvestment relief and to the substantial shareholdings exemption respectively—clause 64 is expected to support companies involved in the exploration and appraisal of onshore oil and gas projects. If exploration establishes the commercial viability of the UK's onshore oil and gas resources, it could result in a significant increase in domestic production, energy security, business investment and jobs. Any resulting increase in production also has the potential to lower energy bills for households and businesses.

3.15 pm

Ian Swales: On a point of definition, most of the schedules we are discussing hardly mention gas, so I am assuming it is regarded as a subset of oil. Is gas derived from coal beds by coal bed methanation or gasification, for example, also included in the ambit of this measure?

Nicky Morgan: I thank the hon. Gentleman for that question. The honest answer is that I cannot give him that level of detail now, but perhaps I will be able to do so by the end of my speech. If I cannot, I will ensure that he receives that information.

The hon. Member for Newcastle upon Tyne North asked about the number of businesses that would be affected by clause 64. As I have emphasised, this is about early incentivisation. I cannot predict with any certainty how many businesses will be affected, but we receive many representations to the Treasury that indicate that there are many businesses that want to explore this area. As she said, some wells that have already been sunk.

Let me turn to clause 65, schedule 12 and the Opposition's amendment 22. In her opening remarks, the hon. Lady said that she wanted to set out the Opposition's approach to shale gas and that she wanted a mature debate on it.

[Nicky Morgan]

I welcome that, but I gently suggest that that position is not always shared by all Opposition Members. The hon. Member for Derby North spoke eloquently and with great passion, but I am not sure it was quite the mature debate that his colleague on the Front Bench was looking for. If the Opposition want a mature debate, they might also want to examine their party election broadcast from last week, which sank to a new low in British politics.

The one thing that the hon. Member for Derby North said that I agreed with was his call for an energy mix. He is right. We had 13 years of very little action on this issue. The hon. Member for Newcastle upon Tyne North and other Opposition Members talked about everyone going headlong into shale gas and it being effectively the only game in town. However, they completely missed the fact that this Government have got investment in our next nuclear plant going and continued investment in solar and renewables, as well as missing the whole electricity market reform agenda of the current Session—which is just ending—including the contracts for difference, the renewables obligation and all the other changes that have been introduced. Labour had 13 years to address the issue of energy security and supply and it failed to do so. As a result, this Government have had to take tough action and immediate decisions in order to put our energy security on a firmer footing, so I am not going to take any lessons from the Opposition.

The clause and the schedule make changes to incentivise investment in onshore oil and gas projects. They introduce a new allowance, which exempts a portion of a company's profits from the supplementary charge. The amount of profit exempt will equal 75% of the qualifying capital expenditure that a company incurs on onshore oil and gas projects on or after 5 December 2013. This allowance makes the UK's tax regime for shale gas the most competitive in Europe. Shale gas and other onshore oil and gas represent a huge economic opportunity for the UK.

The hon. Member for Newcastle upon Tyne North mentioned the Institute of Directors' estimates that investment in shale gas alone could peak at £3.7 billion a year, supporting 74,000 jobs across the country. I am afraid her remarks typify the Opposition's economic policy, according to which our long-term economic plan was going to lead to millions more unemployed. As we have seen, the employment rate has reached its highest level. Even if the figure of 74,000 jobs were optimistic—which I do not think it is—I thought it interesting that the hon. Member for Newcastle upon Tyne North dismissed the creation of 16,000 to 32,000 jobs as a bad thing. She also said the creation of between 50,000 and 64,000 jobs was not good enough. For each one of my constituents who gets a job, it is a huge personal success, providing security for them and their families. To say that so many thousand jobs are not worth bothering about is to miss entirely the debate we have had for the past four years in this country about getting the economy back on track and growing.

The benefits of this investment would extend beyond oil and gas to other manufacturing sectors—construction, engineering and others—which is why major industrial employers have publicly supported its development. Developing our indigenous oil and gas resources could lead to lower energy bills for households and businesses. It could increase our energy security, making us less dependent on imported supplies and reducing our exposure to geopolitical risks and lengthening supply chains.

The hon. Member for Newcastle upon Tyne North talked about the US. The US experience demonstrates the potential. In 2012, its shale gas industry accounted for more than 600,000 jobs and paid almost $20 billion in tax. It helped to reduce the price of gas, with prices falling about 70% between 2008 and 2013, improved the balance of payments and reduced dependence on gas imports. It has revitalised the manufacturing sector. It is right to say that the extent to which the US experience can be replicated here is not yet clear, but we are committed to doing everything we can to create the long-term conditions to incentivise investment and support the industry's development. That includes putting the right fiscal framework in place to ensure that companies can fully explore the potential of our natural resources.

In relation to comparisons with the US, a recent Economic Affairs Committee report states:

> "Even if its economically recoverable reserves of shale gas prove substantial, the UK is not likely to see gas price cuts on the scale of those in the US. Indigenous production would however be cheaper than imports of liquefied natural gas (LNG), improve the balance of payments and provide better security of supply."

Those are all very worthy things that the Government have taken the responsibility to explore.

Mr McKenzie: Will the Minister say whether the Government intend to give the same incentives to companies that wish to explore tidal generation?

Nicky Morgan: Those incentives already exist, with the support for exploration, research and development. The Energy Technologies Institute, which is based in my constituency, has led the way in research, working with the private sector. As I have said, the Government remain committed to a broad energy mix, with energy generated in many different ways.

3.22 pm

Sitting suspended for a Division in the House.

3.36 pm

On resuming—

Nicky Morgan: I was just responding to the hon. Member for Inverclyde about hydropower. The Government are open to all energy sources, in particular to renewables, and have offered many incentives to those different technologies, but today we are discussing shale gas.

Clause 65 and schedule 12 introduce a new allowance to drive early investment in onshore oil and gas projects that are economic but not commercially viable at the 62% tax rate. The onshore allowance reduces the tax rate on a portion of a company's profits from 62% to 30%. Companies pay at the reduced rate on profits equal to 75% of their capital investment on qualifying onshore projects. To ensure the allowance is appropriately targeted to support only projects that would not have gone ahead without it, very large projects will not be eligible. The allowance includes a provision for cross-site relief. That allows companies to transfer allowance generated on an unsuccessful site to a successful site

after a three-year delay, providing companies with a greater degree of certainty on the availability of the allowance and increasing the investment incentive.

As the hon. Member for Newcastle upon Tyne North mentioned, there is a short-term cost to the Exchequer of introducing the allowance—£45 million over the course of the scorecard period. The cost reflects the increased investment that the allowance is expected to generate, which will receive 100% first-year capital allowances. However, the cost is expected to be significantly outweighed by the longer-term revenue generated.

At various points the hon. Lady asked me to obtain and use my crystal ball to predict the number of jobs created, the number of companies that will benefit and how much the provision will cost. The important thing is that we are talking about early-stage investment. That is what the industry has been telling us it wants to receive. It is not possible to predict the impact beyond the scorecard period because projects such as the one we are discussing have long lead-in times and will not fully come into development for many years. Therefore, it is not possible to make the specific predictions she has asked for.

Catherine McKinnell: The Minister said that the measure is what the industry has been asking for. I asked a specific question about exactly who had made those representations. As far as we are aware, the allowance came entirely as a surprise to the industry. Will the Government be a bit more transparent about what representations were made requesting the tax break?

Nicky Morgan: The hon. Lady will know that the Government publish a list of all the industry bodies and companies they meet, so I am not going to list them. I assure her that the legislation being introduced has been subject to close and productive dialogue in consultation with industry stakeholders. It has been welcomed by the industry and was subject to consultation with the whole industry, much of which responded. In response to the autumn statement, Malcolm Webb of Oil & Gas UK said:

"Oil & Gas UK supports fiscal plans to encourage exploration and development of the UK Continental Shelf, which will ensure the sector remains an attractive and competitive destination for investment and a driving force in the British economy."

Amendment 22 asks the Government to lay before Parliament, within three months, a report that considers the loss of tax revenues and impact on onshore oil and gas and field development over the next 10 years. In addition the report should consider the differential impact on individual shale fields. The Government are not minded to accept the amendment for the reasons I will set out. In the Budget, the Chancellor announced a review of the entire oil and gas fiscal regime to ensure it remains competitive and fit for purpose as our oil and gas basins mature. The review will look at all aspects of the fiscal regime, including allowances. It would therefore be unhelpful to review one allowance in isolation, rather than considering it alongside all the other aspects of the wider oil and gas fiscal regime.

Secondly, the amendment asks for the report to be laid before the House within three months of Royal Assent. Much of the onshore oil and gas industry—in particular the unconventional oil and gas industry—is in its infancy, with projects still at the exploratory or pre-exploratory stage. Such projects, as I have said, typically have a long lead-in time and will not come to full development for many years. It would therefore not be possible to assess the full impact of the measure in such a short time scale.

Catherine McKinnell: I should be grateful if the Minister confirmed the time scale for the review that is being undertaken on the broader issue. Also, she says it would be inappropriate to focus on one small item as part of a separate review, so by the same token is not it inappropriate to grant a separate tax incentive without first carrying out the review that she says is due to report?

Nicky Morgan: The tax regime is very much in line with the other tax regime that is already available to the oil and gas industry in its widest sense, as it is for the ring-fence proposals that I have just outlined with respect to clause 64. As to the fiscal review, the Government are currently working with industry—in fact, I shall travel to meet representatives of the oil and gas industry next Tuesday, and the fiscal review timings will no doubt be discussed. I am happy to be guided by industry.

One thing that industry representatives repeatedly tell me about at meetings is the long lead-in time for projects and the length of time taken for investment decisions. Those decisions are not quick, and the impact of changes is not necessarily seen instantly. Industry asks us for time in our launching of the review. I do not think I can tell the hon. Lady specifically that it will report by x year or y year. The point is that we are working with and listening to the industry, which has broadly welcomed the announcement of the review.

We do not think it would it be possible properly to assess any loss in tax revenues or potential yield over a 10-year period so quickly. We have estimated the cost of the measure at £45 million over the scorecard period. Beyond that, we would expect an increase in Exchequer yield because of additional production and profits incentivised by the measure, but it is too early to provide specific forecasts. However, industry forecasts are positive for future activity on onshore oil and gas. After the measure was announced in the autumn statement, Ken Cronin, chief executive of UK Onshore Operations Group, said:

"Today's announcement of a new onshore oil and gas regime is as much about tomorrow as today. To build a strong industry which can contribute to the UK economy, the country needs the correct framework for operators, and that includes a clear signal that an appropriate and fair tax regime is in place that will incentivise the long term nature of investments. The Chancellor's initiatives should be welcomed as they give that strong signal."

Indeed, we are already starting to see investment in the UK onshore industry from global players such as Centrica, Total and GDF Suez.

Finally, to reassure the hon. Member for Newcastle upon Tyne North, I can say that, as stated in the tax information and impact note, the measure will be kept under review through regular communication with affected taxpayer groups.

There were some questions and I want briefly to deal with them.

Chris Williamson: I appreciate the Minister's setting out the justification for the tax allowance. Given her previous comments about the Government still supporting

[Chris Williamson]

the renewables sector, why does the Red Book say that the enterprise investment scheme will no longer be available for

"companies benefiting from Renewables Obligation Certificates and/or the Renewable Heat Incentive"?

Is not that the opposite of what she has claimed?

Nicky Morgan: Actually, if the hon. Gentleman had read into this, as my hon. Friend the Exchequer Secretary to the Treasury has done, he would appreciate that that is good news, because the EIS is available for risky investments. We are saying that the renewables industry is maturing in this country and that broader investors who might not want to make risky investments are now investing in that sector. It is good news.

As I was saying, we talked about the views of local communities that might be against fracking. Of course, Members of Parliament from all parties are here to represent our constituents and listen to them when they express concerns. I should put on the record that communities can expect that companies developing shale will engage with them at each of the three stages of operations: exploration, appraisal and production. The industry's own charter commits it to engage in advance of any operations in respect of any application for planning permission.

I believe that communities should also see concrete benefit. The industry has committed to a package for communities that host shale in their area, including £100,000 per hydraulically fractured well at exploratory stage being paid out to the communities and 1% of revenues during production.

3.45 pm

I can understand where my hon. Friend Member for Daventry came from. The trouble was that, like so much else with Opposition policy overall, the amendment tabled by the hon. Member for Newcastle upon Tyne North says one thing—"We quite like shale gas and fracking, but we would like to have a review of it"—but that was not the tone of her comments. There were lots of questions and lots of statements suggesting that the Opposition were saying, "We're very unsure about this and we'd like to be looking at other things too."

The hon. Lady talked about environmental concerns, as other hon. Members did. We have been clear that wherever hydraulic fracturing is conducted, it must be done in a safe and environmentally sound way. Robust regulations are in place to ensure on-site safety, prevent water contamination and mitigate seismic activity and air pollution.

Charlie Elphicke: The Minister may know that, in my constituency, there are three potential sites for underground coal gasification, which is a form of fracking. My constituents are concerned about the safety of the water table, particularly as it is our drinking water aquifer. They are also concerned about risks of earthquake and earthquake-type risks. Will she confirm that the Government are committed to ensuring that this new technology is absolutely safe, for my constituents' benefit?

Nicky Morgan: I thank my hon. Friend for his remarks. The Government are listening to the concerns of communities and want to deal with them. That is why new controls have been introduced to mitigate the seismic risks identified following events in Lancashire. A precautionary approach will be adopted for the fracking of the next few wells. The operators will be subject to particularly close scrutiny to ensure that the controls are being applied correctly and that they are effective.

In relation to water supply, water for fracking operations has been provided by local water companies, which are obligated to produce and update a long-term plan every five years that has contingency reserves in case of a drought. Therefore water companies will assess the amount of water available before providing it to operators. I assure my hon. Friend that checks and balances are in place.

Ian Mearns: The Minister will understand concerns of Opposition Members, Members of all parties and the general population about comparisons between fracking in the United States of America and in the United Kingdom. There is a much lower likelihood of fracking having an immediate impact on someone in the USA. Its land mass is 365 times that of the UK but its population is only five times greater. Obviously, interaction is much less likely to occur in a land mass that great with such a population.

Nicky Morgan: I understand what the hon. Gentleman says and, as I have already said, I understand constituents' concerns about fracking. I am not going to get into measuring wells and how close the average well is to settlements in the US compared with the UK because I am not an expert. However, I have already set out for the record that the Government are aware of those concerns, and are monitoring and dealing with them.

This is still an important potential energy supply. That is the overall thrust of this debate. Opposition Members agree that it is an important source of energy that we should be exploring. The Government are putting that regime place.

Ian Swales: I will not test the Minister any more on her technical knowledge, but let me just say that it is important that the people in this place understand enough about the technology to be able to talk about it. For example, most technologies involved in extracting gas from coal beds are not "fracking" and the word should not be used.

Nicky Morgan: The hon. Gentleman is entirely right. Sometimes in this place we discuss important topics that we may not be experts on. It is right that the correct terms are used. He provides me with a useful opportunity to come back to him on his original intervention before the Division in the House. I can confirm that all hydrocarbon production is subject to the oil and gas fiscal regime, including gas from coal, except when the gas is produced in the course of making mines safe. Clauses 64 and 65 will apply to coal bed methane. I hope that is of assistance.

The hon. Member for Newcastle upon Tyne North asked whether the move to export our gas was incompatible with the UK's climate change targets. Shale gas is compatible with our legally binding carbon goals. Gas has an important role to play in the UK's energy mix, while still meeting our commitments under the fourth

carbon budget. A continuing role for gas is consistent with decarbonising—much of the capacity will be replacing older and more carbon-intensive coal. I will not have a debate with the hon. Member for Islwyn about where the coal should be produced if we were to still burn coal, but his plea for Welsh coal was heard on both sides of the Committee.

The hon. Member for Newcastle upon Tyne North looked at the tax information and impact note and talked about the Exchequer impact being £45 million over the course of the scorecard period. She did not quote from the economic impact, which states:

"The onshore allowance is expected to increase investment in unconventional hydrocarbon exploration. If exploration establishes the commercial viability of these resources"—

meaning that we have to have the exploration in the first place, hence the debate—

"then in the longer term there could be a significant increase in the domestic production of hydrocarbons, increased energy security, the creation of jobs and benefits to the UK supply chain."

Opposition Members said that the importance of shale gas means that other technologies—the hon. Member for Inverclyde talked about two technologies in his constituency—have been shut down. *[Interruption.]* They are talking from a sedentary position, but they ought to be thinking about the effect of their price freeze policy on investment in the industry—that proposal is chilling in respect of future plans for investment in the industry.

On the question of whether people who are investing in wind farms will move to fracking for quick money, the answer is no, we do not believe so. Wind farms are not taxed higher than oil and gas rates. They would be taxed, because they are corporations, at a standard rate of 21%, not at 61%. Does the hon. Member for Inverclyde want to intervene?

Mr McKenzie: I thank the Minister for giving me the option to intervene. What is chilling—it is something that the Minister should look at—is families and pensioners having to switch off their energy supply and make a decision between heating and eating.

Nicky Morgan: I wonder whether Opposition Members voted for the decarbonisation target, which would have added another £125 to energy bills. I hope they are doing all they can to promote the warm home discount and encouraging everybody eligible to apply for it and other green schemes. That is £140 available to vulnerable households. I hope the hon. Gentleman sent out that press release to his constituents.

Clause 64 and schedule 11 will ensure that we continue to get the most economic benefit from the country's oil and gas resources, incentivising investment in onshore oil and gas projects that will provide jobs, growth and greater energy security. I echo those comments for clause 65 and schedule 12. I hope the Committee does not adopt Opposition amendment 22.

Question put and agreed to.

Clause 64 accordingly ordered to stand part of the Bill.

Schedule 11 agreed to.

Clause 65

Supplementary charge: onshore allowance

Catherine McKinnell: I beg to move amendment 22, in clause 65, page 55, line 36, at end insert—

'(1) The Chancellor of the Exchequer shall, within three months of Royal Assent, undertake a review of the impact of the creation of the onshore allowance introduced under this section.

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

(a) the estimated total loss of tax revenue to the Treasury in the next 10 financial years;

(b) the impact on onshore oil and gas exploration and field development in the next 10 years; and

(c) the differential impact on individual shale fields.

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

There has been a broad debate today, from being balanced in areas where there is a lot of agreement, to a certain lack of clarity for Opposition Members as to exactly what impact assessments have been made on clause 65. Therefore, we will press our amendment to a Division. It is in the interest of the Government, the Opposition and particularly the public that we have a proper assessment of the impact of clause 65.

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 17.

Division No. 7]

AYES

Evans, Chris	McKinnell, Catherine
Glindon, Mrs Mary	Mahmood, Shabana
Jamieson, Cathy	Mearns, Ian
Kane, Mike	Williamson, Chris
McKenzie, Mr Iain	

NOES

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

Question accordingly negatived.

Clause 65 ordered to stand part of the Bill.

Schedule 12 agreed to.

Clause 66

Oil and gas: reinvestment after pre-trading disposal

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

Catherine McKinnell: With your permission, Mr Caton, I would like to consider clauses 66 and 67 together as they have been introduced as part of a package of measures with the same policy objectives and intended outcomes.

The Chair: Does the Committee agree?

Hon. Members: Yes.

Catherine McKinnell: Thank you, Mr Caton. Although Budget 2014 announced that the Government, working with the new oil and gas agency, will review the tax treatment of North sea oil

"to ensure that it continues to incentivise economic recovery as the basin matures",

the measures introduced by clauses 66 and 67 were both announced in the autumn statement 2013. Both are intended to support companies that are engaged in oil and gas exploration and appraisal activity, but are yet to start trading within the ring fence. As the Committee will know, the Finance Act 2009 introduced reinvestment relief to companies with ring-fence oil and gas trades, meaning that they are not subject to corporation tax on chargeable gains that arise on the disposal of assets in the circumstances in which disposal proceeds are reinvested in new oil trade assets, and the disposal and acquisition qualify for roll-over relief.

According to the tax information and impact notes, both measures are expected to have nil Exchequer impact over the period 2014-15 to 2018-19. Both clauses have been introduced to support investment in companies involved in oil and gas exploration and appraisal activity, which is, of course, welcome. However, both of the tax information and impact notes for the measures state that they are

"not expected to have any significant economic impacts…Only a small number of UK businesses will be affected by the measure. The proposals are designed to support exploration companies. This measure is expected to have a negligible impact on these businesses."

Given the somewhat pessimistic assessment of what clauses 66 and 67 are likely to achieve, will the Minister outline the thinking behind the measures, which are, in HMRC's own words,

"not expected to have any significant economic impacts"?

Both will have nil Exchequer impact and will benefit

"only a small number of UK businesses".

Of those that will benefit, the impact will be only "negligible". Exactly how many firms does she expect to benefit, and how many jobs does she expect to be supported as a result? What increase in exploration and appraisal investment and activity does she expect to see as a result of clauses 66 and 67?

Could the Minister also say a little about the long-term review of the tax treatment of the North sea that was announced at Budget 2014 and that was referred to in our discussions on the previous measures? When are decisions on that important issue likely to be made? We agree that certainty is key to investment decisions, and therefore it would be useful to have a little more information about exactly what the timetable for the long-term review is likely to be.

4 pm

We are well aware of the nationally important role played by the UK oil and gas industry, which makes a very substantial contribution to our economy, energy security and employment. Indeed, in 2012, the oil and gas sector provided employment for about 440,000 people across the whole country, including for more than 10,000 people in my region of north-east England.

Of course, the lion's share of those jobs—45% of them—are based in Scotland. I am sure that the Minister, like me and every member of the Committee, believes that the UK is better together. Will she therefore comment on the important fiscal role that the UK Government play in supporting the national oil and gas industry and how the sector will be best served by our remaining together?

Nicky Morgan: I thank the hon. Lady for her remarks. Clause 66 makes changes to align the tax treatment of pre-trading oil and gas exploration and appraisal companies to that of companies that have commenced a ring-fence trade. It will extend reinvestment relief to prevent a chargeable gain being subject to a corporation tax charge when a company sells an asset in the course of oil and gas exploration and appraisal activities, and reinvests the proceeds in the UK or the UK continental shelf. The change is expected to encourage oil and gas exploration activity.

I will give a little background. Currently, reinvestment relief allows companies that are carrying on a ring-fence trade to sell their assets without generating a corporation tax charge on any gain if they reinvest the proceeds of the sale back into the UKCS. A typical example of such a transaction is a company disposing of an interest in an oil licence together with assets such as a platform and pipeline, and acquiring an interest in a new licence and assets. In that way, companies can vary their portfolio of assets without incurring a tax charge as long as further investment takes place. That helps to ensure that oil licences and associated assets end up in the hands of the companies that are best suited to exploit them.

However, a company that is not yet carrying on a ring-fence trade is unable to take advantage of this exemption. Such companies are typically smaller exploration companies, which are seen as the lifeblood of the oil and gas industry. Without those exploration companies, there would be no new discoveries to replenish the declining reserves of North sea oil and gas. The Government have listened to the industry's concerns and clause 66 will address the difference in tax treatment between trading and pre-trading companies, to help to encourage greater exploration.

The changes made by the clause will extend the scope of the legislation to ensure that any company that carries on exploration and appraisal activity within the UK or UKCS will benefit from reinvestment relief in exactly the same way as a company carrying on a ring-fence trade. That will benefit the smaller and typically UK-based exploration companies that have been hardest hit by the economic downturn. It will also support investment in UK-based industries, and protect and create UK jobs, not only in Aberdeen and Scotland, but throughout the rest of the UK—the hon. Lady mentioned the 10,000 jobs in her own region in the industry. The clause will also help to ensure that we are able to maximise the benefit of our remaining resources.

Clause 67 makes further changes to align the tax treatment of companies involved in oil and gas exploration and appraisal activity in the UK or UKCS, and which have not commenced trading, to that of companies that have commenced a trade. The clause will extend the scope of the substantial shareholding exemption to companies owning assets used for the purposes of oil and gas exploration and appraisal. Previously, that aspect of the substantial shareholding exemption applied only when assets were used for the purposes of a trade.

The substantial shareholding exemption prevents a corporation tax charge for gains arising from disposals by companies of shares, when certain conditions are met. It allows groups of companies to restructure without decisions being driven by tax implications. In most cases, the exemption applies only when a company has held a substantial shareholding in a subsidiary for the 12 months before the disposal. However, under the current legislation, the 12-month requirement is waived where the company being disposed of holds an asset used for the purposes of a trade. In the context of the oil and gas industry, a trade involves the exploitation of oil rights and the development of oil and gas. A typical example of assets used for the purposes of ring-fence trade would be an interest in an oil licence, together with assets such as a platform and pipeline. The substantial shareholding exemption allows companies to sell their existing interests in North sea assets without incurring a tax charge, enabling them to invest a greater amount in new North sea interests. This helps to ensure that the oil licences and associated assets end up in the hands of companies that are best suited to exploit them.

However, a disposal of shares in a company that is not yet carrying on a ring-fence trade does not qualify for the exemption. Such companies are typically smaller exploration companies, which are seen, as I have said, as the lifeblood of the oil and gas industry. Without such exploration companies, there would be no new discoveries to replenish the declining reserves in our North sea oil and gas. The Government have listened to industry's concerns, and the clause will address the difference in tax treatment between trading companies and non-trading exploration companies.

Clause 67 will extend the scope of the legislation to ensure that companies investing in or carrying out exploration and appraisal activity in the UK or UK continental shelf will benefit from the substantial shareholding exemption in exactly the same way as a company carrying on a ring-fence trade. That will support investment in exploration activity, leading to increased production and helping us to get the most from our vital national interests. As I have said, the investment will help to create and sustain jobs across the whole UK both directly and indirectly through the supply chain.

Let me turn briefly to the hon. Lady's questions. She effectively asked me to take out and polish my crystal ball when she asked me how many companies would be affected. The small numbers of oil and gas exploration companies that I have already mentioned will be affected, but it is difficult to say exactly how many, because the licence interests in the North sea are continually changing. She asked about representations. We have received many representations on the matter, and we have spoken to many interested stakeholders, including representative bodies.

The hon. Lady asked for the two clauses to be taken together, the point being that the measure is part of a whole package. She will appreciate that various bodies will identify issues here and there that they believe will affect them or their companies. Therefore, the Government are signalling that the oil and gas sector is, as she said, very important to the whole of the United Kingdom, particularly in Scotland. I entirely endorse her comments about us being better off together, and we must recognise the importance of oil and gas to the Scottish economy.

Catherine McKinnell: I appreciate that the Minister is not Mystic Morgan, but members of the Committee and members of the public would like to feel that the Government have put some thought into the measures in the Bill and given some consideration to the companies that will benefit. My questions are designed simply to elicit more information than is currently available, particularly given the total lack of information in the tax information and impact note, which gives the impression that the measure will have absolutely no impact on anybody anywhere.

Nicky Morgan: I understand the reasons behind the hon. Lady's question. If I were in her shoes, I might be asking the same question, because I probably would not have much else to ask. It is nice to be called Mystic Morgan, although I suspect that Mr Morgan may choose to disagree with that description.

The point about the changes is that they mostly concern small exploration companies, which are often start-ups. As the hon. Lady will appreciate, and as Government Members certainly appreciate, Government creates the environment for businesses to flourish. It is not for the Government to set out that x companies will benefit in year 1 and y companies will benefit in year 2. Instead, these and other changes create the conditions that allow companies to start up and incentivise them to invest.

I will not get involved in that dialogue; I will move on to talk about the evidence that the legislation will have any real benefit to exploration companies. As I have mentioned, the legislation has been subject to close and productive dialogue with industry stakeholders. It will remove a fiscal barrier to companies deciding to sell assets, making those transfers simpler and aligning the tax treatment with that of companies carrying on a trade, whether in the oil and gas industry or not.

The hon. Lady asked about the fiscal review. That was announced initially at the autumn statement, setting out a road map for ongoing work. It is dependent on changes and conclusions, and exploration will be included. I mentioned in the debate on a previous clause that the industry welcomes discussions about the review, its shape—which will depend on its chairman—and the areas it should explore. I cannot predict when the review will report, because we want to get it right and to encourage this important industry, particularly up in Scotland.

The hon. Lady also asked about the Exchequer costs in the tax information and impact note being nil. That is because exploration companies can already be exempt from tax under the current legislation. The clauses still enable exploration companies to achieve exemption, but in a simpler and more flexible way.

For the reasons that I have set out, these clauses will help further to level the playing field for all companies wanting to invest in the North sea and will be welcomed by the oil and gas industry. They are a further example of the Government's support of the important UK oil and gas industry. I therefore hope that the clauses will stand part of the Bill.

Question put and agreed to.

Clause 66 accordingly ordered to stand part of the Bill.

Clause 67 ordered to stand part of the Bill.

Clause 68

PARTNERSHIPS

Shabana Mahmood: I beg to move amendment 15, in clause 68, page 61, line 39, at end insert—

'( ) The Chancellor of the Exchequer shall, within six months of the passing of this Act, publish and lay before the House of Commons a report setting out the impact, over the next three years, of the changes made to the Corporation Tax Act 2009 and the Income Tax (Trading and Other Income) Act 2005 by Schedule 13.

( ) The report must in particular set out—

(a) how much additional tax revenue the measures introduced by this section are expected to generate to the UK Exchequer, for each year in which they are in operation; and

(b) the impact of those measures on revenues lost to the Exchequer as a consequence of tax avoidance schemes for each year in which they are in operation.'.

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

Clause stand part.

That schedule 13 be the Thirteenth schedule to the Bill.

Shabana Mahmood: Clause 68 and schedule 13 introduce changes to the taxation of partnerships, in particular limited liability partnerships. The reforms are designed to prevent tax avoidance through the use of certain partnership structures. There are four main changes. First, there was previously a presumption of self-employment for partners in an LLP. The new rules remove that presumption and introduce a series of tests designed to stop the disguising of normal employment arrangements through LLP structures.

Secondly, profit sharing within partnerships can be flexible, which in the past has been used to generate tax advantages, particularly in relation to mixed-membership partnerships, which is when there are both corporate and individual members. Various structures have been used to allocate profits to a low-tax entity, such as a company, while losses were allocated to individual partners, who could make more tax-efficient use of the losses. The new measures aim to prevent these types of arrangements.

Thirdly, one of the arguments used to justify the need for mixed-member partnerships was the need to warehouse profits that cannot be paid to partners in cash as a result of regulatory requirements. In particular, under the alternative investment fund managers directive, AIFMD firms are obliged to withhold elements of remuneration payable to certain staff, including partners or members of an LLP, and to make the right to receive this conditional or subject to clawback. When the rules apply to members of an LLP, the tax treatment is that all the profit is taxed in the year in which the profits are made, irrespective of whether such profits are paid out. Under the new rules, AIFMD firms will allow that profit, which is required to be deferred, to be allocated not to the relevant individual, but instead to the firm itself, which will pay tax on this at the higher rate. When the individual is able to access the profits, he or she will be taxed, but will receive a tax credit in respect of the tax paid by the firm and any overpayment of tax may be repaid.

Fourthly, on asset disposals, one partner could previously transfer an asset or income stream to another partner in return for a payment and the transferee might have had a tax attribute that would mean it was not taxed on that income stream. Under the new rules, when a person disposes of an asset or income stream through a partnership and the main purpose, or one of the main purposes, is to secure a tax advantage, the new rules would impose an income tax charge on the person making the disposal or transfer of the asset.

By way of background, LLPs set up under UK legislation are bodies corporate that combine the organisational flexibility of traditional partnerships with the benefit of limited liability for their members. The policy intention when LLPs were introduced was that they would be treated for tax purposes as though they were traditional partnerships, rather than being subject to corporation tax, as would be normal for a body corporate. That means that individual members are taxed on their share of the profits of the LLP in the same way that individual partners in a traditional partnership are taxed.

4.15 pm

The schedule introducing these changes is very long, and the rules are detailed and complex. There are two very helpful HMRC technical notes, which between them have a total of 57 examples, each of which contain scenarios that are caught or not by the new rules—I rather felt like I was back at bar school as I was working my way through each scenario and working out whether the new rules caught those arrangements or not.

We support the need for action in this area. There has clearly been abuse of the current rules and it is right that action is taken to crack down on tax avoidance in this area. The action is supported by stakeholders, too. The Chartered Institute of Taxation commented at the time:

"There has undoubtedly been some abuse of the current rules with, for example, cleaners and seasonal agricultural workers being made partners to avoid national insurance. The Government were right to review the taxation of LLP members in the interests of fairness in the tax system."

The House of Lords Economic Affairs Committee also commented:

"The Government is clearly right to look again at the taxation of Limited Liability Partnership members as the legislation introduced in 2000 has failed to bring their tax treatment in line with that of general partnerships, and provided opportunities to avoid tax liabilities."

The original consultation on partnerships was launched in May 2013, after Budget 2013, in which it was announced that

"the government will consult on measures to remove the presumption of self-employment for limited liability partnership partners, to tackle the disguising of employment relationships through LLP structures".

That consultation closed in early August and the HMRC published a summary of responses on 10 December 2013, alongside draft Finance Bill provisions. There is, as I am sure the Minister will be aware, a widespread view that the legislative proposals before us today, which appeared in the draft Finance Bill, are very different from those in the May consultation document. Indeed, the CBI said:

"The consultation process which took place between May and August 2013 sought responses to a much narrower set of proposals

than those published on 10 December. Had business known these parameters, many more may have responded and those that did respond may have responded differently".

In addition, the Office of Tax Simplification has also been reviewing the whole area of partnership taxation. It was commissioned to look into the taxation of partnerships in 2013. The interim report of the OTS review was published on 22 January 2014, which was also after the draft Finance Bill was published in December 2013. That seems a somewhat strange way to go about this review and reform process.

The key issue in relation to clause 68 and schedule 13 therefore relates to the process—the problems with the consultation and the substantially different approach adopted in the draft Finance Bill and the Bill before us today. The Minister will know that the House of Lords Economic Affairs Committee recommended delaying the implementation of the legislation until April 2015 to allow for further consultation with interested stakeholders, including business, taxation and legal specialists, so that the legislation can be targeted properly. Will the Minister explain what consideration he gave to that suggestion and why that approach has been rejected in favour of bringing in the rules much earlier?

The Association of Taxation Technicians has said it believes that the attempt to provide an objective measure of when a member of an LLP is a real partner has, in its view, resulted in what it considers to be a fairly mechanical approach. It fears that this approach takes no account of the modern management structure of partnerships or differences in factors such as size, structure, complexity, the nature of the trade, history and career patterns of businesses that are structured as LLPs. As a result, the ATT suggests that there should be a deferral—along the lines suggested by the House of Lords Committee—or, failing that, the inclusion of a clearance provision in the legislation that would enable LLPs to agree with HMRC the tax status of their members and thereby overcome the uncertainties that it believes are introduced by these provisions. However, that is not the approach that has been adopted by the Minister in the clause and schedule before us. It would be helpful to hear from him about the ATT's fears and whether he considered the idea of a clearance provision that would ensure that the measures do not unwittingly introduce unnecessary uncertainty into the tax system.

As I said earlier, the Office of Tax Simplification conducted a review of partnership taxation, with the results being published on 22 January 2014. Introducing the complex legislation before us will affect many businesses, potentially leading to structural change. On the face of it, that might seem a strange process and unnecessary complication while the results of the OTS review are still being considered. What is the Minister's response to such claims? Is he concerned that the changes might be seen as a piecemeal approach to reform? How will he ensure that the path he has chosen to take with the legislation before us will provide much-needed stability and certainty to the UK tax system?

Another important issue is whether businesses will have enough time to adapt to the changes, the passing of which will require some LLPs to undergo radical restructuring. The Institute of Chartered Accountants in England and Wales thinks that insufficient time has been allowed for businesses to make the necessary arrangements, given the legislative and regulatory timetable that the Government have pursued. LLP members subject to the new legislation will be taxed as employees from 6 April 2014. The ICAEW thinks that the real-time information requirements for reporting payroll data will merely add to the high administrative burden for LLPs and HMRC. What assessment has the Minister made of whether businesses have enough time to adapt to the changes? What is his assessment of the extent of the administrative burden they will have to bear as a result?

The ICAEW has stated that the proposed new rules for salaried members in LLPs and the non-corporate member rules for all partnerships will involve a significant additional compliance cost for LLPs. Have the Government evaluated the effect on bottom-line costs for the affected businesses? Similarly to our attitude to the changes to the rules on intermediaries and disguised self-employment, although the Opposition welcome measures to counteract tax avoidance, what steps will the Government be taking to ensure that the employment law aspects of the changes are also reviewed?

The increasing divide between employment law and tax law has the potential to lead to more uncertainty, complexity and unfairness as individuals are taxed as employees but without equivalent employment rights. The proposals to tax LLP salaried partners as employees might create a further group of individuals who will be in that position. What discussions has the Minister had with colleagues in other Departments, including the Department for Business, Innovation and Skills and the Ministry of Justice, about the impact of the changes and how they will interact with employment law?

On a broader level, it is apparent that many of the problems being addressed by the proposals stem once again from the different tax costs of employment and self-employment, as well as the different rates of tax paid by small companies and unincorporated businesses. Like me, the Minister will have heard such differences described often as structural problems in our tax system. Many stakeholders believe that until they are resolved we will continue to see piecemeal legislation being introduced. There is a danger that that might make a complex situation and a complicated tax code even worse. Will the Minister set out for the benefit of the Committee the steps that the Government will be taking to perform a thorough review of the whole issue?

The Chartered Institute of Taxation also makes an important point about employment status. It says:

> "The result of the Government's approach in this area, and in respect of agency workers, is that we now have several definitions of when a worker is employed or self-employed."

It then gives the example of employment law tests, which

> "are well known and, in general, the result of applying these tests for, for example, employment rights purposes are followed for tax purposes too."

It also gives the example of intermediaries legislation. It says that

> "these tests apply for tax purposes only, and give rise to no employment rights, and include IR35 and individuals working through personal service companies, individuals working through umbrella companies—managed service companies—as well as the provisions included in clauses 16-21 of the Finance Bill 2014 in respect of employment intermediaries."

We debated that in an earlier sitting. The chartered institute also points to employment status in relation to ordinary partnerships. It says that

"these tests have been built up over many years and are largely known and accepted by HMRC and taxpayers."

Now, of course, we have the employment status provisions in relation to LLPs. The institute says that

"the test will apply for tax purposes only and the individuals affected will gain no employment rights.

It fears that the result of all that is a real and growing confusion in the law about how employment status is established. Does the Minister agree? If so, or if he fears that that may prove to be the case, does he propose to look at that?

For those LLPs that are uncertain whether the new rules apply to them, HMRC's non-statutory business clearance process will not be available until after the Finance Bill receives Royal Assent. Does the Minister think it is right that, given that uncertainty, in the interim those LLPs will need to take a view on whether the new rules apply?

The House of Lords Committee raised concerns that the proposed changes to tax arrangements for LLPs will apply only to UK-registered LLPs and not to those conducting business here but formed elsewhere. Will the Minister explain whether the Government will be taking steps to reconsider the position of non-UK LLPs? I should also be grateful if he would give a breakdown of how the Government arrived at the potential overall £3.26 billion tax yield for these measures.

The intention of our amendment is to probe the Minister. We want to ensure that the expected £3.26 billion tax revenue is realised and we seek reassurance from the Minister that the new proposals will be effective in clamping down on this area of tax avoidance and, given the detail of the legislative tests introduced by schedule 13 in particular, will not inadvertently create more tax avoidance opportunities. I would be grateful for clarification on those points.

Lorely Burt (Solihull) (LD): I rise to make a couple of points raised with me by LLPs in my constituency and friends on the House of Lords Economic Affairs Committee. I do not want to duplicate the hon. Lady's points, but I want to raise: the legislative tests to determine the status of LLP members; the application of the new rules from the start of the fiscal year, April 2014; and the position of non-UK LLPs.

The three legislative tests in the Bill for determining whether a member of an LLP is an employee of the partnership rather than a true partner seem a little different from those consulted on before the draft Bill was published. The House of Lords Committee felt that those tests will fail to achieve parity with the outcomes produced by the general partnership rules as the Government intend. Will my hon. Friend the Minister remain open to suggested amendments with the aim of making improvements and clarifications to that?

Can we consider allowing businesses to apply the changes from the beginning of their own accounting year, rather than the start of the tax year, to reduce compliance costs? Can we look again at ensuring that domestic LLPs are not at a disadvantage relative to non-UK LLPs?

4.30 pm

When are the Government planning to carry out a formal post-implementation review of the changes? Will the review include a rigorous assessment of whether the expected yield has materialised? Like the hon. Member for Birmingham, Ladywood, I suggest that the proposals should perhaps be delayed to April 2015 so that we can get both the legislative approach and the drafting right, which would give LLPs time to adapt. To minimise compliance costs, will the Government consider applying the new rules from the start of the LLP's accounting year, rather than from the start of the fiscal year?

In summary, this is great legislation, and it is right that we ensure that such loopholes are closed. My questions are purely probing in order to ensure that we do that as effectively as possible.

Mr Gauke: Clause 68 and schedule 13 make changes to prevent tax losses arising from disguising employment relationships through LLPs and from certain arrangements involving the allocation of profits and losses among partnership members. Amendment 15 seeks the publication of a report on the measure's tax impact, and I will address that shortly.

The measure has two strands. The first concerns individual members of LLPs who are essentially employees. Such people are referred to in legislation as salaried members. Under existing rules, individuals who are members of an LLP are taxed as if they are partners in a partnership even if they are engaged on terms closer to those of an employee. LLPs can therefore be used to disguise employment and to avoid employment taxes, which results in unfairness and a loss to the Exchequer of income tax and national insurance contributions.

The second strand concerns the allocation of profits and losses between partnership members. Under partnership law it is not necessary for profits and losses to be shared among partners in proportion to a partner's contribution to the partnership, which means that where partnerships consists of individuals and a company or, say, a trustee, there is scope to manipulate the allocation of profits and losses so that profits are taxed at a lower tax rate than they should be and losses are relieved at the highest income tax rate. A variation on that theme is where partners reduce their profit entitlement in return for a payment made by another member who is taxed more favourably on those profits. The measure is about reducing distortions between partnership types, thereby ensuring that disguised employment in LLPs and inappropriate partnership allocations to a company or similar vehicle do not create tax advantages.

Clause 68 and schedule 13 address the disguising of employment relationships in relation to salaried members of LLPs—that is part 1 of the schedule. Part 2 addresses tax-motivated allocations of profits and losses in mixed-membership partnerships, including LLPs. Part 4 addresses tax-motivated disposals of assets through partnerships, including LLPs. Part 3 introduces a new income tax collection mechanism for partnerships and LLPs operating as an alternative investment fund manager. I will now explain each of those aspects in a little more detail.

Part 1 of the schedule will ensure that a salaried member of an LLP is treated as an employee of the LLP for income and corporation tax purposes. Associated changes to the national insurance contributions rules have been made in the National Insurance Contributions Act 2014 and subsequent regulations. When the tax legislation relating to LLPs was introduced in 2001, it

deemed all members to be self-employed. The new rules remove that automatic presumption, and individual members will be tested against certain criteria to determine whether they should be taxed as self-employed.

Broadly, the new rules seek to differentiate between an individual member of an LLP who has the characteristics of a partner and one who is tantamount to an employee. In order to do that, the legislation introduces three conditions. First, at least 80% of the individual's reward for their services for the LLP is fixed or not generally subject to the overall profits and losses of the LLP; secondly, the individual does not have significant influence over the affairs of the LLP; and thirdly, the individual does not have significant capital invested in the LLP. If all three conditions are met, the individual will be a salaried member and will be treated as an employee of the LLP for tax purposes. These rules apply only to UK LLPs. Entities outside the UK that are broadly equivalent to a UK LLP do not benefit from the automatic presumption of self-employment and there is no evidence of their being used to disguise employment. The Government will, of course, continue to monitor this area and will act quickly if needed.

The change in part 2 of the schedule will affect partnerships, including LLPs, where the partners or members include both individuals and non-individuals, typically a company member of the partnership. Broadly, the new rules will prevent tax loss by reallocating excess profits allocated to a non-individual partner—say, a company partner—to an individual partner. That will remove the tax advantage achieved by that individual under an arrangement where the excess profits are taxed at a lower rate than if the individual, instead of the company, had received the profits. The rules will also deny certain income tax loss reliefs and capital gains relief for a loss allocated to an individual partner instead of a non-individual under avoidance arrangements.

Part 3 of the schedule addresses a particular issue for partnerships that manage alternative investment funds. The legislation will introduce a mechanism for members of such partnerships to allocate profits to the partnership where members cannot immediately access the profits because of requirements under an EU directive to defer remuneration of key staff of AIFM firms. The legislation will impose a charge to tax on such profits at the additional tax rate of 45% to be paid by the partnership. If the member subsequently receives the profits, the individual can claim a tax credit against the tax paid by the partnership up front. That mechanism will ensure that AIFM partnerships can comply with the new EU-wide regulatory rules without needing to turn to tax-motivated arrangements involving mixed membership partnerships.

Part 4 of the schedule would affect those who use partnerships to dispose of income streams or assets without triggering a charge to tax on income. The legislation will apply where a person disposes of all or part of an asset or income stream under arrangements intended to secure a tax advantage. The legislation will impose a charge to tax on income on the person making the disposal.

The majority of partnerships will not be affected by these changes as they are not LLPs employing salaried members or mixed membership partnerships involving tax-motivated arrangements. The partnerships affected are likely to be limited in number and are primarily large professional or AIFM partnerships.

The information sought in Opposition amendment 15 was published in the tax information and impact notes covering all four parts of the legislation in December last year. An updated note concerning the salaried member legislation in Part 1 was also published on 7 March 2014. The figures show that the measure is expected to raise about £3.3 billion over the next five years. The figures were subject to the scrutiny of the Office for Budget Responsibility and I can confirm that the figures were certified by the OBR following the rigorous procedures that the Government have put in place. Therefore the report proposed in the amendment is not necessary.

Let me deal with questions asked by the hon. Member for Birmingham, Ladywood and my hon. Friend the Member for Solihull. First, both asked about the salaried member legislation published last year, which is, it is argued, significantly different from the consultation proposals. I do not accept that view. The draft Finance Bill 2014 legislation published in December is based on specific statutory tests, as proposed in HMRC's original consultation document.

As is usual, the original consultation proposals were updated, but that merely reflected the consultation responses received last year. A number of consultation respondents have supported the Government's position. For example, both KPMG and the Alternative Investment Management Association provided positive endorsement while giving evidence to the House of Lords Economic Affairs Finance Bill Sub-Committee. The legislation has been further revised, taking into account suggestions received during the latest consultation, which was between December 2013 and February 2014. The final legislation was first published on 7 March, just before the publication of the Lords' report on 11 March, and republished as part of the Finance Bill on 27 March.

Regarding how the new tests differ from the consultation proposals, the legislation sets out three requirements, all of which must be met before a member of a limited liability partnership can be classified as a salaried member, as I set out earlier. The requirements catch individuals who would, if engaged on similar terms by a company, be employees. I do not intend to repeat those conditions. Taken together, the requirements encapsulate what it means to be operating in a typical partnership. Those tests were developed to reflect the responses received during the consultation and they updated the initial proposals set out in the consultation document.

The question raised by my hon. Friend the Member for Solihull as to whether the Government are open to amendments ties in with the question whether the policy should be put back. Most LLPs have prepared for the change on the basis of the published proposals before the implementation date of 6 April 2014. Introducing further changes now will mean that the legislation could not have been introduced according to the previously announced timeline, which would not be in line with the Government's principles of open and fair consultation. Of course, the Government keep all such matters under review for the future, but we will not be amending the legislation.

As for a post-implementation review, all tax policies are kept under review. There are no plans for a public review. We will ensure that the yield from the measure is monitored.

[Mr Gauke]

Regarding the argument that implementation should be delayed, I would make a similar point. We believe that we have given sufficient notice of the change, and it has been clear what the start date would be for some time. I have already touched on whether domestic LLPs are disadvantaged. The compliance costs for business are set out in the impact note. The vast majority of LLPs will not be affected. There will be some one-off costs as partnerships come to terms with the new rules, but they will not be significant. HMRC clearance processes will not be available until after Royal Assent, but that is the normal process.

I hope that the clause will stand part of the Bill.

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

Bill, so far as amended, to be reported.

4.44 pm

Adjourned till Tuesday 10 June at ten minutes past Nine o'clock.