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HOUSE OF LORDS

HL Bill 45 of 2023–24

Finance Bill

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The Finance Bill is a government bill intended to give statutory effect to the tax measures that have previously been announced by the government. The majority of the measures included in the bill were announced at the 2023 autumn statement. However, measures announced at the 2023 spring budget, as well as a selection of measures announced independently outside the usual cycle of fiscal events, are also included. Key measures include:

- permanent full expensing, allowing companies to recoup the cost of expenditure on plant and machinery
- reforms to creative industry tax reliefs to boost certain sectors such as films, high-end TV and video games
- reforms to research and development (R&D) tax reliefs to support R&D-intensive small and medium enterprises

The bill had its second reading in the House of Commons on 13 December 2023. The bill was considered in a committee of the whole House on 10 January 2024, before moving to a public bill committee. It completed committee stage on 16 January 2024 and completed its remaining stages in the House of Commons on 5 February 2024.

The bill was introduced to the House of Lords on 6 February 2024. Its second reading and all remaining stages are due to take place on 21 February 2024.

1. Background to the bill

1.1 Fiscal events and the finance bill

The chancellor of the exchequer, Jeremy Hunt, presented the autumn statement to the House of Commons on 22 November 2023, outlining the government's latest plans for public spending and taxation. The Finance Bill would enact some of the tax measures announced in that statement, as well as other previously announced measures that have yet to be legislated for. A summary of the measures is included in section 2.

There are a series of tax measures announced in the autumn statement that have not been included in this Finance Bill. One prominent example of this is the reduction of national insurance rates, which have been legislated for separately.[1] Other such measures will, the government says, "be legislated by secondary legislation and future finance bills".[2]

1.2 House of Lords consideration of finance bills

Finance bills fall within the category known formally as "bills of aids and supplies", in which "aids" refers to taxation and "supplies" refers to government expenditure.[3] The House of Commons has a special

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[1] UK Parliament, 'National Insurance Contributions (Reduction in Rates) Act 2023', accessed 15 February 2024.

[2] For a summary of all measures announced in the autumn statement but not in this Finance Bill please see HM Revenue and Customs, 'Autumn statement 2023: Overview of tax legislation and rates (OOTLAR), 11 December 2023.

[3] House of Lords Constitution Committee, 'Money bills and Commons financial privilege', 3 February 2011, HL Paper 97 of session 2010–11, p 3.

role in such bills, known as 'financial privilege'. This means, in practice, that only the Commons can initiate such bills and Lords consideration is limited. In particular, the House of Lords may not amend such bills.[4] While the Lords will have a debate at second reading, later stages will go through formally, without debate.

The House of Commons Library has published a briefing that explains the process of parliamentary scrutiny of fiscal events and the finance bill in more detail.[5]

2. Contents of the bill

The Finance Bill was published on 29 November 2023. It contained 38 clauses in total, 35 of which were substantive tax measures.

One of the most significant measures is permanent full expensing (clause 1). This measure allows companies to fully deduct (from their taxable profits) the cost of capital expenditure on plant and machinery in the year that it is bought. Through this tax relief, the government hopes to stimulate business investment.[6] This measure was initially announced at the spring budget 2023 as a temporary measure, lasting for a three-year period from 1 April 2023 until 31 March 2026, with the government stating its intention to make the measure permanent "when fiscal conditions allow".[7] This Finance Bill would make it permanent, at an estimated annual cost of around £11bn per year by 2028/29.

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[4] House of Lords, 'Companion to the standing orders and guide to the proceedings of the House of Lords', 2022, p 162.
[5] House of Commons Library, 'The budget and the annual finance bill', 13 December 2023.
[6] HM Revenue and Customs, 'Capital allowances: Permanent full expensing for companies investing in plant and machinery', 22 November 2023.
[7] HM Treasury, 'Spring budget 2023', 15 March 2023, HC 1183 of session 2022–23.

The permanent full expensing measure is by far the most significant measure in the bill in terms of fiscal cost. Other measures with a tangible fiscal impact include the reforms to research and development (R&D) tax reliefs (clause 2) and creative industry tax reliefs (clauses 3–7). The R&D relief reforms would increase the support available for R&D-intensive small or medium enterprises (SMEs) and merge two other R&D relief schemes (the 'research and development expenditure credit' and the 'small or medium enterprise R&D relief'), costing an estimated £280mn per year by 2028/29.[8] The proposed creative industry relief reforms are intended to "modernise the creatives tax relief system" and would slightly increase the tax credit rate available for certain qualifying expenditures (films, high-end TV and video games), costing an estimated £110m per year by 2027/28.[9]

The only measures in the bill which are forecast to raise revenue are the increase in tobacco duty rates (clause 22) and the measure to strengthen the compliance obligations necessary to obtain and maintain gross payment status under the 'Construction industry scheme' (clause 34).[10] These measures are expected to raise £100mn per year and £40mn per year by 2028/29 respectively.

The other measure in the bill forecast to have a significant fiscal impact is the abolition of the life pensions lifetime allowance (clause 14). This measure was initially announced at the spring budget

[8] HM Revenue and Customs, 'Research and development (R&D) tax relief reforms', 23 November 2023.
[9] HM Revenue and Customs, 'Reform of film, TV and video games tax reliefs to expenditure credits', 22 November 2023; and 'Creative industry tax reliefs: Administrative changes', 22 November 2023.
[10] HM Revenue and Customs, 'Changes to tobacco duty rates from 22 November 2023', 22 November 2023; and 'Construction industry scheme reform from 6 April 2024', 22 November 2023.

2023 and the Finance (No. 2) Act 2023 began the work necessary to facilitate it. The measure in this Finance Bill "delivers the changes required to abolish the lifetime allowance entirely and clarifies the tax treatment of pension savings".[11]

A summary of all the substantive measures in this bill is provided in the table below, with links provided to the relevant HM Revenue and Customs 'Tax information and impact note' that accompanies each measure.[12] The estimated annual fiscal impact of the measure by the final year of the forecast period has also been provided.

Clause(s)*	Tax area	Measure(s)	Exchequer impact**
1	Capital allowances for companies	Permanent full expensing (22 November 2023)	-£10,935mn by 2028/29
2	Research and development	Research and development (R&D) tax relief reforms (23 November 2023)	-£280mn by 2028/29
3–7	Films, television programmes, video games etc.	Reform of film, TV and video games tax reliefs to expenditure credits (22 November 2023)	-£60mn by 2027/28

[11] HM Revenue and Customs, 'Abolition of the lifetime allowance from 6 April 2024', 22 November 2023.
[12] A full collection of these notes can be found at HM Revenue and Customs, 'Tax information and impact notes', accessed 13 February 2024.

		Clarifications of the rules for cultural tax reliefs (22 November 2023)	Nil
		Creative industry tax reliefs: Administrative changes (22 November 2023)	-£50mn by 2027/28
8	Real estate investment trusts	Amendments to the real estate investment trust regime (22 November 2023)	Negligible
9–10	Tonnage tax	Increasing the capital allowance limits for leasing into tonnage tax (22 November 2023)	Negligible
		Tonnage tax elections to include third party ship managers (22 November 2023)	Negligible
11–13	Other reliefs for businesses	Extension of the enterprise investment scheme and venture capital trust scheme (22 November 2023)	Nil
		Tax exemption for corporate recipients of compensation payments made under the Post Office compensation schemes: Group	Negligible

		litigation order, Horizon shortfall scheme, suspension remuneration review or Post Office process review scheme (22 November 2023)	
		Enterprise management incentives: Extension of the time limit to submit a notification of a grant of options (23 November 2023)	Negligible
14–15	Pensions	Abolition of the lifetime allowance from 6 April 2024 (22 November 2023)	-£835mn by 2027/28
		Taxation of members of Parliament, members of the Senedd and members of the Legislative Assembly of Northern Ireland pension reform remedies (22 November 2023)	Yet to be costed
16–17	Other income tax measures	Expanding the income tax cash basis for self-employed individuals and partnerships (22 November 2023)	Nil by 2028/29

		Calculation of PAYE liability in cases of non-compliance with off-payroll working (22 November 2023)	Nil
19–20	Stamp duty and stamp duty reserve tax	Growth market exemption for stamp duty and stamp duty reserve tax (22 November 2023)	Negligible
		Stamp taxes on shares: Removal of 1.5% charge on issues and certain related transfers (14 September 2023)	Nil
21	Pillar Two	Multinational top-up tax and domestic top-up tax amendments (22 November 2023)	Nil
22–24	Excise duty rates	Changes to tobacco duty rates from 22 November 2023 (22 November 2023)	+£100mn by 2028/29
		Vehicle excise duty rates for cars, vans and motorcycles from 1 April 2024 (22 November 2023)	Nil

		Changes to air passenger duty rates from 1 April 2024 (22 November 2023)	Nil
25–27	Miscellaneous VAT and excise measures	Fuel duty for heavy oil and bioblends used for heating (22 November 2023)	Negligible
		Exemption for vehicle excise duty for Ukrainian vehicles (22 November 2023)	Negligible
		Interpretation of VAT and excise legislation (20 October 2023)	Nil
28–30	Environmental taxes	Landfill tax rates for 2024 to 2025 (22 November 2023)	Nil
		Changes to the aggregates levy rate from 1 April 2024 (22 November 2023)	Nil
		Changes to plastic packaging tax rates from 1 April 2024 (22 November 2023)	Nil
31–34	Evasion, avoidance etc	Increasing the maximum prison term for tax fraud (22 November 2023)	Nil

		Dealing with promoters of tax avoidance (23 November 2023)	Negligible
		Construction industry scheme reform from 6 April 2024 (22 November 2023)	+£40mn by 2028/29
35–36	Administration	Change to data HMRC collects from customers (22 November 2023)	Nil
		Penalty reform for making tax digital for income tax self assessment volunteers (22 November 2023)	Yet to be costed

*For the version of bill as introduced in the Commons.

**The final year of the forecast period differs depending on when the measure was costed. A positive (+) exchequer impact means the measure is expected to increase revenue, a negative (-) exchequer impact means the measure is expected to reduce revenue.

3. Consideration of the bill in the House of Commons

3.1 First and second reading

The bill was introduced to the House of Commons on 27 November

2023, receiving its second reading on 13 December 2023.[13]

The financial secretary to the Treasury, Nigel Huddleston, opened the second reading debate by stating that the autumn statement had been delivered by the chancellor with "a clear intention to strengthen the economy now and for the future".[14] He said that the government proposed to do that by "putting money back in people's pockets and cutting taxes". The Finance Bill did this, Mr Huddleston argued, by allowing businesses to "invest for less", something he suggested would "encourage innovation and enhance productivity". Citing the measure to make full expensing of plant and machinery investment permanent as an example, he said:

> It is effectively a tax cut to companies of over £10bn a year—the most generous of any major economy. The benefits to the economy of the policy—just this measure alone—are that it will drive 0.1% GDP growth over the next five years, increasing to almost 0.2% in the long run, and it will unlock an additional £3bn of investment per year. That is only one of many government policies backing British businesses.[15]

More generally, Mr Huddleston said that the bill "delivers on the government's commitments to prioritise economic growth, encourage business investment, nurture innovation and simplify our tax system to combat tax avoidance".[16]

The shadow financial secretary to the Treasury, James Murray, argued that the government was failing in its efforts to boost economic

[13] HC Hansard, 13 December 2023, cols 923–59.
[14] HC Hansard, 13 December 2023, col 923.
[15] HC Hansard, 13 December 2023, cols 923–4.
[16] HC Hansard, 13 December 2023, cols 926.

growth.[17] He said that the government did not have "the determination or the plan to get us out of this doom loop where growth is low, taxes are high, public services are collapsing and families are worse off".[18] However, Mr Murray also said that the bill contained a number of measures "that we have been calling for for some time", such as "those on capital expensing, on research and development and on tax avoidance and evasion", and that the opposition would not oppose the bill's second reading.[19]

The chair of the House of Commons Treasury Committee, Harriett Baldwin (Conservative MP for West Worcestershire), said that it was the view of that committee that the UK tax system is "far too complicated" and that the bill contained a number of simplification measures that she welcomed.[20] She mentioned "expanding the cash basis for small businesses, improving the design of making tax digital, simplifying research and development tax credits […] and simplifying capital allowances and making them more permanent" as examples.[21] She recommended that the government should next turn its attention to reforming "high marginal tax rates that deter [people] from working more".[22]

The SNP economy spokesperson, Drew Hendry, said that the "problem with this bill is not so much what is in it but what is not in it".[23] He welcomed the move to make full expensing of plant and machinery investment permanent, but said there was "no mention of tackling the growing cost of living crisis that people face every day". Mr Hendry proposed the following reasoned amendment to decline

[17] HC Hansard, 13 December 2023, col 927.
[18] HC Hansard, 13 December 2023, col 927.
[19] HC Hansard, 13 December 2023, col 927–32.
[20] HC Hansard, 13 December 2023, col 933.
[21] HC Hansard, 13 December 2023, col 934.
[22] HC Hansard, 13 December 2023, col 934.
[23] HC Hansard, 13 December 2023, col 935.

the second reading motion:

> […] this House, while approving the changes to taxation of tobacco in the Finance Bill and full expensing being made permanent, declines to give the bill a second reading because it fails to make a much-needed reduction in VAT for the hospitality and tourism sectors, and fails to introduce measures through the tax system that would help alleviate poverty.

The amendment was rejected by 46 to 296 votes and the bill passed its second reading by 291 to 54 votes.[24]

3.2 Committee stage and third reading

The bill was debated in a committee of the whole House on 10 January 2024.[25] The government did not table any amendments or new clauses to the bill.

Mr Murray and the Liberal Democrat Treasury spokesperson, Sarah Olney, proposed a series of amendments that would have committed the government (amongst other things) to reviewing and publishing assessments of a number of measures in the bill.[26] For example, the amendments would have committed the government to reviewing the effectiveness of the R&D tax relief reforms and the tax avoidance and evasion measures in the bill. However, these proposed new clauses were negatived upon division.[27]

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[24] HC Hansard, 13 December 2023, cols 955–59.
[25] HC Hansard, 10 January 2024, cols 333–85.
[26] House of Commons, 'Finance Bill: Amendment paper', 10 January 2024.
[27] HC Hansard, 10 January 2024, cols 351–4, 367–70, 371–3 and 374–7.

A public bill committee for the bill took place on 16 January 2024.[28] Two new clauses were proposed during the committee which would have required the government to publish an assessment of the impact of the enacted bill on:

- the government's ability to meet its climate change targets.[29]
- the public finances and the cost of living.[30]

Both new clauses were rejected by 2 to 9 votes and the bill passed through public committee unamended.

3.3 Ways and means resolution, report stage and third reading

On 5 February 2023, in advance of the bill's report stage debate later that day, the financial secretary to the Treasury, Nigel Huddleston, tabled a ways and means resolution proposing that "provision may be made for the electricity generator levy not to apply to new generating plant".[31] This motion was agreed to. However, Drew Hendry, the SNP economy spokesperson, expressed concern about the procedure being used, arguing that it "prevented members from tabling any new clauses or amendments relating to the subject" given the lack of time between the amendment being put to the House and

[28] House of Commons Public Bill Committee, 'Finance Bill', 16 January 2024, session 2023–24, 1st and 2nd sittings, cols 1–58.
[29] House of Commons Public Bill Committee, 'Finance Bill', 16 January 2024, session 2023–24, 2nd sitting, cols 49–50.
[30] House of Commons Public Bill Committee, 'Finance Bill', 16 January 2024, 2nd sitting, cols 50–2.
[31] HC Hansard, 5 February 2024, col 52; and HM Revenue and Customs, 'Electricity generator levy: New investment exemption', 18 December 2023.

the report stage debate where the amendment would be considered.[32]

The new clause to introduce an exemption for qualifying new generating plant from the electricity generator levy—designed to "support continued investment in the UK's renewable generation capacity"—was accompanied by several other government amendments at report stage.[33] Three technical amendments were introduced to the clauses related to research and development tax reliefs, to ensure the clauses "work as intended".[34] Three amendments were also made to the clauses related to creative sector tax reliefs, introducing an "additional information requirement" to "help protect the reliefs from fraud and error".[35]

The government's amendments were agreed to without division and the bill passed its third reading by 283 to 39 votes.[36]

4. Parliamentary committee scrutiny

4.1 House of Lords Economic Affairs Finance Bill Sub-Committee

Each year the House of Lords Economic Affairs Committee appoints a Finance Bill Sub-Committee to examine draft finance bill legislation. On 1 February 2024 the sub-committee published a report examining

[32] HC Hansard, 5 February 2024, col 52.
[33] HC Hansard 5 February 2024, col 56; and House of Commons, 'Finance Bill: Amendment paper', 5 February 2024.
[34] HC Hansard 5 February 2024, cols 56–7.
[35] HC Hansard 5 February 2024, col 57.
[36] HC Hansard 5 February 2024, cols 91–3.

a series of proposed measures that were included in the government's draft Finance Bill 2023–24, which was published on 18 July 2023.[37]

The report's main conclusions and recommendations were as follows:

- The sub-committee welcomed the announcement at the autumn statement 2023 that the R&D review was now complete and recommended that the government does not make further changes to R&D tax relief, other than to simplify certain aspects of the scheme.
- The government must monitor the operation of the R&D-intensive scheme and keep the threshold for R&D intensity under review to ensure that the scheme is appropriately targeted and effective in achieving its policy objectives.
- HM Revenue and Customs must thoroughly review the assumptions on which the costs to business of the employee hours requirements were based and ensure that future costings accurately reflect the true cost to business of any changes.
- The government must provide greater clarity about how the measures targeting promoters of tax avoidance schemes will be effective against promoters based offshore.
- HM Revenue and Customs must collect data about the sentences handed down for tax fraud, including the number of times the new maximum sentence is imposed by the courts and an analysis of the deterrent effect of

[37] House of Lords Economics Affairs Finance Bill Sub-Committee, 'Lords committee publishes report on Finance Bill 2023–24', 1 February 2024.

these sentences.

- The government must ensure that there are proper, external and independent safeguards in place for any powers granted to HM Revenue and Customs, particularly those relating to criminal prosecution and the disqualification of directors.

Lord Leigh of Hurley (Conservative), chair of the Finance Bill Sub-Committee, said on publication of the report:

> Businesses will be relieved that the government's review of R&D tax relief has been completed and that they can now plan ahead with some much-needed certainty. However, the government still has a lot of work to do in terms of the early publication of the regulations and guidance relevant to changes and a realistic timetable.
>
> We struggled to understand what the government was trying to achieve by requiring additional data from employers and individual taxpayers. Additional burdens should not be placed on businesses unless there is a compelling reason to do so.
>
> The sub-committee was sceptical about whether increasing the maximum prison term is the most effective deterrent against tax fraud. We were also concerned by how the legislation aimed at dealing with promoters of tax avoidance schemes would be applied to offshore promoters, which we know deliberately place themselves in locations that don't have tax treaties and exchange agreements with the UK.

4.2 House of Commons Treasury Committee

On 28 and 29 November 2023, the House of Commons Treasury Committee took oral evidence on the autumn statement across three sessions.[38] Evidence was taken from Office for Budget Responsibility officials, independent economists and the chancellor of the exchequer, Jeremy Hunt.[39]

5. Read more

- House of Lords Economic Affairs Committee, 'Research and development tax relief, HMRC data requirements, promoters of tax avoidance and sentencing for tax fraud', 1 February 2024, HL Paper 52 of session 2023–24
- House of Commons Library, 'Autumn statement 2023 and Finance Bill 2023–24', 31 January 2024
- HM Revenue and Customs, 'Autumn statement 2023: Overview of tax legislation and rates (OOTLAR)', 11 December 2023

[38] House of Commons Treasury Committee, 'Treasury Committee to question chancellor, OBR and economists on autumn statement', 23 November 2023.
[39] House of Commons Treasury Committee, 'Oral evidence: Autumn statement 2023', 28 November 2023, HC 286 of session 2023–24, Q1–95; 'Oral evidence: Autumn statement 2023', 28 November 2023, HC 286 of session 2023–24, Q96–174; and 'Oral evidence: Autumn statement 2023', 29 November 2023, HC 286 of session 2023–24, Q175–265.

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