Opinion editorial

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CONTEXT

- The slogan "No taxation without representation" has resonated through world politics since British and Irish civil wars of the 17th Century and the American and French Revolutions too. The reverse can also be true: "No representation without taxation". There is an accountability argument for increasing the connection between Stormont's spending decisions and decisions about raising revenues. A second argument for using power around varying taxes (or charges) is to give policy makers greater scope to promote favourable behaviour or to discourage unfavourable behaviour. A third argument is that, especially post-pandemic, the growth in NI's block grant from the UK Exchequer may be limited. If the Executive wants to spend more it may need to look to NI-based resources for that.
- I am not saying tax varying (or charge varying) is a miracle cure for NI's chronic economic problems, particularly in terms of relatively low levels of productivity and competitiveness, but some fiscal powers could help by providing extra policy levers.
- I am not saying we should have an agenda solely of cutting taxes or one of increasing taxes. The best policy will vary on a case by case basis. There should be honest recognition of the connection between spending decisions and tax decisions. If Assembly Members (and voters!) want NI to become more like the Danish social model they should be prepared to pay higher taxes. If they prefer, say, a Canadian level of taxation then spending levels should be more consistent with that.
- And we certainly cannot ignore issues around improving the efficiency and effectiveness of the taxpayer funded public spending which we already have. Having to think more about where revenue was coming from might help deal with the mentality of "free money" which was displayed across parts of the NI public and private sectors during the RHI crisis.

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COMPARISON WITH SCOTLAND AND WALES

- Over the last decade or so both Scotland and Wales have each had several independent reviews about fiscal powers. Now NI has one too and that is good but long over-due.
- In terms of the extent to which the devolved government is funded by streams of revenue which are under regional control, both Scotland and Wales have leapfrogged over NI. Back in 1999 they had less power than NI. Now they have more.
- Scotland has devolved part of Stamp Duty (Land and Buildings Transactions Tax, LBTT) and Landfill Tax as well as most of the provisions around Income Tax.
- The situation is Wales is broadly similar albeit the power to vary Income Tax is more restricted (not the income threshold at which the tax bands change).

BROAD PRINCIPLES WHICH SHOULD INFORM WHAT YOU DO ABOUT PARTICULAR TAXES OR CHARGES

- Keep the tax revenue basis as broad as possible so that the *rates* of tax can be kept as low as possible (latter important in order to avoid disincentivising economic activity). Hitherto, Stormont- particularly in terms of extending or maintaining reliefs from non-domestic rates- has gone in the opposite direction.
- If you want to use tax devolution to foster greater accountability you might turn towards the "bigger" taxes (larger amounts of revenues raised). Admittedly, in these cases (see below) devolution may not always be feasible.
- There is certainly an agenda of using taxes to discourage "bad" behaviour or to encourage "good" behaviour. It is almost certain that environmental taxes will grow in importance.

WHICH TAXES AND CHARGES?

- Start with **domestic water charges** as it is the largest source of revenue which Stormont is currently foregoing- up to £280m p.a. (less to the extent of means testing and admin costs if such charges were introduced). The status quo is inequitable- all households regardless of income "benefit" from an absence of charges but lower income households disproportionately lose out because part of NI public expenditure which would otherwise be spent on housing, schools, job creation or health is diverted into paying for NIW. The argument that we already pay through the Rates is weak: Rates per household in NI are so much less than Council Tax plus water charges in GB.
- **Domestic Rates**- the sum of Council Taxes plus water charges in England and Wales was about £1700 average (2018-19) compared to only half that here.

- That leads on to the **super-parity point: the totality of various charges** so much less in NI than GB (including in Wales which has similar unemployment and income levels to NI). In 2016 the total amount of super-parity was estimated by the NI Civil Service to amount to £500m p.a in 2014-15. See, online, NICVA 18 April 2016, “The Budget Process and the 2016 Programme for Government”, and the Paper given to that event by DFP, “Background to Budget 2016”:

https://www.nicva.org/sites/default/files/d7content/attachments-articles/background_to_budget_2016_-_april_2016.pdf.

More recent estimates indicate the sum would still be considerable.

- Two of the “big taxes” NICs and VAT probably could not feasibly be devolved. The former because of integration with UK-wide welfare benefits. The latter because of EU rules re. avoiding regional variations (under the Brexit Protocol NI is probably still bound by EU competition laws relating to the Single Market).
- Amongst the big taxes that leaves **Income Tax**. Scotland and Wales show this could be devolved but the Assembly should ask itself what it would wish to do with a devolved Income Tax. There would almost certainly be policy dilemmas/trade-offs. IF the desire was to promote greater equality then you might increase the rates at the top end beyond 40% and 45% but some UK and USA experience suggests that would not necessarily yield much be way of extra revenue[Note 1]. IF you wanted more NI-based entrepreneurs you might cut the higher rates. IF, however, you wished to increase the revenue raised then (as Scotland has done) you would have to increase the tax paid by a substantial number of Basic (20%) taxpayers: about 90% of all Income Taxpayers in NI are “only” Basic rate payers: HMRC 26 June 2020, “Number of taxpayers by country”.
- **APD**- the argument for devolving completely and cutting would be to promote tourism etc. Is a countering environmental argument (admittedly, APD is a badly designed tax from a carbon reducing point of view).
- **Stamp Duty** on property- Welsh and Scottish experience shows you could certainly devolve if you were prepared to meet the admin costs of so doing. Care would need to be taken if cutting this tax to ensure that we avoid over-heating demand for houses compared to supply. A cut in Stamp Duty will not help low income houses purchasers if the consequent increase in demand also produces a dramatic rise in prices. The experience of the Stamp Duty holiday during the pandemic may be instructive.
- **Landfill Tax**- again, could devolve. Might then wish to increase to incentivise better waste management. Is danger of thereby incentivising (illegal) exports of waste to Republic of Ireland (tax competition challenge given land border with another tax jurisdiction).

- **Corporation Tax**- this is a medium sized revenue raiser (between £500m and £800m, depending on measurement method and year of measurement). An interesting one because since 2016 the Assembly does have the power to vary the rate, subject to the Executive's budget being able to sustain the cut to its block grant (this requirement for a reduction follows from EU law, e.g. the Azores Judgement, still applicable to NI given impact of the Protocol and in any case HM Treasury probably likely to insist on a block grant reduction to accompany any tax rate reduction in NI). Interesting also because, at the UK level Chancellor Sunak has introduced a 19 to 26% increase in 2023. President Biden is proposing increasing the US Federal rate from Trump's 21% to 28%. There may be a case in terms of tax competition with the Republic and, indeed, the rest of the world, for NI sticking at 19% in 2023. Although the gains from so doing would have to be weighed against the likely reduction in the Block Grant. The OECD/Biden/Sunak proposals around trying to control any "race to the bottom" in terms of global corporate tax competition may limit the scope to use Corporation Tax as a regional incentive but they probably don't remove it completely.

CONCLUSION/SUMMARY

It is good that we now have the Fiscal Commission review of fiscal matters. It is also good that this Commission is helping to promote a wider debate of these issues. That is what the original NICVA (PwC) report on fiscal powers back in 2013 was also trying to do.

Politicians and their voters are entitled to varying visions for NI's future. But those "visions" need to be internally consistent. At various times the criticism has been made of Scottish politics that an attempt is being made to sustain Scandinavian welfare standards on North American levels of taxation. Delete Scotland and insert NI, perhaps.

Could certainly look at the feasibility/desirability of devolving Stamp Duty, Landfill, rest of APD and Income Tax but, in practice, the most obvious place to start in terms of revenue varying (and raising) is in terms of the existing powers Stormont has to charge: domestic water charges, the Rates and other charges.

For some time now NI has been a consumption-orientated society [Note 2] and economy. Stormont's policy on taxes and charges seems to have prioritised keeping levels of disposable income high in order to maintain high levels of household spending. However, desirable that may seem it has contributed to total levels of investment (public combined with private) being relatively low. Without high investment we are unlikely to grow or prosper in the future.

I fully concede that shifting towards higher charges will need political courage [Note 3] but we really need to make the sacrifice of some consumption now in order to invest to obtain future growth and prosperity. Good policy making often requires the time horizon of the next generation rather than the next election."

Ends

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Note 1

e.g. the experience of the short-lived 50% top rate in the UK: M. Brewer, J. Browne and P. Johnson 2012, "The 50p income tax rate: what is known and what will be known?", *IFS*. For international evidence on elasticities see E.Saez, J.B. Slemrod and S.H. Giertz 2009, "The elasticity of taxable income with respect to marginal rates: A critical review", *NBER Working Papers*, 15012. Holtham (Independent Commission on Funding and Finance in Wales, July 2010, pp. 61-7) considered these issues in the Welsh context.

Note 2

According to NISRA data (19 December 2019, "Structure and performance of the Northern Ireland economy in 2015 and 2016"), total investment in NI per person in 2016 was only 64% of the UK rate. And UK investment rates are low by international standards.

Note 3

When I hear Northern Ireland politicians say that they cannot move ahead of the electorate on this issue my response would be (1.) they under-estimate the extent to which people realise we face long term problems which need long term solutions and (2.) sometimes you have to do "the right thing to do" regardless of the consequences. I'd also point to JF Kennedy's 1956 book *Profiles in Courage* although perhaps they won't find that a terribly encouraging read since Kennedy seems to be saying that the consequence of the courage shown by these eight senior American politicians (Senators) meant they failed to win even higher office!

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