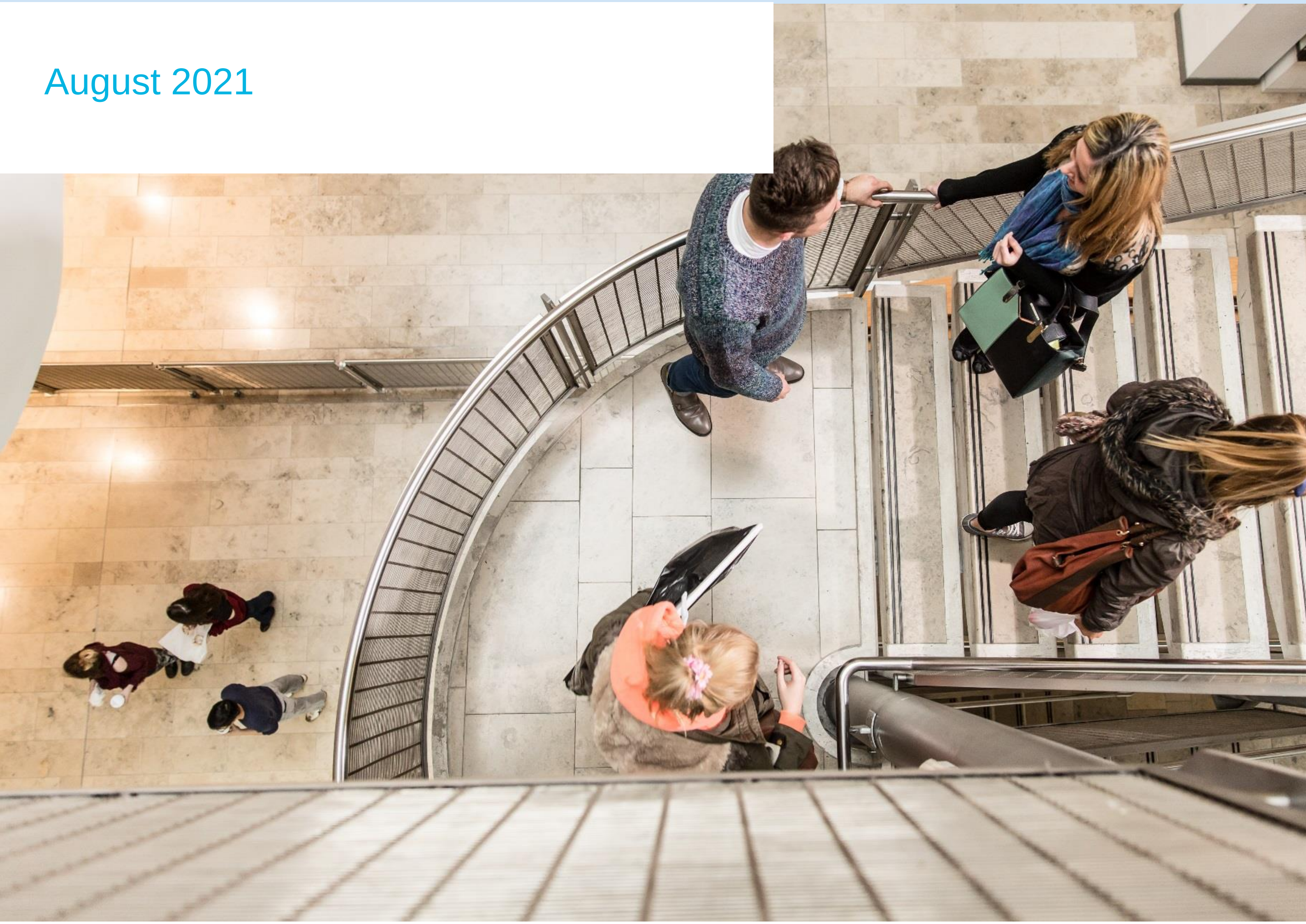
NI Fiscal Commission

UUEPC comments paper

August 2021



NI Fiscal Commission – Comments for consideration

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1. Introduction and general comments

Background

1. The Ulster University Economic Policy Centre (UUEPC) was invited to participate in a NI Fiscal Commission stakeholder event on 4 June 2021 to share comments on the following areas:

   - Terms of Reference and Forward Work Programme
   - Prerequisites for successful tax devolution/ Criteria for tax devolution
   - Information and Evidence gathering.

2. The UUEPC was subsequently invited to provide a written response, which is provided in this paper. This response is provided as per the structure above, but some general comments are provided below.

General Comments

3. The following general comments are made in respect of devolving taxes to NI:

   - General principle of devolution – one either supports or opposes the principle of devolution and across the UK (given NI, Scotland and Wales all have their own devolved administrations and more recently metropolitan mayors have been established across England) there is a general trend of supporting the devolution of powers to the local level. Therefore as a starting point, there may be a rationale in adopting the approach that a justification is required to prevent a power being devolved, rather than having to justify its devolution.

   - Expectation that the devolved power will be used – if a tax is devolved, then there is likely to be public pressure applied for politicians to use their new powers. Therefore, separating the process and timeline for devolving a tax power from using that power is important to understand and communicate.

   - Historic reluctance to accept devolved taxation powers – the NI Executive has been reluctant to take on new taxation varying powers in the past. Two examples include Air Passenger Duty (APD) and Corporation Tax (CT). The policy to devolve CT was well advanced and looked set to be delivered but was halted with the collapse of the NI Assembly in January 2017. Although NI Assembly business has been dominated by COVID since its return in January 2020, there appears limited appetite for a devolution of CT at this point.

2. Terms of reference and forward work programme

Opportunity to consider tax devolution in an holistic manner

1. This is a real positive, because previously the devolution of taxes were only considered on an ad-hoc/ individual basis. This provides the opportunity for a broad suite of taxes to be considered for devolution which would provide the NI Executive with additional tools to meet their policy objectives.

Separating the decision to devolve with the decision to vary from the UK rate

2. It seems that the commission itself has a finite lifespan and the timeline to complete the research is very limited, which in turn drives the approach which should be adopted. At a very high level there is a two stage decision process:

   - Stage 1: Which taxes should be devolved? – these taxes could be identified using the criteria already developed and presented in the PowerPoint documentation.

   - Stage 2: Should the tax vary from the UK rate? – this would require detailed analysis and research on each tax, and the answer may change over time.

3. Given the limited timespan of the Commission, it is likely that its work would focus on Stage 1 only. Stage 2 would be time consuming and therefore could be undertaken by DoF/ DfE (after the current Commission's work is complete).

4. This is in contrast to the approach taken to date where the detailed research on individual taxes had been completed prior to the devolution request/ decision. Separating the decision to devolve from the decision to vary from the UK rate also gives much greater flexibility in decision making because it may not be currently economically advantageous to vary a tax from the UK rate but that could change in future.

Agreeing a consistent approach across devolved regions

5. The Commission may want to consider the need for a consistent approach to calculating the block grant adjustment across the devolved administrations. This provides equity to all UK taxpayers and ensures one region does not benefit or is not penalised unfairly from a change in their regional tax rate.

6. Separately, a consistent administrative process for individual taxes across devolved regions would most likely be more efficient and assist with the equity point above.

3. Pre-requisites for successful tax devolution

Introduction

1. The prerequisites/ criteria identified in the PowerPoint documentation cover the key areas well. There are only limited comments below.

Encouraging optimal decision making

2. This is implicitly covered under 'Accountability' but there is no link to spending. Encouraging economic activity to grow tax revenues and reduce welfare currently benefits Westminster, Stormont does not benefit from a corresponding increase to the block grant. Therefore devolving taxation and linking it directly to spending should improve the quality of decision-making.

Supporting capacity development in the devolved region

3. The criteria identified focus on determining if the 'tax' is suitable for devolution. It is also important to support the capacity to administer tax varying powers in the region to which the tax is being devolved. Officials and politicians in Northern Ireland have only very limited experience of tax raising powers (primarily at the local government level). Whilst capacity is being developed it may be prudent to tether any tax varying powers to the UK rate e.g +/- 5% for a specified time period. As capacity grows, the tether could be lengthened or even abolished.

4. Information and evidence gathering

Introduction

1. The comments in respect of information are limited to the 'Stage 1' question (i.e. Which taxes should be devolved?).

Which taxes have the greatest economic impact?

2. The UUEPC recognises there are many reasons for seeking to devolve tax varying powers, but our focus is to encourage greater economic activity. Therefore understanding which taxes have the greatest positive (or least negative) impact on economic growth should inform which taxes to be devolved. Intuitively, those with the greatest positive impact would typically involve a tax reduction and therefore any 'cost' in terms of lower revenue could be offset by an increase in those taxes with the least negative impact.

3. Given the relatively short passage of time since the devolution of taxes to other regions in the UK, it is likely that evidence to make this determination would be required from international research.

What is the view of business and international investors?

4. Devolving taxation policy to the NI Executive could be seen as attractive to business as it allows the local administration to tailor tax policy to best meet the needs of local industry. However, it may also increase uncertainty for business as they would then be required to anticipate future policy at both the national and regional level.

Lesson from Scotland and Wales

5. As noted above, given taxes have only been devolved or varied relatively recently to Scotland and Wales, the lessons learned are likely to focus on implementation and process (i.e. how does government/ civil service go about devolving a tax?), rather than understanding the social and economic impact resulting from any variation in tax.

6. The level of economic 'noise' from Brexit and more significantly COVID could make this very difficult to determine but any preliminary information available on the achievement of objectives (e.g. was the anticipated level of additional revenue raised?) may also help inform the taxes to be devolved.