Northern Ireland
Chamber of Commerce
and Industry

RESPONSE TO THE INDEPENDENT FISCAL COMMISSION FOR NI

1. What do you consider to be the prerequisites for successful tax devolution?

I. **Set a *clear vision* for the aspiration of taxation and spending for NI.**
In the wake of the pandemic, the narrative on tax and public spending decisions is towards a higher tax environment in order to;
- Repair the fiscal impact of what were both necessary and welcome support packages that kept the economy functioning to a large degree; and
- The increasing importance of funding healthcare (and education to a lesser degree) as funding public services is more of a priority than ever.

A clear vision must be agreed for the rationale for each additional tax devolution and an articulation of the aim, in terms of the overall taxation burden and level of spending in NI. i.e. is the objective to;
- Increase accountability? To encourage long-term strategic decision making, where NI bears both the costs and the benefits?
- Increase the taxation base in order to fund high-quality public services, such as the Scandinavians economies? Does this mean existing taxpayers paying higher rates, or encouraging new taxpayers to locate in NI?
- Repair public finances or reduce the Fiscal Deficit, which was c£10bn prior to the COVID crisis?
- Make NI more competitive as a location in which to invest and grow, supporting the Levelling up agenda?

At present the Terms of Reference lean towards increasing taxes ***and*** retaining the block grant expenditure, which will be a significant challenge.

NI Chamber is keen to ensure the business competitiveness is one of the key themes that the Commission takes account of and reports on. We are keen to ensure that our businesses in NI can be competitive on a global stage and generate income for NI from exports to grow the economy, create sustainable jobs and pay wages.

II. ***Objective evidence* - provide an objective impact assessment for devolution recommendations in order that informed decisions can be made**

This is a critical issue, as the devolution of Corporation Tax (CT) powers discussion did not conclude on which Departmental budgets would bear the cost (c£300m, with much larger estimates from HMT) of CT devolution, or agree the block grant adjustment methodology with UKGov. For context, the cost of CT devolution then was more than 175% of Invest NI's budget and around half of the Department for the Economy's budget. Agreement of where the initial costs may fall would have been politically challenging.

Therefore, it will be important to model the costs, benefits, distributional impacts and net position and agree with the NI Executive, the expenditure implications. Modelling exercises must be carried out to understand the full societal impact of the devolution of any taxes and if more than one tax is to be devolved, how the implications interact. Neil Gibson (EY) and Richard Johnston (UUEPC) wrote a number of papers for DfE on the economic costs & benefits of Corporation Tax reductions in NI (2013-15) and also for DoF on the potential options for Block Grant Adjustment methodologies (2015-17). The Fiscal Commission should engage directly with these individuals and may consider updating the existing research base as a more rapid route to completion.

It should include an assessment of;
- **Winners and losers** – who pays?
- **Geographies –** levelling up, or not?
- **Income groups** – which groups will benefit from lower taxation or higher expenditure. Conversely, which groups will pay higher taxes or have less spent on public services that impact them?
- **Departmental expenditure –** which Departments will bear the cost of tax devolution and what programmes / spending areas will not be funded in the short term until the taxation base build up? If the choice is to raise taxes, which Departments would benefit from increased spending and how can the Fiscal Commission work with the Departments and Fiscal Council to ensure that spending decisions are deployed in an efficient and effective manner in order to improve outcomes?

- **Evaluation of the relative impact of various tax devolutions in Scotland and Wales:**

  Scotland
  - Stamp duty land tax, landfill tax, and income tax (except for the personal allowance element) are devolved.
  - APD and the aggregates levy will be devolved, subject to resolution of EU state aid issues
  - Half of VAT receipts collected in Scotland will also be devolved when the UK and Scottish governments can agree upon a method to estimate Scottish VAT receipts.

  Wales
  - Stamp duty and landfill taxes have been devolved since 2014
  - Partial income tax powers are also devolved.

  The impact, effectiveness and operation of these powers, including through the COVID shock should be considered as part of the evidence base for devolving taxes to NI.

III. ***Secure Political agreement***

We are all acutely aware of the unique political context that NI operates within, and that has been made more unique by the introduction of the NI Protocol.

It will be necessary to engage and agree with the political parties to get broad agreement. CT was unique in that it was a policy lever that could align NI policy with that in the RoI, whilst at the same time attracting additional FDI and growing the Economy.

In a five-party coalition government, it will be important that there is broad political agreement across the spectrum. It must be clear whether Tax changes can be agreed by DoF, or whether agreement / approval will be required by the NI Executive.

IV. ***Communicate clearly with civic society***

Public spending and taxation decisions and their impact are relatively poorly understood in many groups throughout society in NI. There will be a clear need to engage widely across society on the why, how, whom, when and what of potential changes in order to improve the level of understanding and appreciation, the need for change and the potential implications of maintaining the status quo for NI (and those specific groups). The expertise and track record that is brought from outside NI will be essential in improving engagement and understanding.

V. ***Timeliness***

The Corporation Tax discussion took more then seven years to conclude. We welcome the work of the Fiscal Commission and the proposed timelines, and would be keen to support wherever the Chamber can to ensure that the outputs and recommendations are made within a one year timeframe and that they are implemented shortly afterward.

VI. ***Expertise***

Unlike Scotland or Wales, NI has limited expertise both in Government and in academia on tax devolution. The leadership and direction brought to the Council and he Commission are very welcome and NI Chamber would support the use of expertise in HMT, Scotland (particularly Fraser of Allander) and from Wales to speed the process and ensure high quality outputs.

2. Do you agree with the Commission's draft criteria against which taxes could be considered for devolution for NI?

And

3. Are there any others which should be considered? (Especially in view of NI's unique situation, including with regard to Brexit impact or proximity and connectivity to ROI economy)

The suggested criteria for assessing taxes that might be suitable for devolution is a comprehensive starting point. Other factors that should be considered include;

- Global taxation context – NI's relative competitive position and ability to attract and retain investment will depend not only on domestic policy decisions, but also those taken by competitor nations. One example is the recent G7 deal to set a minimum Corporation Tax rate of 15%. Whilst any interference with RoI CT rates has always been vociferously resisted by the Government, even during the negotiation of the Terms of the post 2008 financial crisis bailout, it has the potential to reduce the gap, albeit to 10pp once the UK rate increases to 25%.

- Impact – following on from an earlier point, is will be necessary to understand the full impacts of devolving various taxes in order to ensure that decision makers have complete and objective evidence on the consequential spending, distributional and societal impacts before decisions are made. This includes the NI Departmental Expenditure base and which Departments may increase on reduce expenditure on specific programmes.

- Political consensus – again, following on from an earlier point, is will be necessary to secure political agreement from a range of potentially conflicting perspectives on the basis of objective evidence before decisions are made.

- Block grant protection measures

With reference to the ToR's **- how can the NI block grant be protected if fiscal powers are devolved?** The method in Scotland and Wales is that the revenues are retained for devolved taxes and the effective "liability" for shortfalls transfers from Westminster to the devolved regions. It would be helpful to understand how revenue shortfalls can be mitigated to protect the Block Grant and Departmental budgets. This is particularly relevant in light of COVID-19 and reductions in taxation revenues across a number of areas. Outlining the agreement and methods by which the Block Grant might be protected will be critical to success in an NI context.

- Tax credits
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- Border communities
There are strong potential displacement effects at border regions and care should be taken to understand the potential behavioural effects on trade and travel in border communities and the impact on firms and employment in those locations, particularly Derry / Londonderry, Strabane, Enniskillen, Armagh and Newry.

4. In your view, are there any fiscal solutions with a strong case for progression currently which the Commission should consider early its work, or any areas to be dismissed as unsuitable for devolution right at the outset?

1. Areas for early consideration

a. Deployment of existing powers
Legislation was passed in 2015 to devolve CT, although the block grant adjustment mechanism for calculating the cost was never agreed between DoF and HMT and the powers were not deployed by the time that the NI Executive collapsed in 2017.

Whilst the political and ideological context has shifted more towards supporting the most vulnerable in society - especially in the wake of COVID - as a starting point, CT should be reconsidered and concluded upon as to whether it is a viable option for deployment (at 12.5% or 15%, or even a rate above that of the UK to fund better public services).

b. Resolving the Long Haul APD anomaly – paying for no benefit
Long-haul air passenger duty was devolved to NI in 2012, although no flights are currently in operation and NI continues to pay the fee of £2.3m annually, for reasons that are not entirely clear as no flights are in operation. This anomaly should be investigated and resolved as part of the Commission's work programme.

c. Areas in which NI is currently disadvantaged
The Apprenticeship Levy is paid by NI firms, although no scheme is currently in place in NI to allow firms to benefit, putting them at a competitive disadvantage. Therefore, the Apprenticeship Levy, its operation and deployment should be considered as an immediate option for devolution and operation to, as a minimum, put NI firms on an even competitive footing their GB counterparts.

d. Business tax credits to encourage growth and investment
R&D tax credits and capital investment allowances should also be considered for devolution. If NI could increase these allowances, they would be beneficial in terms of attracting and retaining investment.

Whilst it may be beyond the scope of the Fiscal Commission, a skills / training tax credit should be considered for NI, perhaps focussed on leadership and management skills, digital skills or both to incentivise investment in areas that NI has a specific need.

e. Potential options – first and second phases

Those taxes that can make NI a more attractive and competitive location in which to live, work, invest, start, grow a business and export from should be prioritised in the initial phases. Those that generate the largest revenues and could have the most significant impacts on behaviour include;

a. Income Tax
b. VAT
c. Stamp Duty
d. Inheritance tax

In a second phase, those taxes that are focussed on reducing negative environmental, social and health impacts could be considered. The NI Executive may wish to move further or faster than the UK Government on environmental issues, for example by using additional fuel duties to pay for hydrogen or e-car infrastructure. Options for the second phase could include;

a. Petroleum revenue tax
b. Fuel duties
c. Tobacco duties
d. Alcohol duties
e. Betting and gaming duties
f. Soft drinks industry levy
g. Landfill tax
h. Climate Change Levy
i. Aggregates Levy

2. Areas to dismiss

In our opinion, the following areas can be dismissed from the initial consideration for devolution based on a range of factors which include small revenue bases, areas that are more appropriately administered and regulated at UK level and policy areas that intertwine with the benefits and non-business tax credits systems. These include;

a. National Insurance
b. Bank Levy
c. Bank Payroll tax
d. Bank surcharge
e. Shares
f. Capital Gains Tax
g. Annual tax on enveloped dwellings
h. Insurance premium taxes
i. Swiss Capital Tax
j. Customs duties
k. Child Tax credits
l. Working Tax credits
m. Child benefit

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