# Submission to Independent Fiscal Commission

**24 September 2021**

## About Chartered Accountants Ireland

Chartered Accountants Ireland (The Institute) is a membership body representing 29,500 influential members throughout the globe, including almost 5,000 members based in Northern Ireland and approximately 1,500 in Great Britain. Our role is to educate, represent and support our members. Our members work in senior positions in practice and industry with two thirds of those in Northern Ireland working in industry. They are prominent in all sectors of the Northern Ireland economy, which affords them valuable insights into the concerns, priorities, challenges and opportunities of business and industry in Northern Ireland.

Chartered Accountants Ireland was established as the Institute of Chartered Accountants in Ireland by Royal Charter in 1888. Its activities and those of its members are governed by its Bye-Laws and by Rules relating to professional and ethical conduct. These provisions are contained in the Handbook which is available to all members.

Chartered Accountants Ireland is governed by a Council and it is responsible for determining policy and monitoring its implementation. Council is led by the Officer Group and supported by the Management team and staff. A number of committees with voluntary member involvement also play a key role.

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## 1. Chartered Accountants Ireland favours activating devolved powers for Northern Ireland to set its own rate of corporation

Two in every three chartered accountants in Northern Ireland surveyed by the Institute in September 2021 favour the activation of Northern Ireland's devolved powers to set its own corporation tax rate. A previous survey of members in 2020 indicated that 1 in 2 supported the activation of corporation tax rate setting powers for Northern Ireland.

Northern Ireland is in a unique position compared to the rest of the UK as the only region in the UK with a land border with an EU member state. The need for a lower corporation tax rate for the region is back in the spotlight due to the Government's intention to increase the main rate of corporation tax to 25% from April 2023 for companies with profits of just £250,000 or more. This represents a 32% increase to the rate of corporation tax. It is very likely that many Northern Ireland based companies will respond by moving operations to Ireland and the competition for FDI will be further challenged by the rate hike.

The activation of corporation tax rate setting powers would allow the NI Assembly to set a lower rate for the region to attract FDI, drive investment and expansion by local companies and allow Northern Ireland to take advantage of its position in the context of the Protocol on Ireland and Northern Ireland (the Protocol). A corporation tax rate for Northern Ireland matching the corporation tax rate in Ireland (which may increase to 15% under OECD minimum rate proposals) is preferable to ensure that Northern Ireland can effectively compete for FDI investments.

The Corporation Tax (Northern Ireland) Act 2015 ensures that only companies with a genuine economic presence in the region can benefit from a lower rate of corporation tax because a qualifying company must be an employer in Northern Ireland, or the company must have a regional establishment in Northern Ireland. These provisions will encourage the establishment of "front office" activities and high value job creation.

For existing Northern Ireland indigenous companies, a lower corporation tax rate will also help mitigate against the additional trading expenses brought about by the implementation of the Protocol.

The introduction of a Northern Ireland corporation tax rate should be based on a clear timetable and should be based on implementation and administration mechanisms developed in conjunction with stakeholders.

A reduced rate of corporation tax for Northern Ireland should be guaranteed for at least ten years to give the rate sufficient time to make a sustaining economic impact and provide certainty for investors in the region.

## 2. The cost of a reduction in the rate of corporation tax

A reduction in the rate of corporation tax will most likely mean a reduction in Northern Ireland's block grant which could have a negative impact on funding for already stretched key services. However, in the medium to long-term, the reduction in the block grant should be balanced out by increased economic activity emanating from new investment by indigenous businesses and FDI. The potential short-term funding challenge could be mitigated if HM Treasury agree to postpone the block grant reduction for a period to allow the wider economic effect of a reduced rate of corporation tax take hold.

The UK's departure from the EU means that the block grant conditions under which the Corporation Tax (Northern Ireland) Act 2015 was designed have changed. Given that the Protocol requires Northern Ireland to follow EU rules for certain goods only, it may be the case that companies engaged in the provision of services are not subject to EU State Aid rules. The UK's Subsidy Control Bill which is currently making its passage through the House of Commons may apply to service companies however it is unlikely that any of the seven general subsidy control principles will apply to the services sector in this context. We acknowledge that the extent of the reduction of the block grant needs further exploration but the possible exclusion of service company corporation tax revenue from the block grant reduction is an interesting consideration. The extent of the reduction to the block grant should also take into consideration increased income tax and national insurance contribution (NIC) receipts from job creation driven by additional investment/FDI activity generated by a reduced Northern Ireland corporation tax rate.

The UK's departure from the EU has resulted in Northern Ireland companies having to make significant adjustments to trading patterns and adapt to new VAT and customs rules because of the Protocol. The Government should make all efforts to accommodate an optimal block grant allocation in Northern Ireland's favour on the devolution of corporation tax rate as a means of "levelling up" Northern Ireland.

## 3. Devolution of other tax raising powers

Over 55% of chartered accountants surveyed are not in favour of devolving other tax raising powers to the NI Assembly. The general view is that the NI Assembly should focus on activating the Corporation Tax (Northern Ireland) Act 2015 which is already drafted and ready for implementation. A devolved corporation tax rate for Northern Ireland has received broad support across political parties in recognition of the fact that corporation tax rate varying power for Northern Ireland is motivated by economic objectives. On that basis, it is the most suitable tax head for devolution currently in Northern Ireland.

## 4. The Corporation Tax (Northern Ireland) Act 2015

Overall, 65% of chartered accountants wish to retain the legislation. This is slightly less than the number in support of corporation tax rate devolution. However, a number of those in favour of a lower corporation tax rate stated that the legislation should be replaced with an updated and modified Act.

The majority are in favour of retaining the Corporation Tax (Northern Ireland) Act 2015 and feel that it should be acted upon without further delay and developed into a useful legal instrument. There is recognition that the legislation is carefully crafted and whilst it is not completely straight forward, it is workable.

## 5. Impact of increasing the UK corporation tax rate to 25%

45% of Chartered Accountants feel that an increase in the corporation tax rate to 25% will have a major negative impact on the business of companies. Reasons for this include a reduction of funds available for investment in future growth plans, cashflow issues and investment decisions. The rate hike is viewed as a disincentive for risk taking and entrepreneurship particularly post EU exit. Companies will relocate to the Republic of Ireland to avail of its lower corporation tax rate. This will have a negative impact on jobs and will increase the cost of doing business in Northern Ireland.

## 6. Brexit implications

Unique post Brexit trading arrangements give companies in Northern Ireland unfettered access to sell into both Great Britain and EU markets. Chartered accountants believe that this arrangement provides significant opportunities for Northern Ireland. Goods made anywhere else in the world do not have this dual access and this differentiation makes Northern Ireland an attractive place to do business, particularly in terms of attracting foreign direct investment in the areas of distribution and manufacturing once Northern Ireland can also offer a competitive corporation tax rate. As already highlighted, businesses in Northern Ireland have and continue to face challenges and additional costs in adapting to the new trading rules under the Protocol. However, the unique trading advantages presented by the Protocol can be optimised if businesses are given clarity and certainty over future trading rules under the Protocol combined with a competitive corporation tax rate.

One of the areas of challenge for businesses in Northern Ireland in the aftermath of Brexit has been complying with customs procedures on importing certain goods from Great Britain. The Trader Support Service (TSS) has helped traders in this regard. We also conducted a member survey on this topic recently and 80% of those surveyed want the TSS to be extended beyond its 2-year timeframe. Only 10% of those surveyed are confident that they will have the required expertise to complete customs declarations at the end of the period currently covered by the TSS.

## 7. The experience in Ireland

Ireland’s 12.5% corporation tax rate on trading profits is internationally competitive and is notable for its long-term stability with the rate in place since 2003. The power of Ireland’s corporation tax rate lies in its consistency and simplicity as much as the competitiveness of the rate by international standards.

Corporation tax receipts in 2020 were €11.96 billion. Corporation tax was the third largest tax-head, accounting for 20.7% of total tax receipts of €57.2 billion. 2020 is the ninth consecutive year of growth from the low point of €3.5 billion in receipts in 2011. Increases in net corporation tax receipts over the period 2015 to 2019 were broad based. Tax receipts from smaller companies increased more quickly in 2017 and 2019 than those from large companies. There were also increases in the numbers of companies (of all sizes) paying tax and across most economic sectors[1].

While corporation tax receipts have become very important to the Irish Exchequer, the key economic benefit of the 12.5% rate comes in the form of its high value job creation.

According to the Revenue Commissioners[2], there were approximately 2.4 million employments in Ireland in 2019, approximately 1 million of which were recorded in multinational companies (MNCs). The combined Income Tax, USC and PRSI payments of all company employees amounted to approximately €21.5 billion out of total receipts of €31.6 billion for Income Tax, USC and PRSI in 2019[3]. Employers and employees of MNCs paid €13.4 billion in income tax, USC and PRSI.

Average earnings (and consequently average tax payments) are highest among employees of foreign-owned MNCs, which had approximately 767,000 employments per 2019 data. Of these, approximately 439,000 (57%) are in the Manufacturing, Administrative & Support, Information & Communication and Financial Services sectors. The remaining 328,000 (43%) employments, including 161,000 in Wholesale & Retail Trade, are in foreign-owned MNCs operating in Ireland with a greater focus on the domestic market.

According to the IDA for every 10 jobs created by FDI investment in Ireland, 8 more jobs are generated in the wider economy.

## 8. Conclusion

Northern Ireland has the legal right to set its own corporation tax rate. A lower, competitive rate, coupled with the dual benefit of having access to both the UK and the EU's single market for goods, would put Northern Ireland in a unique position to attract inward investment and grow the economy for the benefit of all its citizens.

[1] Budget 2021 Tax Strategy Group 20-03 Corporation Tax
[2] Corporation Tax – 2020 Payments and 2019 Returns
[3] Revenue Annual Report 2019