

# Options for fiscal devolution in Northern Ireland

Paul Johnson  
Chair, Fiscal Commission NI

NERI 9th Annual Dónal Nevin Lecture  
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## Terms of Reference

***“Review the case for increasing the fiscal powers to the NI Assembly, advising the Finance Minister on powers which could enhance the Assembly’s fiscal responsibilities ...”***

## Established

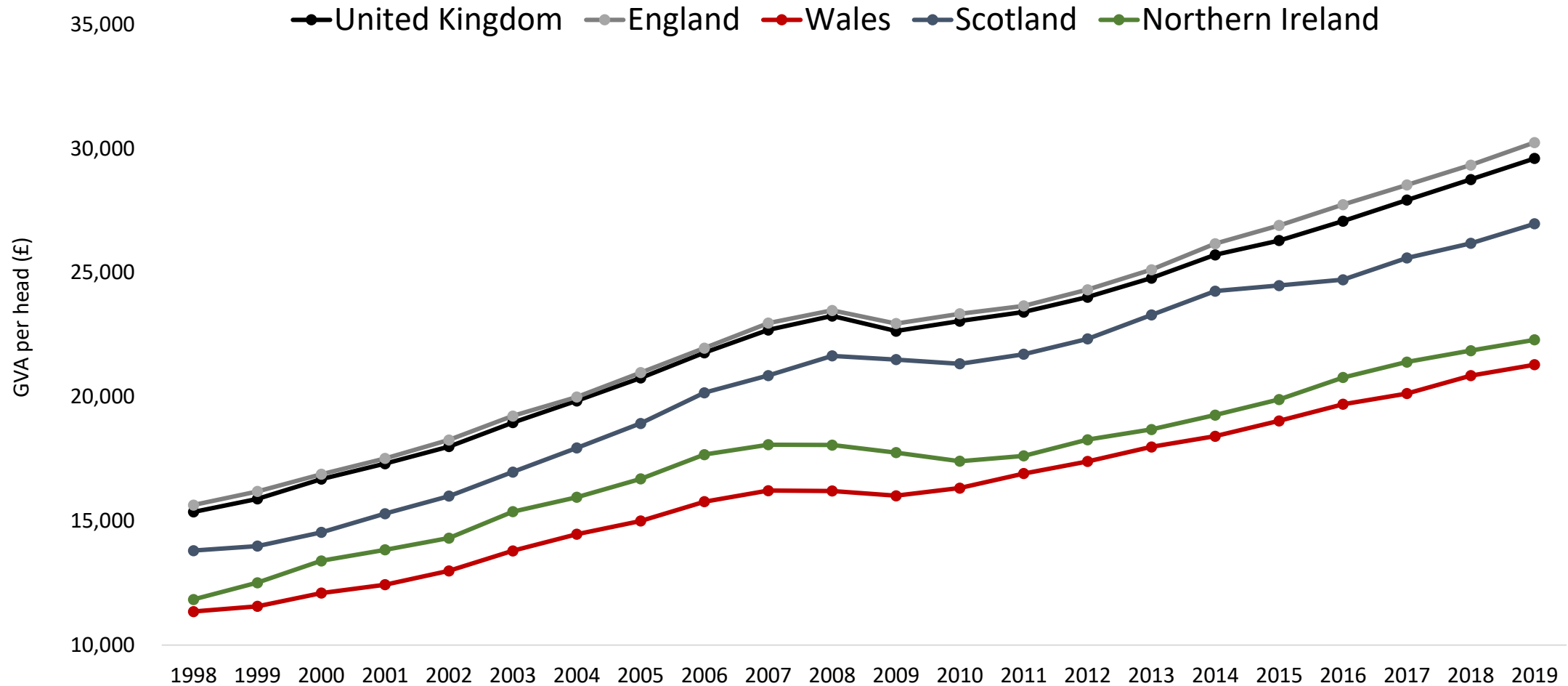
- By NI Finance Minister, Conor Murphy MLA, March 2021, Ministerial Statement
- Report to Finance Minister ahead of new political mandate (elections, May 2022)

## Commissioners

- **Paul Johnson**, Chair, Director, Institute for Fiscal Studies
- **Prof. Cathy Gormley-Heenan**, former deputy V/Chancellor Ulster University;
- **Prof Iain McLean**, Emeritus Professor of Politics at Oxford University; and
- **Dr. Lisa Wilson**, Senior Economist at the Nevin Economic Research Institute.

# NI has persistently been much poorer than rest of UK...

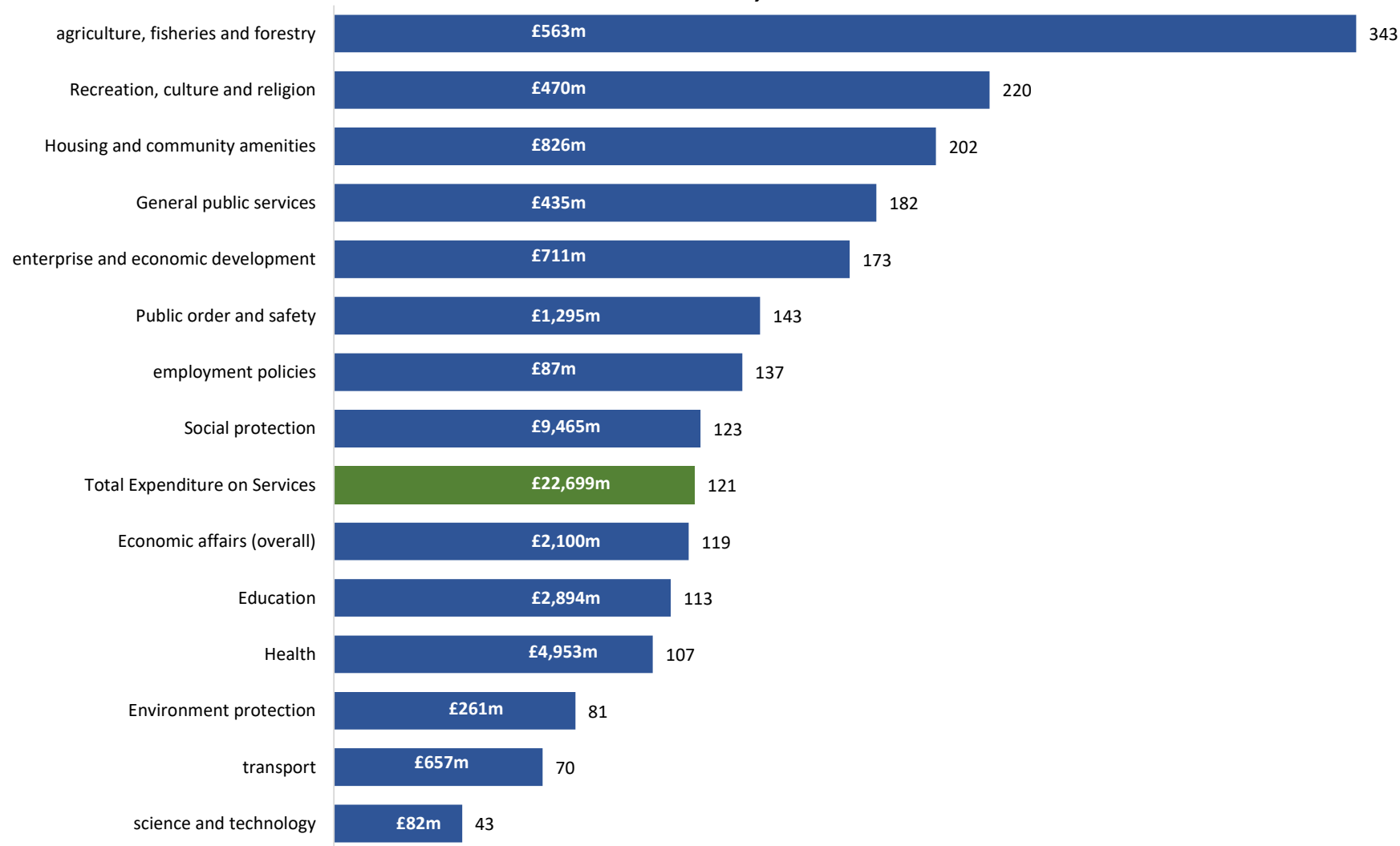
Regional GVA per head, 1998-2019



- **NI Executive controls majority of ‘identifiable’ public spending** on services in NI – almost £9 in every £10 spent (including Social Security)
- **Social Security devolved in legislation**, but spending linked, so powers **limited in practice**
- **Nearly 90% of Executive DEL Budget** (excludes Social Security) **comes from Block Grant.**
- **Main NI Executive tax resource comes from Rates** (domestic and business) - 9% of total ‘tax take’ (shared with District Councils)

# And much higher levels of spend than rUK...

## NI Identifiable expenditure on services by function, £ and per head indexed, UK = 100



Source: NISRA, HMT Country and Regional Analysis 2020

# And much lower levels of tax generation...

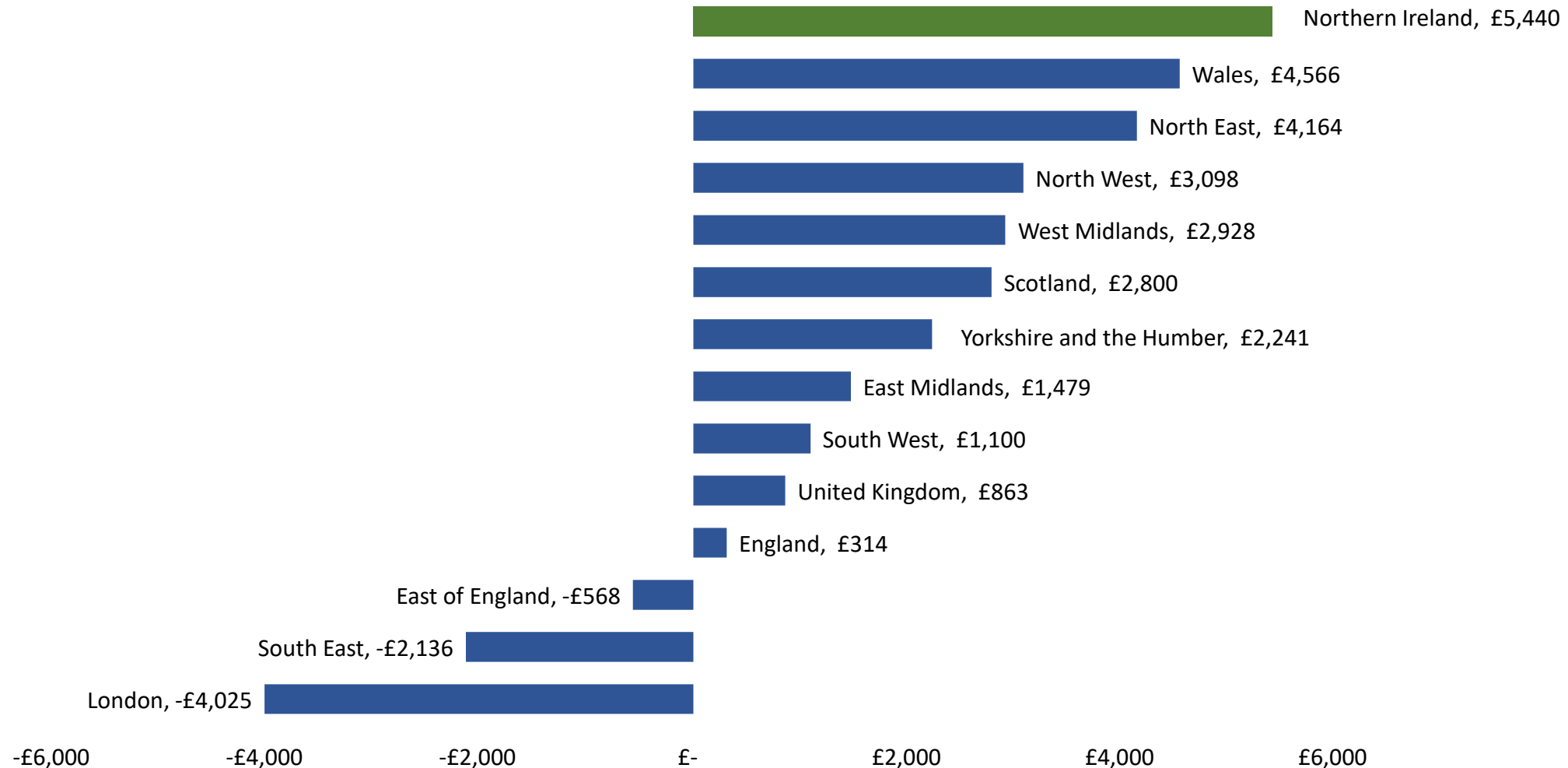
UK countries, composition of revenue per head (£), 2019/20, geographic basis



Source: ONS Country and Regional Public Sector Finances, FYE 2020: Revenue Tables.

# Leading to a much bigger fiscal deficit per person...

## Net Fiscal Deficit per head UK regions 2019/20, geographical basis



# And some significantly more generous taxes and charges

- Complex issues with each of these. However, there are a number of specific examples of **policy divergence** where NI could raise additional revenue or reduce expenditure if policies matched other parts of the UK.
- Examples include:
  - **Domestic Water Charges**
  - **Welfare Mitigations**
  - **Rates (domestic and non-domestic)**
  - **University Fees**
  - **Prescription Charges**
  - **Housing Benefit Top Up**
  - **Concessionary Travel**
- Total impact in NI **over £600m** per annum (2021 estimates)
- **A UK equivalent would be over £21 billion per annum**



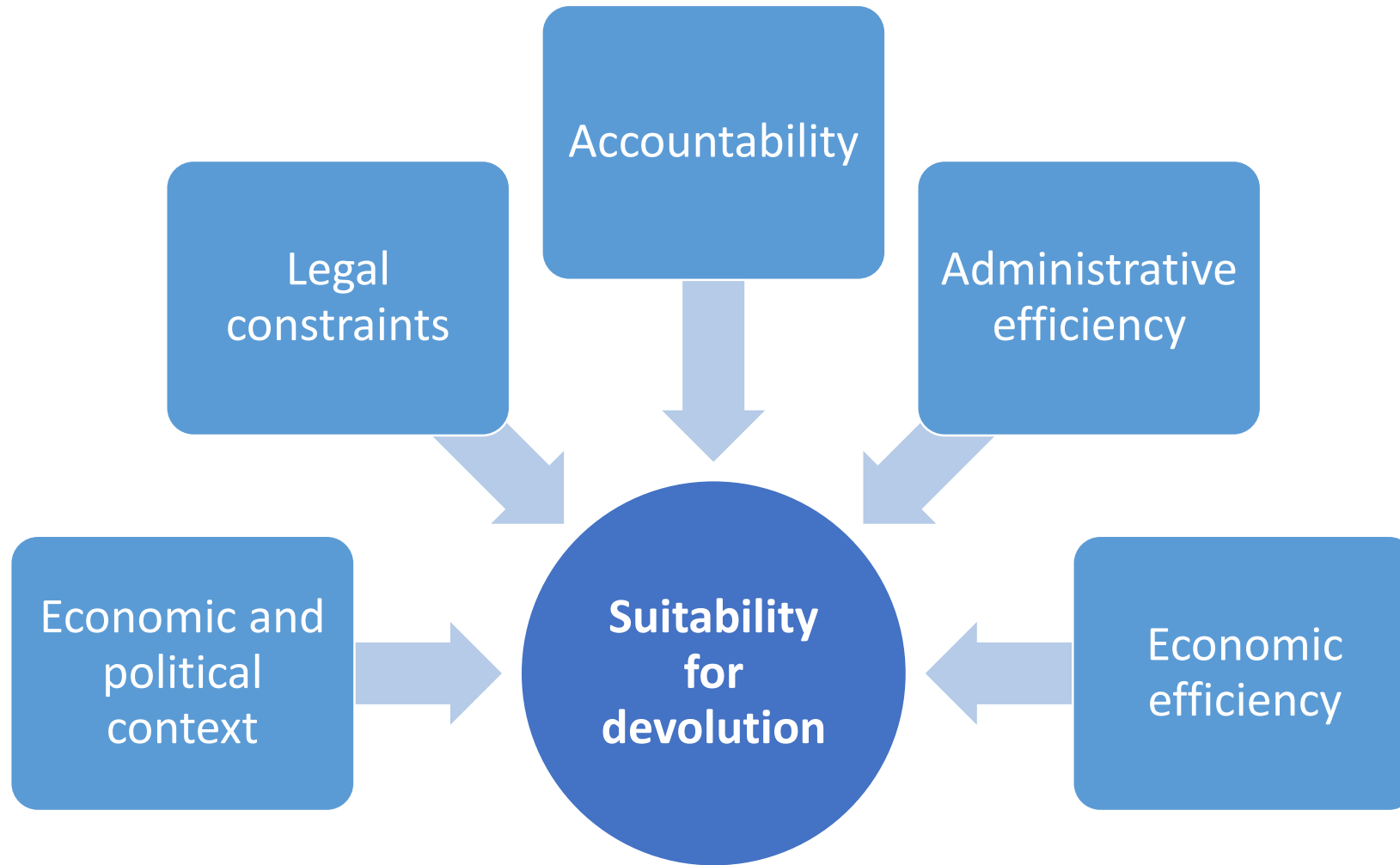
# Scotland and Wales have been on a longer journey to fiscal devolution

- **Two commissions in each case (One Technical / One Political)**
- **Scotland has had some tax varying powers since devolution in 1999 and now has powers over:**
  - Scottish Income Tax (partially devolved) rates and bands (non-savings and non-dividend)
  - Scottish Land and Buildings Transaction Tax
  - Scottish Landfill Tax
  - Council Tax and Non-Domestic Rates
- **Wales has powers over:**
  - Land Transaction Tax
  - Landfills Disposals Tax
  - Income Tax – Partial
  - Council Tax & Non-Domestic Rates

- **Assignment of taxes**
  - Assembly's revenues depend on what happens to tax revenue in NI
  - Benefit when economy does well, suffer when does less well than rUK, little NI control
- **Devolution of powers over structures and rates of some taxes**
  - In each case adjustment of block grant is crucial
- **Full fiscal devolution**

- **Tax devolution implies a deduction to the block grant to reflect revenues foregone by UKG. Two parts:**
  - Initial deduction (revenues raised from devolved tax in NI in year prior to devolution)
  - Indexation: a measure of the growth in revenues of 'comparable tax' in rUK
- **There are different ways that such a deduction can be estimated**
  - Different approaches influence the risks and rewards that the NI budget is exposed to
  - Also the extent to which tax devolution is perceived as fair by taxpayers in NI and rUK.
- **These issues can be quite contentious** - as seen previously in Scotland
- **Our final report will look at these issues in detail**

# Commission's criteria for assessing taxes



## Fiscal Devolution Mix?

- Some taxes better **suited to supporting devolved responsibilities** – e.g. alcohol/tobacco duties and link to public health (devolved).
- Other taxes less of a link to devolved responsibilities but **important in terms of revenue**, e.g. Income Tax; VAT; NICS.



Risks?

## Long Haul APD in NI

- Devolved and zero rated
- To maintain direct flight to North America
- However airlines ended service
- Ongoing fiscal cost – c£2.3m per annum and no direct flights to North America

## Scottish Income Tax

- Local policy for local needs
- 'More progressive' system
- Revenue generating for public services
- But revenues (£119m) lower than predicted (£428m)



Reward?

# NI issues are different from Scotland and Wales...

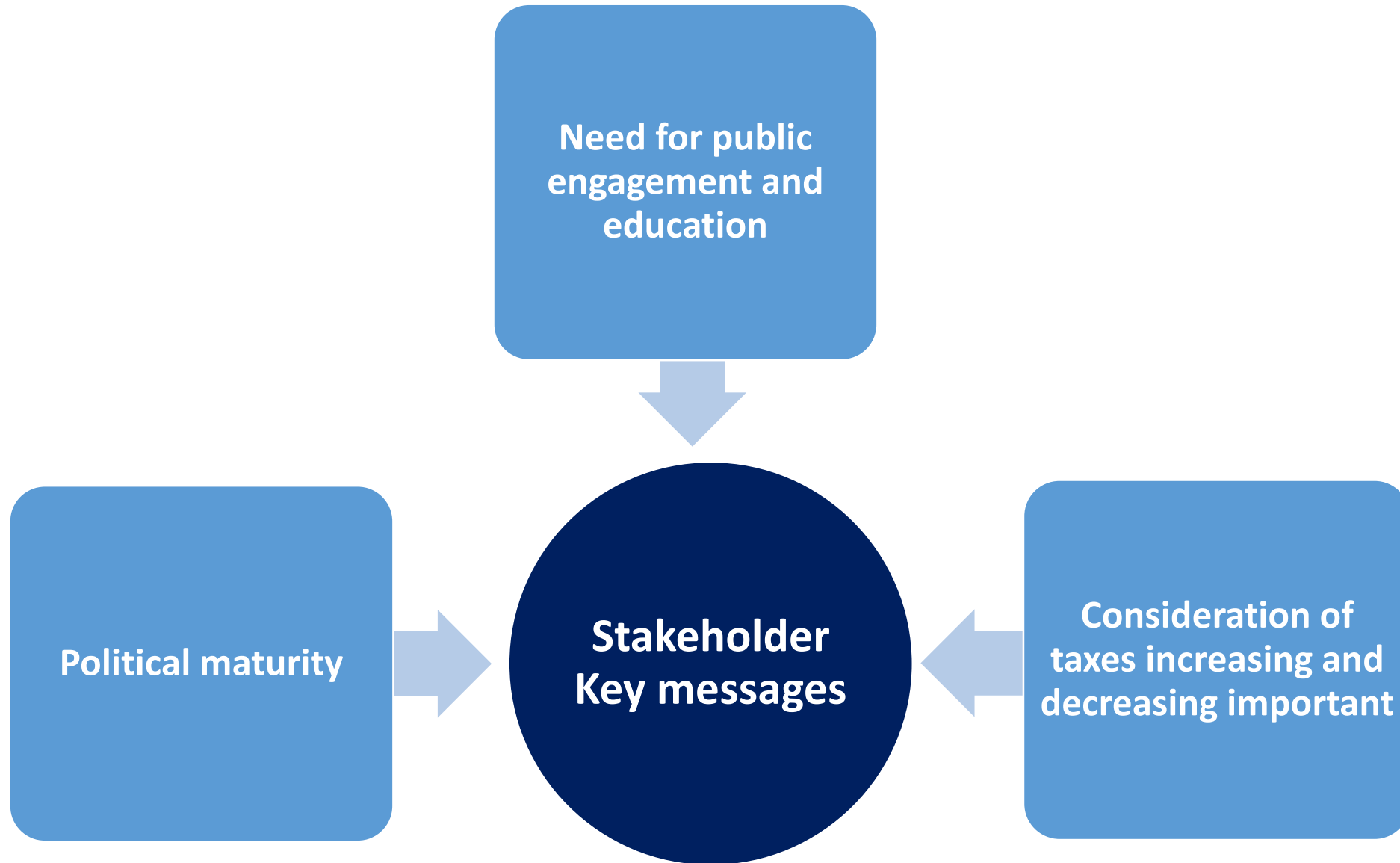
- **Northern Ireland's:**
  - **Geographical position**, land border with separate tax jurisdiction (EU / RoI)
  - **Brexit context** means issues are different to those facing Scotland and Wales.
- **Particular issues:**
  - Cross border shopping an issue in terms of NI/RoI border, less so NI/GB
  - Brexit means potentially more capacity to devolve some taxes - but perhaps limited by NI Protocol?
  - Very low corporation tax rate in RoI

- **Tax Powers utilized** – differentiate from UKG policies (Income Tax; Land Transaction Tax)
- **Caution needed over estimates of tax revenues** – Scottish Income Tax; VAT revenues
- **Devolution not always straight forward** – VAT assignment; APD; Aggregates Levy
- **Budget Impacts** – increased importance on UK Budget timing; increased budget volatility
- **New revenue authorities** - established and collecting devolved taxes



- **Significant issues over tax data reliability at a regional level across the UK**
  - Quality over estimates vary by tax
  - Mix of administrative data and survey data
  - **Example** – VAT estimates – NI's largest tax - £4.2 billion (with refunds). Based on Living Costs and Food survey but sample size in NI of circa 150 households!!
  - Scottish issues with data reliability on VAT and Income Tax – lessons for NI
  - Improving data now key to help devolution in future

# Input from stakeholder engagement already valuable



# Commission focus on specific taxes... Excise duties?

## Excise Duties in NI

- *Alcohol and tobacco duties; and fuel duties* together worth £1,638 million in 2019-20, or 8.3% of total revenue in NI. (Diesel duties less in RoI; Spirits and tobacco duties less in UK)

## Previous Commissions

- Land border with England meant devolution ruled out for Scotland and Wales due to concerns over cross border shopping. NI is different.

## NI Protocol

- Requires goods going GB to NI to be treated similarly to international imports by NI for purposes of excise duties. But not vice versa.

# Commission focus on specific taxes... Corporation Tax?

## Corporation Tax in NI

- Been at the heart of previous debates about tax devolution in NI
- Raised £810 million in 2019-20, a relatively large revenue raiser
- Corporation Tax (Northern Ireland) Act 2015 – main rate only – not commenced.

## Wider Context

- Ruled out by Calman/Smith for Scotland
- Holtham considered that there could be a case for restricted UK devolution
- Devolution not a priority for Scottish or Welsh Governments
- Not a current priority for NI Finance Minister
- Benefits of RoI 12.5% Corporation tax, but competing views
- UK raising rate to 25% by April 2023
- US tax regime changes and G7 agreement for minimum tax rate of 15%

# ...Corporation Tax? Part two...

## Potential benefits

- Increase financial accountability and as useful economic policy development tool
- Potential for significant positive impacts on overall employment, GVA and productivity

## Issues with devolution

- Ability to shift economic activity and profits mean economic distortions on overall UK tax base are possible
- UKG / NIE protracted discussions on direct costs / behavioral costs unresolved
- National and Global context has changed considerably

## Different Devolution Models

- 2015 model – ‘separate accounting’; trading profits only; activities excluded (e.g. financial); SME regime; back office
- Fuller devolution – wider definition of profits; powers over tax base
- Formula apportionment – based on payroll/assets/sales; used in US States; Canada; Italy; Germany

# Much work to date... a lot more to do

March 2021

Commission began  
work

By end 2021

Commission to publish  
Interim Report

Spring 2022

Commission to publish  
Final Report

- 1. Should more tax powers be devolved to Northern Ireland to bring it into line with Wales and Scotland?**
- 2. If more tax powers are to be devolved, which should they be? Should they have a priority? Which taxes?**
- 3. What are the benefits and risks to additional devolution?**
- 4. How does Brexit and the protocol affect options?**

**Call for Evidence open & Submissions strongly encouraged!**

Can be submitted at [\*\*fiscalcommissionni.org\*\*](https://fiscalcommissionni.org)